Task Force on Global Production

Geneva, April 3-4, 2013

Chapter 6: Measurement Issues Associated with Quasi-transit Trade and Similar Phenomena

The views expressed herein are those of the authors and do not represent necessarily those of the IMF, its Executive Board, or its management.

Overview

- Updated International Standards: *BPM6* and *2008 SNA*
- Potential global discrepancies related to measuring:
  - Quasi-transit trade and
  - Similar phenomena
- The Role of fiscal representation and value-adding services
- Compilation challenges

BPM6 and *2008 SNA*

- *Globalization* – one of the major themes for revising *BPM5* and *SNA 1993*
- Globalized processes have become more important and require a more coherent picture of…
  - outsourced physical processes (revised treatment of goods for processing)
  - sales and management of goods that do not involve physical possession (revised treatment of merchanting)
- Consistent and harmonized application of the *change in ownership principle* in both *Manuals*

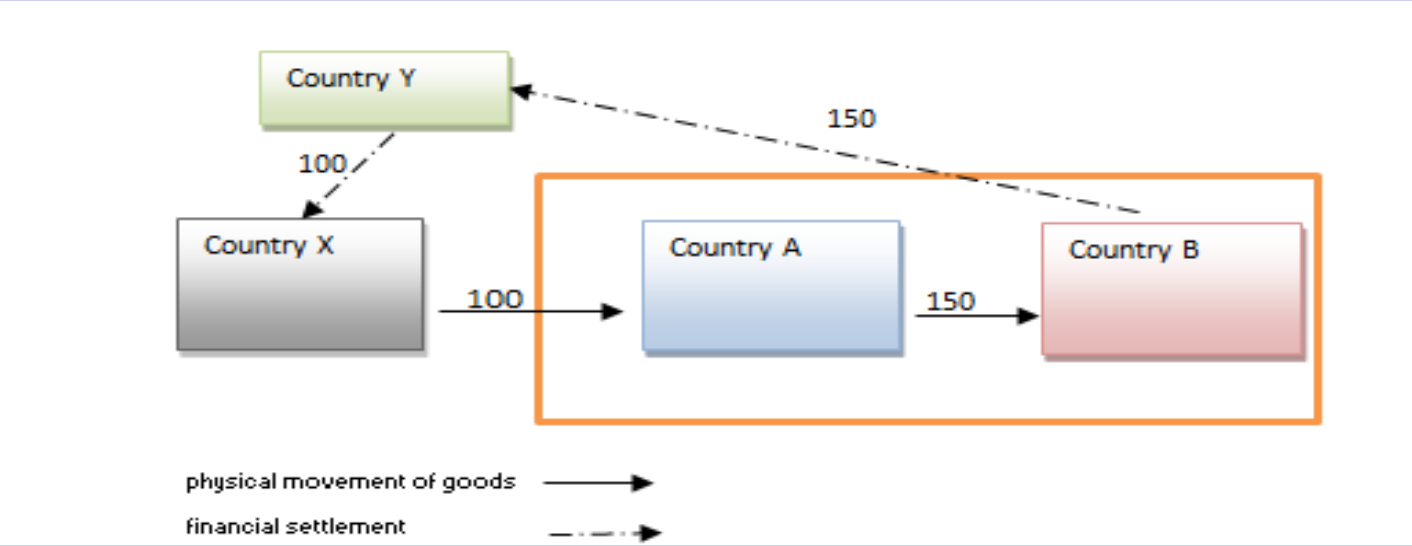
Quasi-transit trade (1)

- Quasi-transit is typically a problem in *custom unions*:

  Global wholesale scenario 1:

  - Merchant in country Y buys goods from country X for the wholesale price of 100 and sells them to EU member country B for the retail price of 150
  - Goods are declared as imports and released into free circulation in transit EU member country A (often by so-called fiscal representatives) at value 100
  - End-consumer in B pays import value of A plus the merchanting margin of Y
  - change of ownership occurs in B

Quasi-transit trade (2)



- Under *BPM6,* merchanting entries are valued at transaction prices; the price of 150 is charged by the owner in Y for the exchange of goods
- For the EU accounts, this means that the original value at arrival should be disregarded; instead the value paid by the eventual purchaser of the goods should be recorded in goods trade

Quasi-transit trade (3)

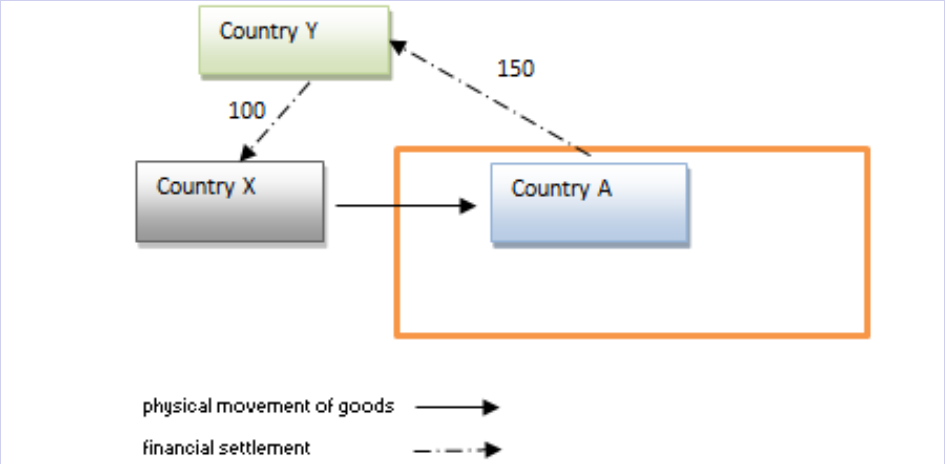
- currently, the EU approach is
  - To value goods imports to EU at import value in A
  - to close gap of import value in A and B by imputing a service import by A from outside the EU called "branding"

- This approach causes global statistical discrepancies:
  - The imputed import of branding services is not matched by services exports in Country Y > <u>global service imports are overestimated</u>
  - Import value for the EU is underestimated, because the change of ownership occurs in B at the value of goods including the merchanting fee > <u>global goods imports are underestimated</u>
- When the EU moves to *BPM6* in 2014, current European approach will be changed

Similar phenomena (1)

Global wholesale scenario 2:

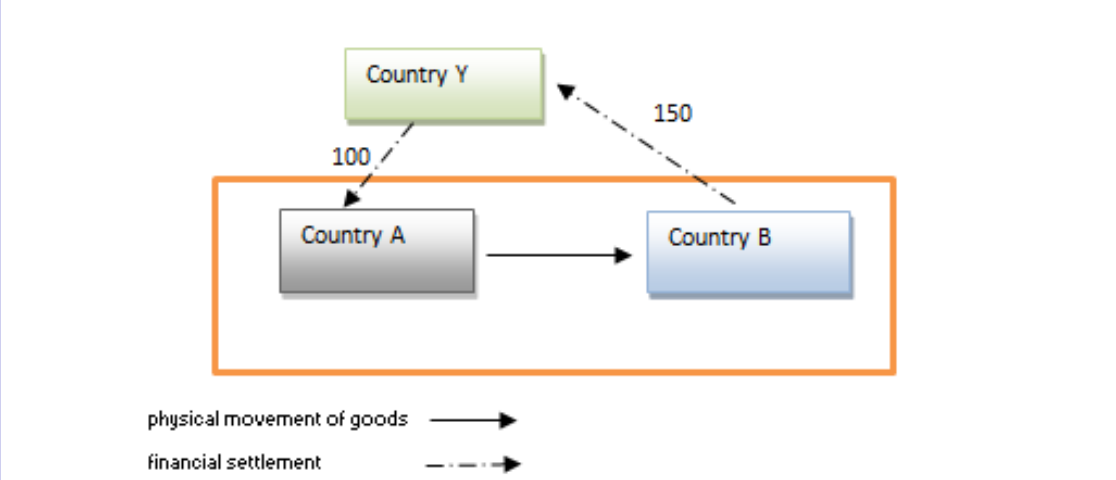
- Merchant in country Y buys goods from country X for the wholesale price of 100 and ships those to country A
- Goods are declared as imports, kept in storage, and eventually sold to a resident consumer for the retail price of 150
- Under *BPM6* and *2008 SNA*, the latter value is the relevant one for recording the *change of ownership*
- *Errors and omissions in Y and A are avoided, and global goods account remains in balance*



Similar phenomena (2)

Global wholesale scenario 3:

- Merchant in country Y buys goods from EU member country A for the wholesale price of 100
- Goods are shipped to member country B, where a buyer takes ownership for 150
- *To maintain global balances and avoid errors & omissions*, Intrastat needs to be adjusted to record an export from A to Y at 100, and an import of B from Y at 150
- Case study: Czech Republic's experiences in quasi-transit trade

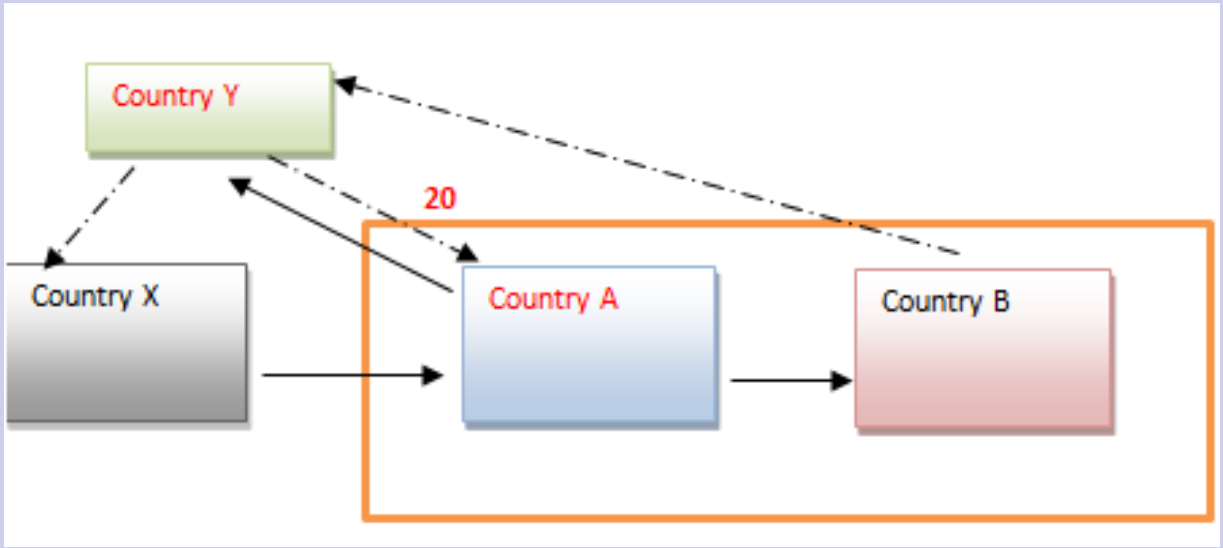


The role of fiscal representation and value-adding services (1)

- Local fiscal representative companies specialize in taking care of:
  - Any administrative efforts in regard to the registration and settlement of local VAT on behalf of nonresident companies
  - customs clearing and Intrastat filing
- Some companies offer/sub-contract tailor-made "value-added logistics":
  - Consolidation of goods (e.g., bundling or unbundling of shipments)
  - Differentiation of goods (e.g., quality inspections; repacking/resizing)
  - Light assembly
  - Configuration (e.g., loading software and testing before shipping)

The role of fiscal representation and value-adding services (2)

- The nonresident merchant separately pays these companies in the transit economies for the services they provide



Compilation challenges

- Compilers are challenged to make necessary adjustments to properly distinguish between goods crossing frontiers in transit/quasi-transit and goods changing ownership
- The ITRS may be one source to provide data on the financial settlement between the nonresident merchant and resident sellers/buyers (for measuring similar phenomena); see *BPM6 Compilation Guide*, Chapter 4 (http://www.imf.org/external/pubs/ft/bop/2007/bop6comp.htm)
- Another source may be a sample survey of companies providing fiscal representation and of companies involved in merchanting, respectively
- VAT declarations may also be useful to compilers to better approximate the value of the transaction between the resident unit and the nonresident merchant

- Thank you.