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**Measurement Issues Associated with Quasi-transit Trade
and Similar Phenomena¹**

Prepared by the International Monetary Fund

A. Introduction

1. This document discusses statistical measurement issues associated with so-called “quasi-transit trade” and similar phenomena. “Transit trade” occurs when goods are admitted under special customs procedures that allow the goods to physically pass through an economy, en route to another destination; in the case of transit trade, the goods are excluded from the goods trade statistics of the economy through which the goods physically pass. In contrast, quasi-transit trade occurs when goods enter an economy and are declared as imports for customs purposes at values that differ from those that are declared when the goods leave the same economy, without the transit economy having acquired ownership of the good. This phenomenon is relevant in the European Union (EU), where goods often enter the union without having changed ownership (so-called fiscal representatives may declare the goods in imports). In this circumstance, after the goods enter the EU, they can move relatively freely to or through other members of the union with minimal further customs documentation. The recording of the price difference can lead to significant statistical discrepancies and distortions in goods imports and exports data.²

2. A similar phenomenon may occur if the goods that originally entered for transit trade are instead sold to a resident of that economy for a price that differs from the declared value upon arrival. (This is not transit or quasi transit trade, because the goods do not physically pass through the receiving economy.) This case may result in a statistical discrepancy for the importing economy (because recorded imports may not equal the settlement payment that is recorded in the financial account), and may also result in a statistical discrepancy in global trade (because imports declared by the fiscal representative may not be equal to exports declared by the merchant, assuming that the economy of the merchant records the full selling price of the exported goods in its estimates).

¹ The views expressed herein are those of the authors and should not be attributed to the IMF, its Executive Board, or its management.

² To avoid the double-counting associated with (regular) *transit trade*, the EU has introduced the “community concept”, which is discussed later in this chapter.

3. Price differences, resulting in a net trade flow in the transit economy, also may occur when goods are traded under merchanting or as goods for processing, or a combination of the two.³ Thus, there are a number of different situations that may pose compilation challenges for compilers.

4. Some of the statistical problems in connection with quasi-transit trade have been previously considered by European institutions including Eurostat. At present, the positive difference between the declared value of the goods and their subsequent sales price is recorded as “branding”, which is recorded in services in the EU sector accounts (which cover the entire domestic economy), i.e., as a services import by the transit economy from the owner of the goods.^{4,5} When the EU will move to IMF’s *Balance of Payments and International Investment Position Manual (BPM6)* in 2014, “branding” will be recorded in goods. Under BPM6, merchanting entries should be valued at transaction prices, and thus the final sale of the goods should be included in goods imports of the EU at the transactions price. (See BPM6 paragraph 10.44.) For the EU compilers this means that the original value at arrival should be disregarded in compiling the balance of payments accounts; instead the value paid by the eventual purchaser of the goods should be recorded in goods trade. The current treatment leads to an underestimation of goods imports that contributes to the global statistical discrepancy in goods trade.^{6,7}

Updated International Standards

5. As noted, the current international guidance on the time of recording and the valuation principles for measuring balance of payments transactions are contained in the *BPM6*. This guidance is consistent with that in the *2008 System of National Accounts (2008 SNA)*. One of the major themes leading to the revisions was globalization and its harmonized treatment in both manuals. A significant change is the consistent application of the change in ownership principle to the goods and services account. As a consequence, unlike the treatment in *BPM5*, the imputation of transactions when goods cross a customs frontier without a change in economic ownership is eliminated in *BPM6*.

6. Practical challenges exist in implementing both the *BPM5* and the *BPM6* methodologies. In particular, it is sometimes difficult to adjust international merchandise trade statistics (IMTS)—which often serve as inputs for balance of payments and national accounts, and that are based on the physical movement of goods across customs frontiers—with the methodology used in compiling the balance of payments and national accounts.

³ The merchant could be a multinational enterprise. Transfer pricing is another reason for distortions between import and export prices, which is beyond the scope of this chapter.

⁴ This is in line with the recommendation by the joint ECB/Eurostat Task Force ROW Account in 2003. The method was described in more detail in chapter 9 of the Guide *Impact of Globalization on National Accounts*.

⁵ Another implicit discrepancy arises between the sum of the national balance of payments accounts to the rest of the world and the ROW account as recorded in the EU sector accounts. This is due to the fact that the branding service is not applied in the national balance of payments statistics.

⁶ Global goods exports in recent years have exceeded global goods imports, whereas in concept these values should be equal, because one country’s exports are another country’s imports.

⁷ As discussed later, the current treatment also leads to a statistical discrepancy in services trade in the opposite direction.

B. Background

Role of fiscal representatives in the EU

7. Focusing on the EU situation, where goods physically enter the EU, there generally is a requirement for a local VAT number to clear the goods through customs. Fiscal representation can be an attractive option for companies that are not VAT registered in the country of the first point of entry into the EU.⁸ Fiscal representative companies specialize in taking care of the management and settlement of VAT on behalf of nonresident companies in accordance with the local (sometimes complex) regulations, including customs clearing and Intrastat filing.⁹

8. Apart from the locational advantage for entering the EU through a specific member state, there are a number of other reasons why a nonresident company would transit through one EU member state to sell his products in another. For instance, some EU members offer VAT deferral schemes that can improve an importer's cash flow.

9. Another advantage is that, once the goods have been cleared in one member state, the goods are free for transport elsewhere in the EU without any further customs clearance, and as such can be stored within the EU and eventually transported and delivered quickly. It is often the case that goods are stored as inventory in one EU member state before being delivered to a purchaser in another member state. With fiscal representation, there is no need for a bonded warehouse or the posting of a customs bond – the goods may be stored anywhere. Often the shipments are cleared for customs on a consolidated basis, which saves additional costs.

10. Furthermore, in global wholesale arrangements, the nonresident merchants often buy in bulk for a reduced price, and sell in smaller lots to final customers for prices including mark-up, such as royalties or commissions, and costs for planning, marketing, and advertising (see also *BPM6*, paragraph 10.44 (b)). When using an intermediary country, merchants may be able to keep confidential from customers the wholesale prices that were declared at the time of import, as well as to provide a more tailor-made door-to-door service for their end customers.

Value adding services through value added logistics

11. In the above cases, goods pass through an economy without being further processed by the economy through which they passed. There also are cases where value is added in the transit country.

12. It is common for fiscal representation companies to also offer or sub-contract tailor-made so-called “value added logistics”. These services include, for instance, “consolidating”¹⁰ goods for

⁸ Non-EU importers registering for VAT have to appoint local fiscal representatives in most European countries. The fiscal representative is responsible for all of the importer's VAT compliance, including the filing of returns. Alternatively, non-resident businesses may register themselves directly in another EU country and obtain a VAT number that identifies their non-resident nature.

⁹ Intrastat is the system for collecting information and producing statistics on the trade in goods between countries of the EU. It replaced customs declarations in 1993 as the source of trade statistics *within* the EU.

¹⁰ Generally speaking, “consolidation” means bundling, e.g., goods are bundled in a way that could include delaying the delivery to improve the utilization of transport capacity; or the transport flows are bundled, for instance, by including stopping at several pick-up and drop-off stations along the way.

the end-customer from multiple sources; “differentiation”¹¹ of products before delivery through, for example, uploading of software; quality inspections; or repacking and resizing of products. After this light processing¹², the goods are physically dispatched to the final customer in another EU member state, who pays the full transactions price directly to the nonresident merchant. The nonresident merchant separately pays the processor in the transit economy for the services it provided. Thus, in the economy of the value added services provider, services (and not goods) exports should be recorded, and the services exports should be equal to the amount that the services provider charged for its services.

C. Application of *BPM6* and *2008 SNA* to quasi-transit trade

13. This section first addresses the treatment of quasi-transit trade in national balance of payments data, and, second, addresses the recommended recording in an economic union (i.e., the EU). Both cases are illustrated by quantitative examples that also address the treatment of any value added being generated in the transit economy.

Recording of quasi-transit trade in national balance of payments

14. In the national balance of payments it is important that the compiler identifies cases where its own country does not acquire economic ownership of goods (transit trade and quasi-transit trade), to ensure that it does not record goods imports and exports.¹³ In many EU countries, it is much easier to identify and properly record (exclude) transit trade than it is to properly handle quasi-transit trade.

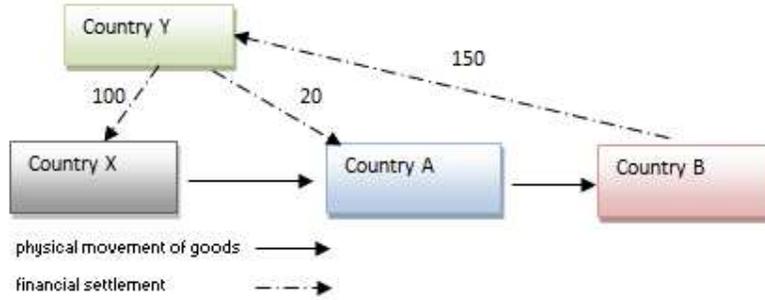
15. In the first example, the merchant in country Y buys goods from country X for the wholesale price of 100 and sells these goods to country B for the transactions price of 150 (including purchased services and profit). A local fiscal representative in transit country A, in addition to taking care of the customs arrangements, sub-contracts to a specialized enterprise the undertaking of quality inspections before the goods are shipped. He gets reimbursed for his services by the merchant in Y with 20 (5 for customs clearance, and 15 for the quality management). These services are reflected in the higher goods value when dispatched to country B; however, they also need to be recorded as separate transactions in the balance of payments of A, because residents of member state A provided services to country Y for which they were explicitly compensated.

¹¹ Product differentiation is a process that can be achieved in many ways; for instance, by packaging of goods in a unique way; or even as elaborate as incorporating new features, such as customized software.

¹² *BPM6* Box 10.1 contrasts merchanting with manufacturing services that do or do not change the condition of the goods: goods for which manufacturing services that do not change their condition are recorded under merchanting; in contrast, manufacturing services that do change the condition of the goods lead to entries in general merchandise instead of merchanting. See also *BPM6*, paragraph 10.42.

¹³ If the compiler decides to publish data on quasi-transit trade, it would be useful to explain possible reasons for differences in the values of incoming and outgoing goods, e.g., mark-up costs, or fees for manufacturing that are recorded as services in the balance of payments data.

Example 1:



Country Y	
Goods under merchanting with X	-100 CR
Goods under merchanting with B	+150 CR
Net exports of goods under merchanting	50 CR
Trade-related services	20 DR
Financial account -	
net change in external assets	30 DR

Country X	
General merchandise export to Y	100 CR
Financial account -	
net change in external assets	100 DR

Country A	
Trade-related services	20 CR
Financial account -	
net change in external assets	20 DR

Country B	
General merchandise import from Y	150 DR
Financial account -	
net change in external assets	150 CR

16. As shown in Example 1 above, goods under merchanting are recorded in the accounts of the merchanting country Y (owner of the goods), with the difference in price representing the merchants' margin. The transit country A records only services exports to country Y¹⁴, while Country X and B record exports and imports of goods, respectively, to and from country Y.¹⁵

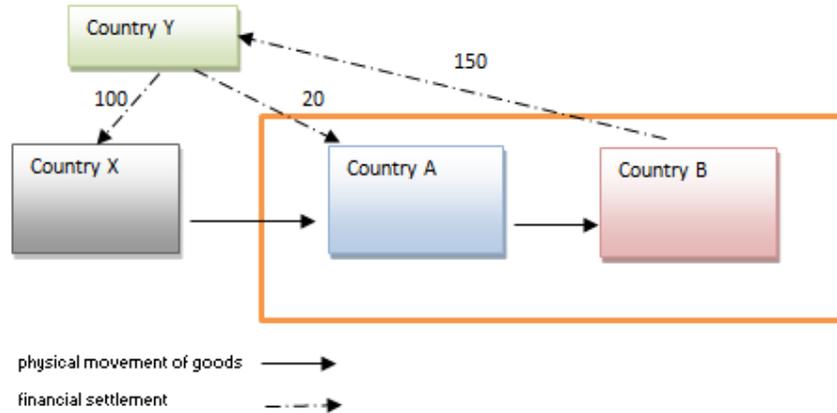
Recording of quasi-transit trade in EU aggregates

17. Example 2 repeats largely example 1; however, country X and Y are both outside the EU, and country A and B are inside the EU. The merchant in country Y buys goods from country X for the price of 100. The goods are first cleared for customs in EU member state A by a local fiscal representative. In addition, he sub-contracts to a specialized enterprise the undertakings of quality inspections before the goods are being shipped and dispatched to end-consumer B. He is reimbursed for his services by the merchant in Y with 20 (5 for customs clearance, and 15 for quality management).

¹⁴ Transport costs are neglected in this example. Goods under merchanting are valued at transaction prices not FOB, see *BPM6* paragraph 10.44(d).

¹⁵ See also *BPM6* Box 10.1

Example 2:



Country Y		EU	
Goods under merchanting with X	-100 CR	General merchandise import (B) from Y	150 DR
Goods under merchanting with B/EU	+150 CR	Manufacturing services on physical inputs owned by others (A)	15 CR
Net exports of goods under merchanting	50 CR	Other business services - legal services (A)	5 CR
Manufacturing services on physical inputs owned by others	15 DR	Financial account -	
Other business services - legal services	5 DR	net change in external assets (A+B)	130 CR
Financial account -			
net change in external assets	30 DR		
Country X			
General merchandise export to Y	100 CR		
Financial account -			
net change in external assets	100 DR		

18. Generally in the EU, national balance of payments data are used for compiling the rest of the world account in the integrated economic and financial accounts by institutional sector (integrated accounts). To that end, the balance of payments and merchandise trade data follow the “community principle”, which prescribes that goods in transit need to be compiled and recorded separately. Goods transactions are recorded using the *economy of origin* and the *economy of last destination* as imports/exports respectively. Additionally, goods movements through transit countries are recorded as arrivals/dispatches to and from the *economy of consignment*.¹⁶

19. The community principle relies upon three pieces of information in compiling data on goods trade, namely, the economy of origin, the economy of final destination, and the economy of consignment. Arrivals and dispatches from transit trade are disregarded (through consolidation) when compiling transactions of the EU with third economies to avoid double counting (see *BPM6*, Box A3.1¹⁷). Scheme 1 displays the recording of trade transactions in economic unions for the simple case of transit trade without price differences.

¹⁶ The EU has two separate statistical systems for the physical movement of traded goods: (i) Extrastat is a statistical data collection that is based on the custom declarations of goods entering and leaving the EU; and (ii) Intrastat is a statistical data collection on trade flows between countries within the EU.

¹⁷ In *BPM6*, Appendix A3, Box A3.1, the recording of trade transactions in currency and economic unions are explained for the simple case of transit trade without price differences.

Scheme 1:

Reporting economy	Partner economy attribution		
	Extra-union X	Intra-union	
		A	B
Country X		dispatch: 100	export: 100
Country A	arrival: 100		dispatch: 100
Country B	import: 100	arrival: 100	
Union	import: 100		

20. As discussed in the previous section, in the case of quasi-transit trade, a difference arises between the arrival value of the goods (measured by Extrastat in the EU) and the dispatch value to B (measured in Intrastat). The difference can be attributed to the reasons mentioned in Section B. What is important to note is that this higher price is the one *charged by the owner for the exchange of the goods*. Thus, for the accounts of an economic union, the higher price paid by B should be recorded as the import price of the EU, and the difference between the arrival and dispatch price in A should be disregarded in the accounts, because no change of ownership or transaction related to the price difference has occurred in A.

21. However, the current EU Regulations seem to prescribe the lower price (100 at arrival (Extrastat) as the import value of the goods to the EU. Also, any difference between the value reported for the import and the subsequent export is recorded in the transit economy as an *import of “branding” services* from outside the EU, notably, from the country of the merchant.¹⁸ This treatment, however, results in a statistical imbalance in services at global and bilateral levels: The imputed import of branding services by the EU is not matched by a services export in the economy of the merchant; indeed, the economy of the merchant records neither goods or services transactions with the economy where the goods entered the EU.

22. To avoid creating imbalances (and in line with international guidelines), the community principle will need to be extended to include evidence of change of ownership, rather than physical goods movement only (along with the provision of services).

¹⁸ See Eurostat 2009 *Vademecum*, and *Guide on The Impact of Globalisation on National Accounts*.

Scheme 2:

<u>Counterparties: change of ownership</u>				
<u>Reporting economy</u>	<u>Extra-union Y</u>	<u>Extra-union X</u>	<u>Intra-union</u>	
			<u>A</u>	<u>B</u>
Country Y		import: 100		export: 150
Country X	export: 100			
Country A				
Country B	import: 150			
Union	import: 150			

<u>Counterparties: physical movement</u>				
<u>Reporting economy</u>	<u>Extra-union Y</u>	<u>Extra-union X</u>	<u>Intra-union</u>	
			<u>A</u>	<u>B</u>
Country Y				
Country X			dispatch: 100	
Country A		arrival: 100		dispatch: 150
Country B			arrival: 150	
Union				

23. The import value should be the value at dispatch to country B, at the time of change in ownership, as displayed in Scheme 3.

Scheme 3:

<u>Counterparties: combined</u>				
<u>Economy</u>	<u>Extra-union Y</u>	<u>Extra-union X</u>	<u>Intra-union</u>	
			<u>A</u>	<u>B</u>
Country Y		import: 100		export: 150
Country X	export: 100		dispatch: 100	
Country A		arrival: 100		dispatch: 150
Country B	import: 150		arrival: 150	
Union	import: 150			

24. A separate transaction constitutes the generating of value in form of services exported from the transit country A to the country of the merchant, for instance in form of trade-related services (custom clearance). These services are reflected in the higher goods value when dispatched to member state B; however, to avoid errors and omissions, they should be recorded as separate transactions in the balance of payments of A and Y only in the case where residents of member state A provided services to country Y for which they were compensated.

25. Through the combination of Intrastat and Extrastat figures, the EU compilers are able to record the amount that appropriately reflects the change of ownership from the seller outside the EU to the buyer within the EU. With regard to the services transactions within the transit economy,

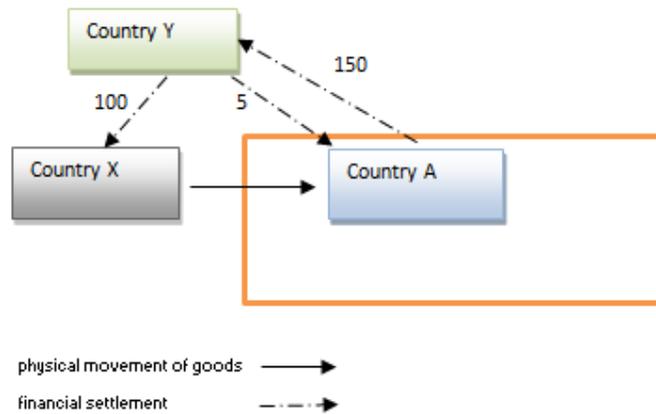
data could be collected through ITRS or from a survey of resident companies specializing in fiscal representation and value-added logistics.

D. Recording of related phenomena

26. Examples 3 and 4 describe similar phenomena to quasi-transit trade that may cause discrepancies in national balance of payments data of a single country as well as in global trade data, if not measured correctly.

27. In Example 3, the merchant¹⁹ in country Y buys goods from country X for the wholesale price of 100, and has them shipped to country A. A fiscal representative, commissioned by the nonresident merchant for the fee of 5, is handling custom procedures in country A. In country A, the nonresident merchant may rent a storage space, from which, eventually, the goods are being delivered to a resident consumer for the transactions price of 150. The statistical challenge is that the value at the moment of the cross-border movement of the goods does not reflect the change of ownership value, and thus adjustments are necessary to keep the balance within the accounts and on a global level intact.

Example 3:



28. The country A compiler should observe the difference in valuation between the goods crossing the border, evidenced in merchandise trade statistics, and at the time of the financial settlement between the resident buyer and the nonresident merchant. Under *BPM6* and *2008 SNA*, the latter value is the relevant one for recording the change of ownership in macroeconomic accounts in order to avoid errors and omissions in country Y and country A's balance of payments data, and to maintain the global goods account in balance for country X, Y and A.

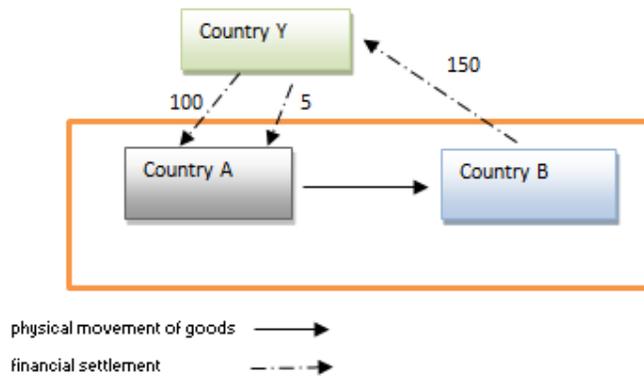
¹⁹ These examples may vary in case the non-resident merchant is part of a MNE.

Country Y		Country A	
Goods under merchanting with X	-100 CR	General merchandise import from Y	150 DR
Goods under merchanting with A	+150 CR	Trade-related services	5 CR
Net exports of goods under merchanting	50 CR	Financial account, external assets	145 CR
Trade-related services	5 DR		
Financial account, external assets	45 DR		

Country X	
General merchandise export to Y	100 CR
Financial account, external assets	100 DR

29. In Example 4, the nonresident merchant of country Y buys goods in EU member state A for the wholesale price of 100. He has the goods transported to another EU member state B, where a buyer takes ownership for 150. The merchant employs a specialized fiscal representative in member state A (cost of 5) for the handling of VAT matters and any administrative arrangements related to the intra-Community supplies.

Example 4:



30. The statistical challenge is that Intrastat would record the value of 150 for both intra-Community dispatch and arrival; however, country A is in fact exporting the goods to country Y for a value of 100, and country B is importing from country Y for 150. Only when these adjustments are made can statistical discrepancies be avoided.²⁰

²⁰ In a related case, the non-resident merchant buys goods in country A and, with assistance from a fiscal representative, on-sells the goods to another resident in country A. The statistical challenge will be to correctly record the import and export values respectively, even though the goods never cross the national borders and thus are not declared in IMTS. A survey of resident companies providing fiscal representation may be an alternative.

Country Y		Country B	
Goods under merchanting with A	-100 CR	General merchandise import from Y	150 DR
Goods under merchanting with B	+150 CR	Financial account, external assets	150 CR
Net exports of goods under merchanting	50 CR		
Trade-related services	5 DR		
Financial account, external assets	45 DR		

Country A	
General merchandise export to Y	100 CR
Trade-related services	5 CR
Financial account, external assets	105 DR

E. Conclusion

31. Globalization has brought several issues to greater prominence, i.e., the cross-border production of companies and the worldwide sale and management of products that do not involve physical possession. The ongoing implementation of the recently updated international guidelines will increase the comparability and consistency of economic statistics across countries over time. In implementing *BPM6* and *2008 SNA*, compilers are challenged to make necessary adjustments to primary source data, such as IMTS, and integrate new data collection methods, in order to distinguish between goods that change economic ownership and those that are connected with transit and quasi-transit trade. There are several data sources compilers may consult or develop. In general, central banks often have responsibility for obtaining data from financial institutions, while national statistical agencies often have responsibility for nonfinancial entities. Involving all the relevant agencies will improve the coverage and accuracy of the compiled estimates.

Potential approaches to compile data

32. In many countries, compilers of external sector statistics make use of the International Transactions Recording System (ITRS)²¹, a data collection system that typically obtains data from banks and enterprises at the level of individual cross-border transactions. The ITRS is focused on collecting transactions going through banks' correspondent accounts, and thus provides data on the financial settlement between the resident seller or buyer of goods and the nonresident merchant. The values derived from this data source may be relevant for identifying changes of ownership in macroeconomic accounts (for more information on the ITRS see *BPM6 Compilation Guide*, Chapter 4, <http://www.imf.org/external/pubs/ft/bop/2007/bop6comp.htm>).²²

33. Another potential source of information may be a sample survey of the most relevant companies providing local fiscal representation for international clients. These companies could provide details on the merchants' residence, the types and value of services provided to the merchants, and the size and nature of the elements included in the selling price. In the country of the merchants, the data may need to be collected directly from the enterprises involved in merchanting. Such enterprises may be identified through a business register maintained by the statistical office. Model Forms are available from the *BPM6 Compilation Guide*.

²¹ The ITRS evolved as a by-product of foreign exchange control systems and differs from country to country depending on a country's legal framework, accounting systems, and foreign exchange regulations.

²² Currently still in draft.

34. To better approximate the value of the transaction between the resident unit and the merchant, compilers may also be able to make use of VAT declarations filed on behalf of nonresident merchants in adjusting the values of reported imports and exports of the resident units.
