CHAPTER 9

Measurement issues associated with administrative trade data and globalization

Introduction

9.1 Statistics on trade in goods are based on cross-border movement of the goods, which are generally measured using administrative sources that are considered an acceptable proxy for change of ownership. In the past, with the limited exception of merchanting, goods were generally imported or exported by a resident, who owned them.

9.2 Globalization has increased the relevance and variety of transactions where the physical movement of goods does not reflect a change of ownership. In addition, the administrative documents do not always allow a full identification of the transactors or their residence, forcing compilers to make estimates based on incomplete information. Processing and merchanting, described in Chapters 5 and 6, are recognized cases of a separation between change in ownership and the cross-border movement of goods.

9.3 This chapter concerns transactions where the cross-border movement of goods does not reflect changes in ownership, and may lead to incorrect allocation of value added across countries. This problem first became apparent to compilers of EU and euro area aggregates through the phenomenon of quasi-transit trade; more recently it has emerged that a similar type of transaction can create an imbalance in the national data of a single country. It should be noted that the description of the present treatment of this phenomenon in EU statistics in the main part of this chapter reflects the requirements of the ESA 1995, 1993 SNA and BPM5. As indicated in paragraph 9.75, some modification may be appropriate on implementation of the 2008 SNA, BPM6 and ESA 2010 standards.

9.4 In quasi-transit trade, goods are imported into a country by a non-resident entity, and re-exported to a third country, sometimes at a substantially higher price. The owner of the goods may be a MNE or a trader. The reporting economy excludes these goods from national data on imports and exports, since the goods are not owned by a resident.

9.5 Quasi-transit trade shares features with transit trade, re-exports and merchanting, in that the goods move across a third country on their way from the initial producer to the final consumer (for explanations of these terms, see paragraphs 9.31 et seq).

Background

The source of the phenomenon

9.6 European regulations and guidelines require the transmission of balance of payments and merchandise trade data to Eurostat and the ECB compiled according to the "community principle", with quasi-transit trade included. This is because goods imported into the European Union/euro area are cleared for circulation in the whole area at the point of entry. Nevertheless, at least in principle quasi-transit trade is excluded from national foreign trade and balance of payments data by member states, and also from the rest of the world sector in their economic accounts. There are large differences in the gross values of exports and imports of goods measured in the two frameworks.

Examples of quasi-transit trade

9.7 Some examples showing the flows of goods and the corresponding flows of payments may help to explain the issue: in reality, transactions may be more complicated than shown here.

- Country Y is the non-EU country producing the goods and from which the goods enter the European Union.
- Country X is the country where the owner (X) of the goods imported into the European Union is resident; country X may be located inside or outside the European Union.

- Country A is the member state where the goods enter the European Union. It is not the country in which the owner of the goods, who arranges their import into A, is resident.
- Country B is the member state where the goods are finally delivered and consumed. The owner of the goods (X) who arranges their import into A and their sale to an entity in B may be a trader or an MNE involved in global manufacturing.

9.8 In country A, the entity A which handles customs procedures and pays import duties does not become the owner of the goods. A may be a local fiscal representative dealing with the customs, and considered only as a provider of services to non-residents in the national accounts of country A.

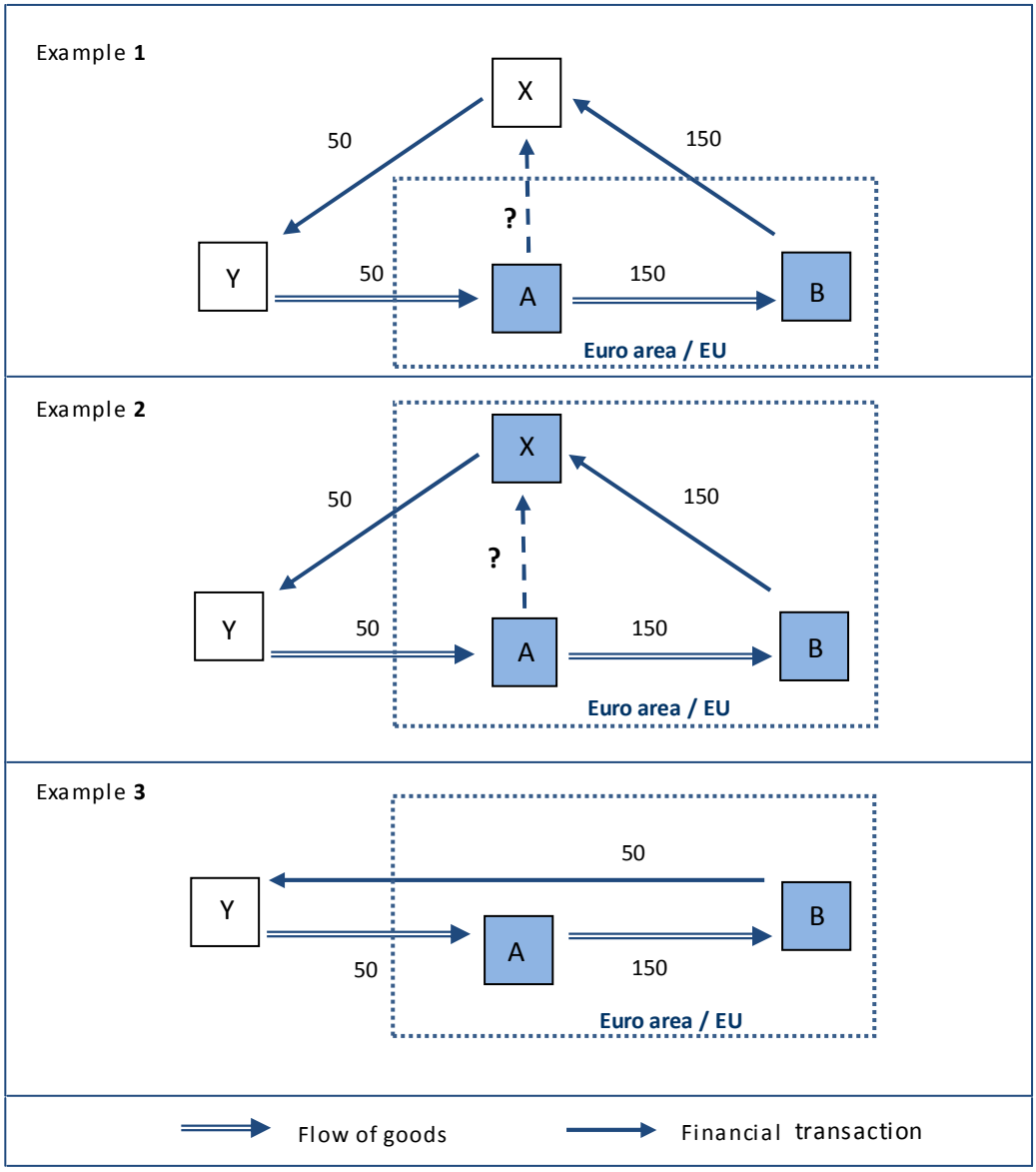
9.9 Entities in countries X and A may be independent (as it is generally the case when the goods are imported into the Netherlands) or related (as it is often the case in Belgium); X may be resident in country B (in which case country B and country X are the same).

9.10 Chart 9.1 shows three examples of possible transactions among Y, X, A and B.

9.11 In examples 1 and 2, the goods acquired by country X from country Y enter the European Union/euro area through member state A. Goods are then dispatched to member state B, which provides a payment to country X that in turn pays Y.

9.12 In example 1 the owner X who arranges the import into A is not resident in the European Union/euro area; in example 2 the importer X is resident in the European Union/euro area.

Chart 9.1 Examples of quasi-transit trade schemes characterized by major price gaps



9.13 A price gap is observed between the import value recorded when the goods enter the European Union (which is the value at which they are reported by A according to the "origin principle" with counterpart Y), and the (sometimes much higher) value recorded when goods are dispatched from country A to country B; country B according to the "consignment principle" will report imports from A (and not from Y). This approach (called the community concept) avoids a double counting of imports from Y at aggregated level. Annex 9.4 explains the systems for recording trade with countries outside the European Union (Extrastat, using customs documentation) and cross-border movements of goods within the European Union (Intrastat, based on surveys)

9.14 Example 3 can be seen as a special case of example 2, where X and B are merged. In example 3 the cash flows take place directly between country Y and country B, the country of final destination in the European Union.

9.15 An important consideration is the relationship between the units in X, Y and B. If these units are independent, the price gap could be attributed to merchanting in country X, where the owner of the goods is resident, but not in country A, where they are imported into the European Union. In the more significant cases displaying the largest price gaps, the units tend to be related and part of the same MNE. The phenomenon of global manufacturing, of which these cases may be instances, is discussed at length in Chapter 8.

The size of quasi-transit trade in the European Union

9.16 Quasi-transit trade is very significant in Belgium, Luxembourg and the Netherlands. Following EU enlargements, the transit trade phenomenon has also been detected in other member states.

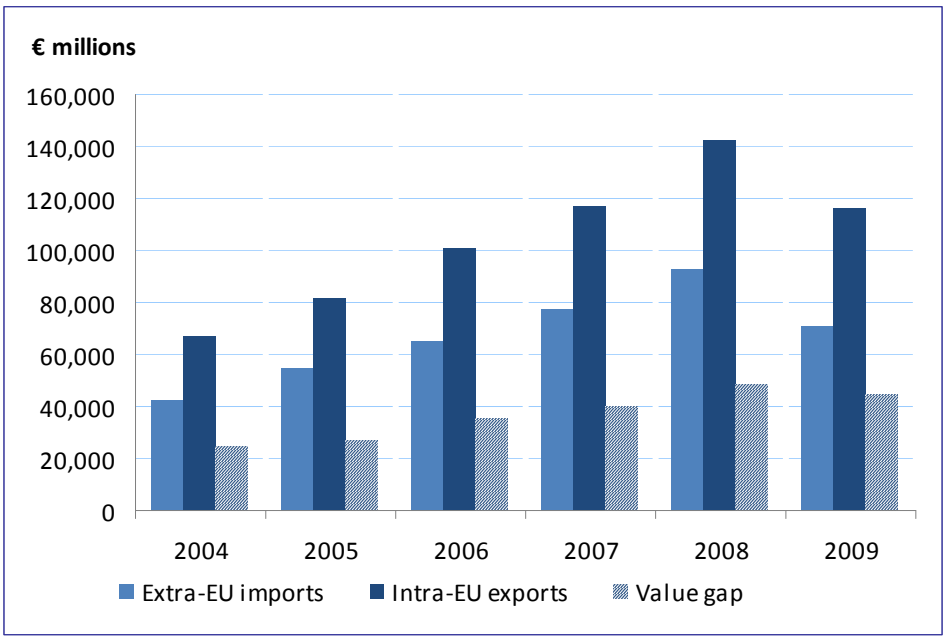
9.17 Chart 9.2 compares quasi-transit trade imports into the European Union with quasi-transit dispatches (exports) from the EU country in which the goods entered the European Union to the country of final destination. The gap between these two values steadily increased to reach €48.8 billion in 2008 before decreasing to €44.8 billion in 2009, with the general contraction of international trade due to the financial crisis. The data relating to quasi-transit in Belgium, the Netherlands and some other EU countries are shown in annex 9.1.

A similar phenomenon: trade undertaken by entities which are not resident in a country

9.18 If it is possible for a non-resident enterprise to import goods into a country, a phenomenon similar to quasi-transit trade can occur within a single country. Chart 9.3 explains how this may arise.

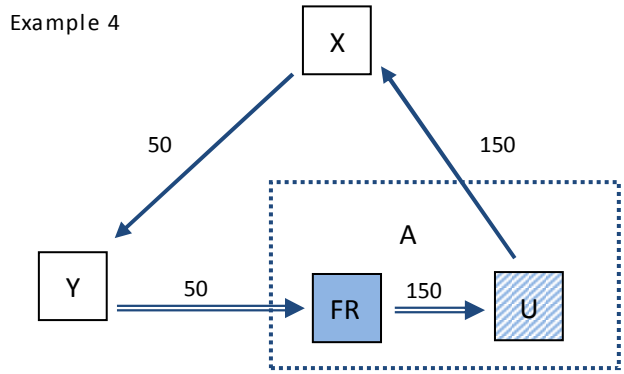
- Country Y is the country producing the goods

Chart 9.2 Quasi-transit trade in the European Union



Source: Eurostat, Balance of Payments Quality Report, BoP/FTS Reconciliation tables. Extra-EU imports and intra-EU exports in this chart relate only to the quasi-transit trade component.

Chart 9.3 Example of trade undertaken by entities which are not resident in a country



and from which the goods enter country A.

- Country X is the country where the owner of the goods (who may be a merchant or an MNE) imported into country A is resident.
- Country A is the country into which the goods are imported and is also the residence of the final user.

9.19 In country A, the entity FR (a fiscal representative) handling customs procedures does not become the owner of the goods. This entity provides a service to country X.

9.20 A merchant or an MNE resident in country X imports goods into country A; these imports are valued at the price the merchant or MNE paid for them (50). The goods are then sold to a resident of country A (user U), who is the final buyer; this transaction values the goods at the selling price of the merchant or MNE (150). The gap between the value of imports and the value of the transaction in which the actual change in ownership takes place represents the trade margin of the merchant (or MNE). This margin is not recorded as an import of goods or services in country A, so there is an imbalance between demand for and supply of goods and services in A.

9.21 Adjustments are necessary to balance the SU tables. As the SNA requires imports to be recorded as the value of the transaction when ownership of the goods changes, an adjustment to imports could be a solution, which however would end up inflating the value of imports of goods. Another solution is to make an imputation to increase imports of services.

9.22 Where however national accountants are not aware of its source, they may resolve the discrepancy between demand and supply in some other way – for example, by reducing intermediate consumption - which restores balance between the output and expenditure measures, but at too high a level of GDP.

An example of trade conducted by non-resident entities in a country

9.23 An example of the phenomenon within a country is described in a document presented by the Hungarian Central Statistical Office (HCSO) to the Conference of European Statisticians in June 2008 (see Csizmazia, 2008 and annex 9.3 below). HCSO discovered this valuation problem when comparing information relating to trade in goods from bank payments sources with the information available from merchandise trade data.

9.24 The problem described by HCSO arises from the activities of a group of distributors called VAT residents of foreign enterprises, who are resident in Hungary for VAT purposes but not for statistical purposes. The share of this group in Hungary's external trade, insignificant in 2004 when Hungary joined the European Union, reached 10 per cent in 2007.

9.25 The problem discovered by HSCO affects both exports and imports; however the similarities with quasi-transit trade are strongest for imports. The flows described below correspond to examples 1 and 2 in chart 9.1, so the country codes used there are repeated.

a. A non-resident company (Y) sells goods to a VAT resident in Hungary (A) controlled by the parent company (X); the foreign parent company (X) pays for the goods.

b. There are then two possibilities:

i. The VAT resident (A) sells the goods to a buyer resident in Hungary, who pays the foreign parent company (X) for them.

ii. The VAT resident sells the goods to a non-resident of Hungary (B), who pays the foreign parent company (X). This case corresponds to quasi-transit trade.

9.26 Hungary observes for case b(i) a difference in valuation between the import as recorded in merchandise trade statistics and what the resident purchaser pays for the goods. In case b(ii) Hungary observes a valuation difference between imports and re-exports in merchandise trade similar to that noted in quasi-transit trade. In both cases payment is made to the country of residence of the foreign parent.

9.27 The Hungarian example shows that a problem similar to quasi-transit trade may also exist within a country. The Czech Republic has recently revealed similar problems to those reported by Hungary (Petraskova, 2010).

The main elements behind the phenomenon, and possible explanations

9.28 The main single element behind the phenomenon seems to be the possibility for a non-resident to have a VAT number in the reporting economy, and to import, re-export, or sell on the domestic market.

9.29 Little is known about why a company requests a VAT number in a country where it is not resident, and it may substantially increase the price of goods in the course of transporting them to their final destination for reasons which may not be wholly clear. It may be that enterprises declare a low value at the port of entry to minimize custom duties. Transfer pricing is generally associated with a resident unit which generates value added and profits and pays taxes. In case of quasi-transit trade no resident unit is involved, and transfer pricing seems not to apply.

9.30 Another possible explanation is that the goods when imported are not yet sold to the final customer. In this case the only price that can be declared at the time of import is (for a merchant) the price which he paid, or (for an MNE) the cost price, with allowance for transport, etc. costs. When a customer is found and the goods are exported to him, they will be priced at a higher selling price.

Statistical treatment recommended in international standards

The definition of quasi-transit trade

9.31 Quasi-transit trade is not defined in the international manuals.[30] The following refers to standard definitions of related concepts. Although some are set out in other chapters, they are repeated here for convenience.

9.32 It is useful to distinguish between the following related concepts:

- **Simple transit trade** describes transactions in goods which cross the reporting economy on the way to their final destination. They are excluded from the foreign trade statistics (FTS), balance of payments and national accounts of the reporting economy.
- **Re-exports** describes transactions in goods which are imported into the reporting economy by a resident and then re-exported. Re-exports imply a change in ownership and are included in the FTS, balance of payments and national accounts of the reporting economy.
- **Merchanting** (the subject of Chapter 6) describes purchases of goods by a resident of the reporting economy from a non-resident and the subsequent resale of the same goods to another non-resident without the goods entering the reporting economy.
- **Quasi-transit trade** as described in this chapter concerns transactions in goods which are imported into the reporting country by a non-resident entity, and then re-exported to a third country within the same economic union. A variant is the case in which they are imported into the country and later sold to a resident there, sometimes at a much higher price, without significant change to the goods and without the involvement of any resident to whom the value added reflecting the increase in price might be attributed.

9.33 Simple transit trade, quasi-transit trade and re-exports have a common element: in all three cases the domestic supply of goods in the compiling economy is not increased, even if the goods are physically present there.

9.34 Merchanting is fundamentally different from transit and quasi-transit trade and re-exports,

[30] Because however of the relevance of the issue for European accounts, a definition of quasi-transit trade is introduced in the proposed ESA 2010 – see further below.

in that the merchanted goods are not physically present in the compiling economy. Merchanting is however relevant to this discussion because it is a possible cause of the increase in value of the goods between their import and their export or sale to a final user in the importing country.

9.35 The following four sections analyse further the definitions and concepts related to these issues.

Simple transit trade; direct transit trade; transport transit trade; goods in simple circulation

9.36 Simple transit trade means that goods cross a country on the way to their final destination; no transaction (beyond related transport, etc. costs) is recorded in FTS, balance of payments and national accounts (the 1993 SNA and ESA 1995). Such (non) transactions have different names in the international manuals.

9.37 Intrastat Regulation No 638/2004 Article 2(g) defines "*goods that are in simple circulation between Member States*" as *"Community goods dispatched from one Member State to another, which, on the way to the Member State of destination, travel directly through another Member State or stop for reasons related only to the transport of the goods".* These goods are excluded in the European Union from the FTS of the country through which they pass.[31]

9.38 The *International Merchandise Trade Statistics compilers' manual* (IMTS 2004, paragraph 102) defines the criterion for identifying *"goods being simply transported through a country…. These are goods entering the compiling country for transportation purposes only. Transportation may involve simple handling operations and temporary storage. … If the goods' destination, at the time of crossing the compiling country's border, is another country, these goods are to be treated as being simply transported through the country and have to be excluded from trade statistics".*

9.39 BPM5 (paragraph 209) defines direct transit trade as *"goods in transit through an economy"* and specifies that these must be excluded from imports and exports.

9.40 BPM6 (paragraph 10.22a) defines transit trade as *"goods admitted under special customs procedures that allow the goods to pass through the territory"* and specifies that these must be excluded from general merchandise because there is no international transaction.

[31] Regulation No 638/2004, Article 3(2a) and (3b).

9.41 The ESA 1995 (paragraph 3.136) specifies that imports and exports of goods exclude *"goods in transit through a country".* The 2008 SNA (paragraph 26.50) excludes from trade in goods, goods that change location from one economy to another but do not change economic ownership.

Re-exports and re-imports

9.42 Re-exports relate to transactions in goods which are imported into a country by a resident trader and then re-exported. The resident enterprise acquires ownership of them from a non-resident. Re-exports are considered as normal transactions in trade in goods and are included in both national and EU FTS.

9.43 The IMTS 2004 (paragraph 136) defines re-exports as *"foreign goods exported (or re-imported) … in the same state as previously imported (or exported)."* These goods must be included in total merchandise exports/imports.

9.44 BPM6 defines re-exports (and re-imports in similar terms in paragraph 10.40):

"Re-exports are foreign goods (goods produced in other economies and previously imported) that are exported with no substantial transformation from the state in which they were previously imported. The price of the re-exported good may differ from its price at the time it was originally imported, due to factors such as transport costs, dealer's margins, and holding gains/losses. For goods to be included in re-exports for balance of payments statistics, a resident must acquire, then resell the goods with the goods passing through the territory" (paragraph 10.37).

Merchanting of goods

9.45 The treatment of merchanting in the 1993 SNA and BPM5, and the changes introduced in the 2008 SNA and BPM6, are discussed at length in Chapter 6. It might be noted that data on merchanting cannot be collected through merchandise trade statistics and must be collected through surveys, and that BPM6 links merchanting and global manufacturing (paragraph 10.42). The increase in value of goods subject to quasi-transit trade (see below) accruing to a non-resident has some similarity to a merchanting margin. This is why, under the present statistical standards, it is treated in EU statistics as an import of services in the form of "branding", just as the merchanting margin is recorded as production of services. As explained later in this chapter, when the 2008 SNA, BPM6 and ESA 2010 standards are implemented it may be more appropriate to adjust imports of goods rather than trade in services, reflecting the

new recording of merchanting by the country in which the merchant is resident in trade in goods rather than in services.

Quasi-transit trade

9.46 According to merchandise trade terminology, quasi-transit trade describes transactions where goods enter an economic union through a member state, are cleared for free circulation within the economic union (with customs duties paid) and are finally dispatched to another member state. The same kind of trade is also known as disguised transit trade, to be distinguished from goods in "simple transit", where no administrative clearance takes place.

9.47 Quasi-transit trade concerns mainly imports; exports are affected, though apparently to a smaller extent.[32]

9.48 The 1993 SNA, ESA 1995, 2008 SNA, BPM5 and BPM6 do not mention quasi-transit trade.

9.49 The 1993 SNA (paragraph 14.88) defines exports of goods as *"sales, barter, gifts, or grants"* from residents to non-residents. The ESA 1995 (paragraph 3.132) states that *"Imports and exports of goods occur when there are changes of ownership of goods between residents and non-residents".*

9.50 The 1993 SNA (paragraph 14.59) and ESA 1995 (paragraphs 3.132-3.133) allow for an exception to the change in ownership rule in case of delivery of goods between affiliated enterprises (branch or subsidiary, or foreign affiliate): *"a change of ownership is to be imputed whenever goods are delivered between affiliated enterprises".* This exception has been removed from the 2008 SNA, which together with BPM6 now strictly follows the change of ownership principle (2008 SNA, paragraphs 26.20-26.21).

9.51 Using the SNA terminology, quasi-transit trade can be defined as relating to goods that are imported into a country, and then exported, by an entity which does not acquire the ownership of the goods and that is not a resident in the reporting economy, where it is not considered an institutional unit (it may be an entity which is only registered for VAT).

9.52 In the country where the goods enter the European Union and are cleared for free circulation, the entity which is handling the import of the goods may be a logistics service provider, a fiscal agent or a tax representative. It may be that no staff are employed in the country: there may be only a VAT number required to comply with the necessary customs declarations for importing the goods into the European Union and with the necessary Intrastat declarations. In this case all declarations are prepared by the non-resident merchant or manufacturer, possibly using the services of a fiscal agent.

9.53 Following much discussion among European statisticians, the proposed ESA 2010 introduces a definition of quasi-transit trade in paragraphs 18.28 (in the chapter on the rest of the world accounts) and 19.16 (in the chapter on accounts for the euro area or European Union as a whole). The draft ESA 2010 says that, though quasi-transit trade should be excluded from national data, since the entities involved in obtaining customs clearance are not institutional units (paragraph 18.28), quasi-transit trade should be included in the European aggregated accounts (paragraph 19.16).

Measurement problems

9.54 Merchandise trade is the main source of data on goods for most EU balance of payments and national accounts compilers. Merchandise trade records the value of the goods at the moment of crossing the border.

9.55 When balance of payments and national accounts use merchandise trade data as their primary data source, they assume that crossing of borders could be considered as an acceptable approximation for the change of ownership. However, goods increasingly move across borders independently of changes in ownership. Goods may be imported into a country by an MNE or a trader who will decide only later to whom and at what price to sell them.

9.56 Whenever a merchant or an MNE involved in global manufacturing imports goods into an EU country which is not his country of residence, quasi-transit trade and similar problems may affect balance of payments and national accounts data.

9.57 Annex 9.4 provides a detailed explanation of the way merchandise trade data are collected in the European Union and explains how data on quasi-transit trade are identified in some EU countries.

[32] E.g. some EU member states may export goods (declared in Extrastat) which cannot have originated there, at a higher value than that at which they would have been recorded on arrival in Intrastat.

Proposals for operational treatment in the accounts

Quasi-transit trade and EU and euro area aggregates

9.58 Balance of payments data are used in the European Union for compiling the rest of the world account in the EU (and euro area) integrated economic and financial accounts by institutional sector. [33]

9.59 Users of balance of payments data for compiling EU (and euro area) sector accounts must address the problem of the discrepancies between national balance of payments data and the EU/euro area rest of the world column in the aggregated accounts. In relation to the item goods, the largest contributor to differences between them is quasi-transit trade (see annex 9.2).

9.60 Quasi-transit trade data are included in the national contributions from balance of payments and merchandise trade statistics reported to Eurostat, but not in the rest of the world data reported by some member states for the purpose of aggregated economic and financial accounts. There is also the problem of accounting for the increase in value of goods in the course of quasi-transit, given that the value of quasi-transit exports is substantially higher than the value of the quasi-transit imports, and the gap is much larger than can be attributed to storage, tax, transport and insurance fees.

9.61 To overcome the problems for EU aggregates, and to bring the balance of trade in the EU balance of payments and rest of the world account into line, EU balance of payments compilers have introduced an adjustment in services, under the heading "*Branding/quasi-transit trade adjustment*". (As noted in paragraph 9.75, it may be appropriate to adjust trade in goods rather than trade in services when the new standards are implemented.)

9.62 The term branding was chosen because companies involved in quasi-transit trade explain the increase in prices of goods in quasi-transit as a mark-up covering costs of research, planning, marketing and advertising provided by the parent company. Implicitly, therefore, the buyer of the products in the EU/euro area is importing services from the country in which the parent MNE is resident which are not reflected in the price at which the goods enter the economic area, but only in the price at which they enter the country of final destination.

9.63 The recommendation for making this adjustment came from a Task Force on the Rest of the World Account set up to address the problems of using balance of payments data in compiling sector accounts (see Eurostat, 2007).

9.64 The Task Force considered the possibility that transfer pricing could be a source of the problem: intra-group transactions in goods and services can be valued by MNEs at artificially low (or high) prices when they enter the European Union, with the purpose of realizing profits in one country rather than another for fiscal reasons or for minimizing customs duties. The Task Force chose not to revise (upwards) the value of intra-group transactions related to goods imported from non-EU countries, because of the effect this would have on value indices. Moreover, transfer pricing is generally associated with a resident unit which generates value added and profits and pays taxes, and there is no such unit in the case of quasi-transit trade (see paragraphs 9.29-9.30).

9.65 Box 9.1 includes the definitions and guidelines in relation to the treatment of quasi-transit trade that were included in the *Balance of Payments Vademecum*, the reference document for the transmission of member states' balance of payments data to Eurostat.

A national accounts interpretation of the treatment of quasi-transit trade in the European Union

9.66 In terms of national accounts, the treatment of quasi-transit trade introduced in the European Union implies that the value added generated by the trade margin (corresponding to the price difference between quasi-transit trade imports and subsequent dispatches) is attributed to the country of residence of the parent MNE, country X.

9.67 Table 9.1 shows how the quasi-transit trade transactions and the connected services imputation could be recorded in the national accounts of the countries involved: Y (the exporting country), A (the point of entry in the European Union, and hence the country compiling the FTS import data in Extrastat and recording the Intrastat dispatch), B (the country of final destination in the European Union), and X (the country of residence of the parent MNE). The consolidated external account for the European Union is also shown. Table 9.1 shows the recording if country X does not

[33] For the European sector accounts, see http://epp.eurostat.ec.europa.eu/portal/page?_pageid=2553,64638007,2553_64938511&_dad=portal&_schema=PORTAL

Table 9.1 Treatment of quasi-transit trade in the European Union - country X outside the European Union

External accounts			*Economic union*							
	Country Y		*Country A*		*Country B*		*Economic union*		*Country X*	
	U	*R*	*U*	*R*	*U*	*R*	*U*	*R*	*U*	*R*
Exports/imports of goods	50		150	50		150		50		
Exports/imports of services/branding				100				100	100	
Trade balance		50		0		-150		-150		100
	A	*L*	*A*	*L*	*A*	*L*	*A*	*L*	*A*	*L*
Financial account	50				-150		-150		150	50

U=uses, R=resources, A=assets, L=liabilities

belong to the European Union, and table 9.2 the recording if country X is part of the European Union.

9.68 Whereas this imputation solves the discrepancies occurring in the recording of the quasi-transit trade in the country where the goods are finally sold (country B), it should be noted that it adds to the information required from country A, namely to which country the recorded margin should be allocated.

9.69 Country X (the country of residence of the merchant or parent MNE) may not always be able to record the value added that it obtains from purchasing or manufacturing goods in country Y and re-selling these goods at a significant margin in country B. The balance of payments and hence the rest of the world account of that country may not record the merchanting or branding margins, as it may be unaware of them. In case the parent is an MNE, business statistics may contain the information, but not attribute it to an export of services, because business statistics generally do not provide a geographical breakdown for sales of goods and services and for the value added.

9.70 If the owner of the goods resident in country X is a merchant, the transactions may be recorded and captured via a survey on merchanting, but an MNE involved in global manufacturing is unlikely to participate in a survey on merchanting and the value added will probably escape external trade statistics. The transactions of MNEs will be captured by business statistics, but, as noted above, business statistics may be unable to attribute the trade margin to a sale of services abroad with geographical breakdown.

9.71 If the accounts of the parent MNE or

Box. 9.1 Extract from the *Balance of Payments Vademecum* (Eurostat, November 2009)

Balance of payments item 201, Current account, Services, Branding, Quasi-transit adjustment shall be used by the member states affected by the phenomenon of "Quasi-transit trade" to report the gap between the value declared when the goods are initially imported from a non-EU country and their value when dispatched to another EU member state.

"Quasi-transit trade" is a term used to define goods which enter the European Union in member state A, are cleared for free circulation (and submitted to import duties) in member state A, are then dispatched to the EU member state B.

In member state A, a company with little or no staff employed (but with a VAT number) might be managing the customs procedures related to these goods. In case member state A treats this company as non-resident for national accounts purposes, the transactions concerned would not be included in the goods compiled according to the national concept. However, they are included in the community concept followed in merchandise trade and the balance of payments. Theoretically, "quasi-transit trade" should have no impact in net terms. In practice the value of the goods re-exported can be much higher than the value of the goods which entered member state A. This creates significant differences between the net value of trade in goods recorded in the balance of payments and in the rest of the world account.

The gap between imports and dispatches (excluding changes in price due to storage, tax and insurance) should be recognised in the balance of payments as "Services", at least when reporting data to Eurostat and the ECB.

For practical reasons, (i.e. regardless of whether this is an intra-group transaction or transaction between independent parties), Eurostat and the ECB prefer the imputation to be made under "Branding", BoP item 201. The geographical breakdown should be compiled on the basis of the country of residence of the parent enterprise controlling the company that manages the customs procedure related to these goods in the reporting economy. Consultations with the counterpart countries (which should record a corresponding export of services) are encouraged in order to reduce intra EU asymmetries.

Table 9.2 Treatment of quasi-transit trade in the European Union - country X part of the European Union

External accounts	*Country Y*		*Economic union*						*Economic union*	
			Country A		*Country B*		*Country X*			
	U	*R*	*U*	*R*	*U*	*R*	*U*	*R*	*U*	*R*
Exports/imports of goods	50		150	50		150				50
Exports/imports of services/branding				100			100			
Trade balance		50		0		-150		100		-50
	A	*L*	*A*	*L*	*A*	*L*	*A*	*L*	*A*	*L*
Financial account	50		0	0	-150		150	50		50

U=uses, R=resources, A=assets, L=liabilities

merchant resident in X show the value of the goods imported into country A as 50 and the value of goods sold to country B as 150, the 100 mark-up will be reflected in the statistics of country X. Hence value added in country X, as measured by the production approach or income approach will be correct. However national accounts compilers in country X will need to identify the correct expenditure component (here, the export of merchanting or branding services) to reconcile the expenditure approach; they must not incorrectly assign the expenditure to domestic uses.

The impact of the 2008 SNA and BPM6 on the proposed treatment

9.72 As noted in connection with the treatment of goods sent abroad for processing and merchanting, BPM6 and the 2008 SNA take the firm view that a change in ownership is the only criterion in determining imports and exports. The 2008 SNA (paragraph 26.21) allows no exceptions to this principle.

9.73 In theory, under the provisions of the new manuals, the treatment of quasi-transit trade proposed by the Task Force on the Rest of the World Account will be simplified in national statistics.

9.74 In practice merchandise trade data will continue to follow the movement of goods and not the change of ownership, and adjustments will remain necessary to ensure a correct value and geographical specification for the data of the European Union.

9.75 However, since merchanting is recorded under trade in goods in the new manuals, the current EU recording of branding under services will be revisited and the item probably recorded under goods instead to avoid introducing asymmetries.

Recommended future work on the issue

9.76 Quasi-transit trade was initially thought to be an issue only for EU aggregates (with implications for aggregated data relating to other customs unions). It appears, however, that quasi-transit trade can also cause serious problems to national data of the member countries of the European Union. This point deserves further investigation.

9.77 Further work can be recommended along two main lines:

a. Analysis of problems related to quasi-transit trade and trade conducted by non-residents within a country and the accounting problems presented by VAT registrations in general.

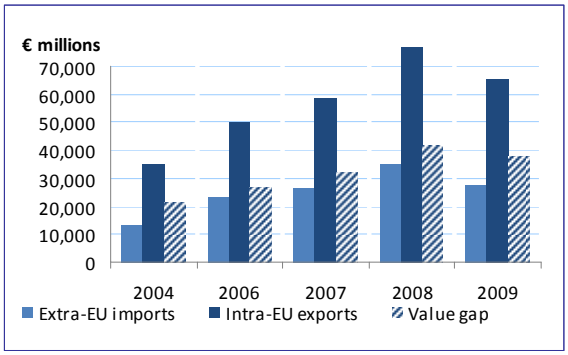
b. Investigation of the relationship between merchanting and quasi-transit trade, and in particular:

i. the geographical detail of the observed quasi-transit trade. Individual countries could identify country X, the country of residence of the parent MNE or merchant. Where the merchant or parent MNE is resident in the European Union, mirror statistics from balance of payments surveys on merchanting could be analysed.

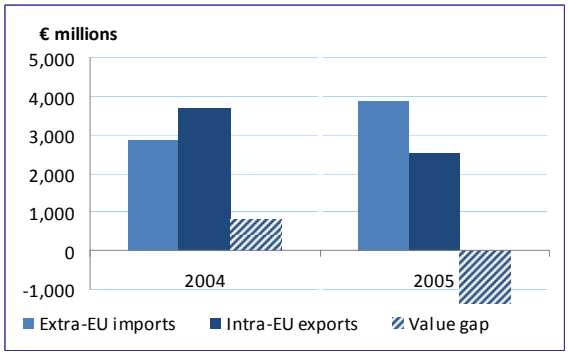
ii. the recording of the transactions in country X, which is where the value added reflecting the price gap and a corresponding merchanting transaction (or provision of branding services) should be recorded.

Annex 9.1
The value of quasi-transit trade in selected EU countries

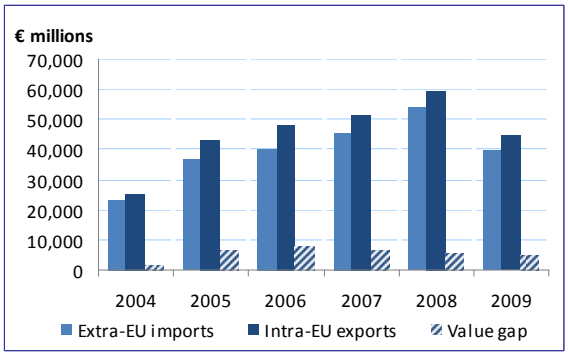
Belgium



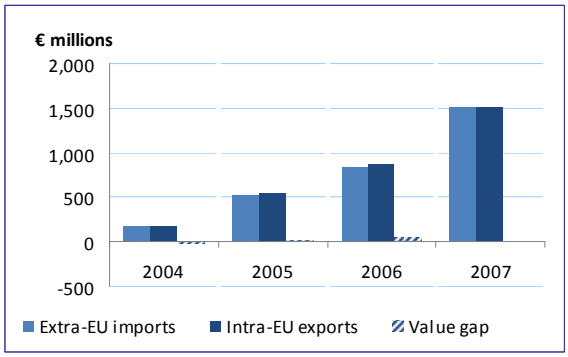
Austria



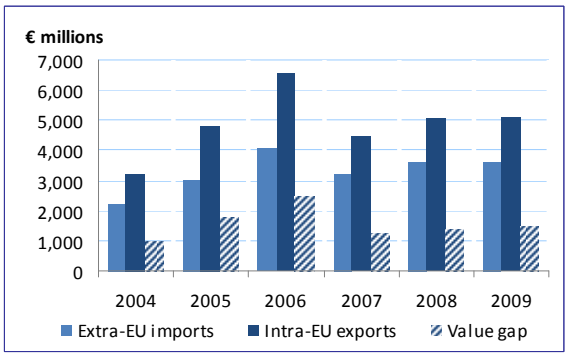
Netherlands



Slovenia



Luxembourg

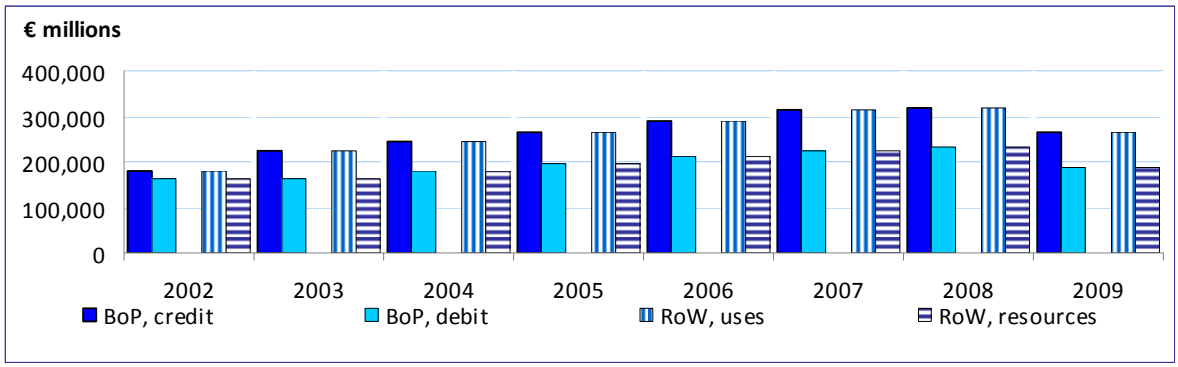


Source: Eurostat, *Balance of Payments Quality Reports.* Extra-EU imports and intra-EU exports here relate only to the quasi-transit trade component.

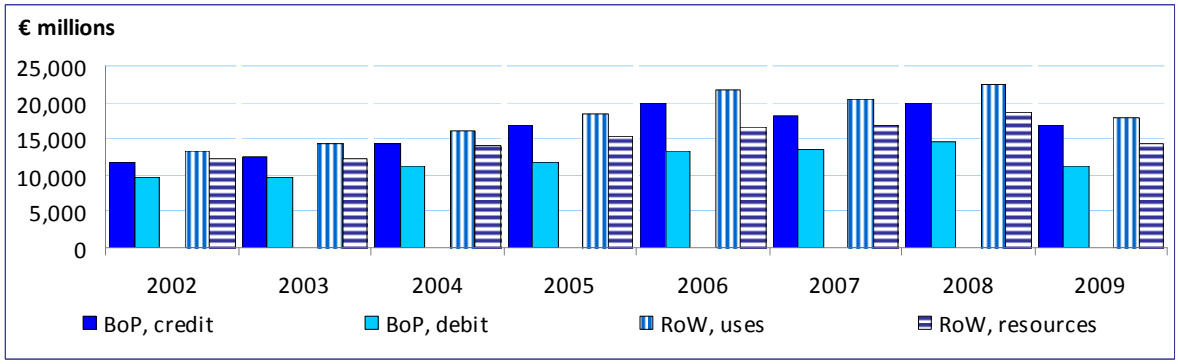
Note: Different scales.

Annex 9.2
Total trade in goods in the (national) balance of payments and rest of the world account of selected EU countries

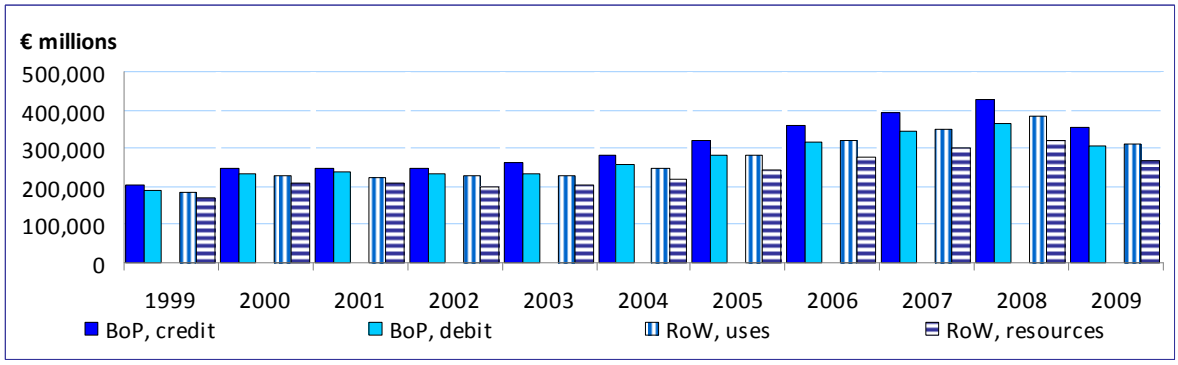
Belgium



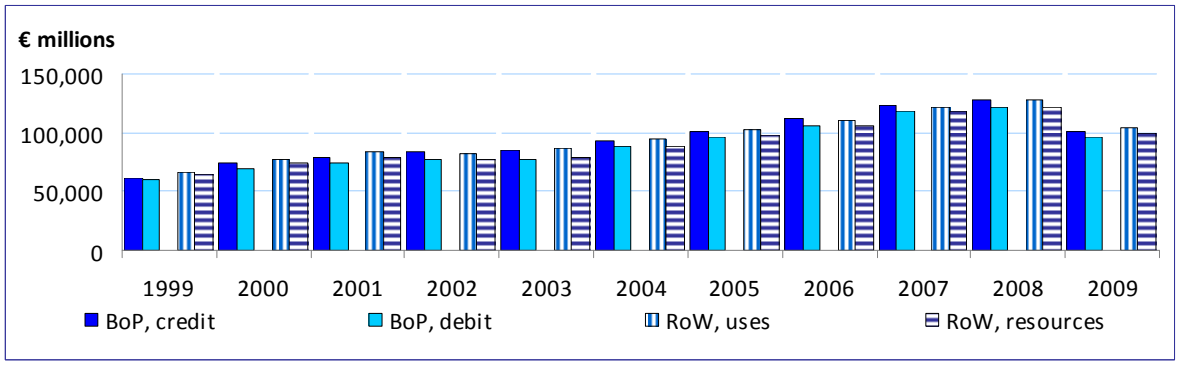
Luxembourg



Netherlands



Austria



Source: Eurostat, *BoP/RoW Survey 2009: the Results*.

Note: Different scales.

Annex 9.3
A valuation problem concerning transactions with the rest of the world: case study by the Hungarian Central Statistical Office

Summary[34]

9.3.1 The balance of external merchandise trade of Hungary has been improving since accession to the European Union in 2004. The former negative balance had decreased significantly by 2007. A key role in the improvement of the balance is played by a group of special distributors and – as revealed in the analysis which follows – the related valuation problem.

9.3.2 To analyse the role of the group of special distributors, cash data relating to transactions in goods in the balance of payments for the period 2003–2006 are used in this annex in addition to statistics on external merchandise trade. The analysis also uses detailed enterprise level data.

Discussion

9.3.3 The valuation problem refers to a group of special distributors called in Hungary value added tax (VAT) residents of foreign enterprises. "Residents" is confusing, since they are treated statistically as non-resident: this annex accordingly calls them "VAT entities". Their parent enterprises are always non-resident. In Hungary, as in other countries, foreign enterprises may, for commercial purposes, apply for a VAT number without being required to set up a business, establish a local unit or employ anyone in the country. The VAT entity is obliged to submit a VAT return but need not make a return for corporation tax. Although not resident, VAT entities may import goods into and export goods from Hungary.

9.3.4 To compile merchandise trade statistics, export and import data are collected directly from the VAT entity (where one is involved) or obtained from customs records. Although the share in Hungarian exports of VAT entities was insignificant at the time of accession to the European Union, it quickly rose to more than 10 per cent, and they have an even more important role in influencing the balance of external trade.

9.3.5 Based on the analysis, the different valuations and differing measurements applied by merchandise trade and settlement statistics (based on bank payments and receipts on behalf of customers, which are a traditional source for balance of payments statistics) can be illustrated by the following basic transactions.

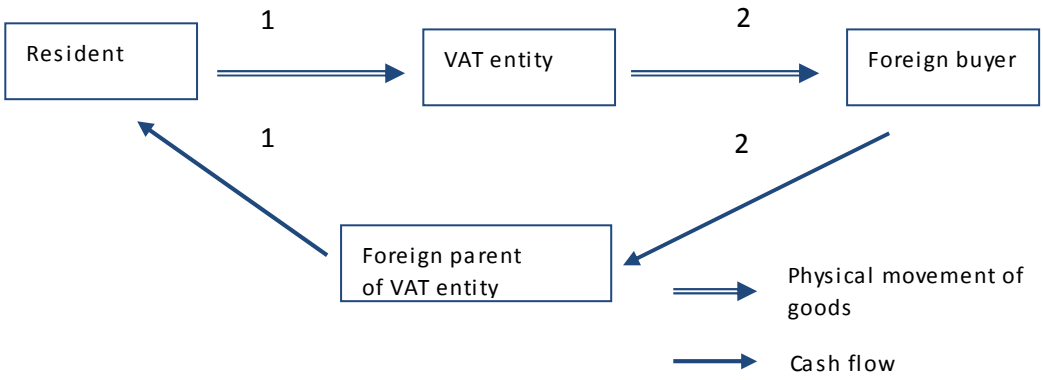
Exports

a. Transactions: a Hungarian resident sells products to a VAT entity, and the VAT entity then sells the products abroad. The transaction can be illustrated in the following manner (chart 9.3.1).

b. Product flow: between the resident seller of the product and the VAT entity (1), and between Hungary and abroad (2).

c. Money flow: transfer from the account of the

Chart 9.3.1 Exports



[34] This annex is based on a paper prepared for a seminar on *Strategic issues related to measuring international transactions* (see Csizmazia, 2008).

parent company of the VAT entity to the resident seller of the goods (1), and from the foreign company buying the product to the account of the parent company of the VAT entity (2). The involvement of the VAT entity means that the value of the transaction measured in merchandise trade statistics and the balance of payments (based on settlements data) is different.

9.3.6 Comment: the transaction between the Hungarian resident selling the goods and the VAT entity is a domestic transaction from the point of view of the VAT system. The resident seller invoices the VAT entity, and the sale/purchase is included in the VAT return of both of them, but the product becomes the property and is recorded in the books of the foreign parent company of the VAT entity. Based on settlements data, the export transaction will be recorded when the Hungarian resident sells the goods to the VAT entity, at the value at which that transaction takes place. merchandise trade statistics on the other hand record the export when the goods pass to the foreign buyer, and at the price at which that transaction takes place.

Imports

a. Transactions: the VAT entity imports the product. In case A, it sells the product to a Hungarian resident; in case B, the VAT entity sells it abroad (chart 9.3.2).

Case A:

a. Product flow: in stage one the product is imported into Hungary from abroad (1), from the foreign company selling the product to the VAT entity; in stage two the product moves within Hungary, between the VAT entity and the resident buyer (2A).

b. Money flow: from the Hungarian buyer to the foreign parent company of the VAT entity (2A); then from the parent company of the VAT entity to the foreign seller (1).

9.3.7 Comment: merchandise trade statistics record imports in stage one; settlement statistics capture the second transaction, the value of which is different from that of the first transaction.

Case B:

a. Product flow: in stage one, the same as in case A; in stage two, the imported product is exported (2B) (that is, there is a re-export transaction).

b. Money flow: between foreign companies (2B), without the involvement of Hungarian residents.

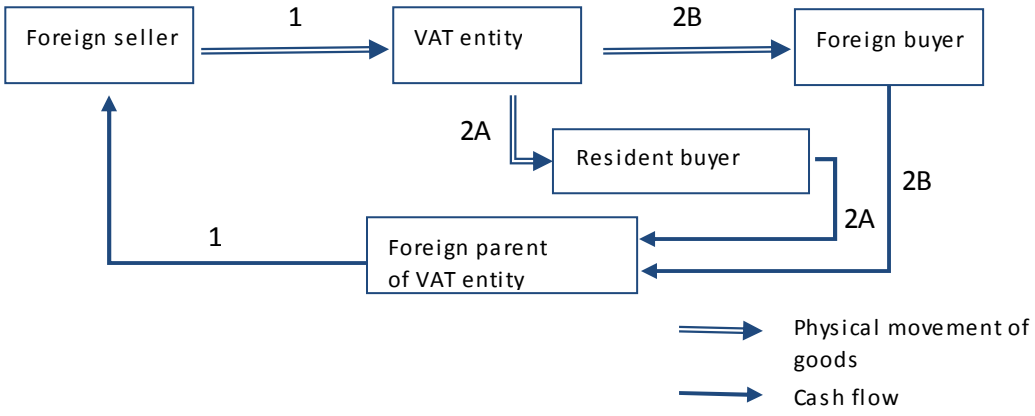
9.3.8 Comment: both transactions are measured in merchandise trade statistics, but neither is recorded in balance of payments statistics based on bank settlements.

9.3.9 In the first example (chart 9.3.1) the value of exports as measured by merchandise trade statistics is higher than the value of exports as measured in settlement statistics, while in part A of the second example (chart 9.3.2) the value of imports in merchandise trade statistics is lower than that of imports recorded in settlement statistics. Merchandise trade statistics may record a different purchaser's price and sales price in case 2B as well, while the transaction is omitted from bank settlement statistics in Hungary.

9.3.10 In practice, there may be variants of these cases involving VAT entities (thus there may be a VAT warehouse, or there may be processing of the goods under contract in Hungary).

9.3.11 In macroeconomic statistics (national accounts and the balance of payments) the VAT entities may be regarded as national units, or – as in the Hungarian case – be classified as non-residents. To ensure consistency across macroeconomic statistics, it is necessary to record transactions with the same value for all purposes,

Chart 9.3.2 Imports



and estimate the trade margin earned by foreigners which should be recorded as an import of services.

9.3.12 Three approaches as set out below have been used to estimate the differing measurements of merchandise trade statistics and bank settlement statistics, i.e. amounts accruing to non-residents which should be recorded as an import of services.

Balance difference method

9.3.13 HCSO managed to identify a group of resident enterprises which transact with those VAT entities which have significant turnover. Invoice values provide an estimate of turnover between these resident Hungarian enterprises and VAT entities corresponding to balance of payments transactions. The export and import balance of residents is overestimated in merchandise trade statistics by the difference between the estimated merchandise trade balance and the balance derived from bank settlements.

Estimation using VAT data provided by VAT entities

9.3.14 The VAT returns of VAT entities represent relatively simple transactions, since they are essentially distributors. VAT data provide a simplified balance of revenues (the sum of export and domestic sales) and expenditure (the sum of import and domestic purchases) from which the sales surplus as a proportion of total sales can be calculated. Assuming that prices are identical in each export direction, and multiplying exports of the VAT entities by the proportion representing the sales surplus, gives an estimate of the sales surplus accruing to foreign enterprises.

Imputed trade margin method

9.3.15 The surplus realized on imports and exports is calculated by imputing a percentage trade margin considered applicable to international business, assuming that all imports into Hungary by VAT entities are sold in Hungary and that all exports from Hungary by VAT entities derive from resident producers.

9.3.16 In the first two cases the difference can be divided between exports and imports according to their relative size, while in the third case the division is given. The three methods lead to similar results.

Conclusion

9.3.17 The balance of goods measured in merchandise trade statistics contains a component that is related to foreign enterprises, is recorded in their books and cannot be deduced from residents' transactions. Accounting for the correction concerning foreign enterprises may take the following form in macroeconomic statistics:

a. Adjusting external trade prices to domestic prices, i.e. valuing imports at domestic sales prices and exports at domestic purchasers' prices. Price adjustment requires the division of the difference between exports and imports.

b. Accounting for the revenue surplus of foreign enterprises as imports of services or income attributable to non-residents.

Annex 9.4
The collection of data on merchandise trade in the European Union

9.4.1 The European Union is an economic union with a common customs territory. The customs union entered into force on 1 July 1968 and since then EU member states have applied a common tariff to imports from outside the European Union. There are no customs duties on cross-border trade within the European Union.

9.4.2 Customs duties are due when the goods are released for free circulation within the European Union.[35] Other duties (such as alcohol or tobacco excise duties or value added tax (VAT), which are not harmonized across the EU countries) are due when the goods are released for consumption. Release for consumption (i.e. payment of VAT and excise duties) is virtually always done in the country of destination.

9.4.3 The internal market was largely completed by January 1993, when all border controls within the European Union were abolished. Since then two different procedures have been in place for collecting data on trade in goods among EU member states and with other countries: the Intrastat and the Extrastat systems.

9.4.4 The purpose of the Intrastat system is collection of data on trade in goods between EU member states. Intrastat is linked to the VAT system and to the physical movement of the goods. Based on enterprise surveys, Intrastat collects data according to the country of consignment (in the case of imports, or "arrivals" as they are called in Intrastat) and destination (in the case of exports, or "dispatches").[36] Small traders are exempt from Intrastat reporting.

9.4.5 The Extrastat system is based on customs data and collects data according to the country of origin (imports) or final destination (exports).

9.4.6 When the goods enter the customs territory of the European Union, they are subject to customs supervision in the country where the goods arrive. If customs clearance takes place in a member state which is not the country of final destination, but a member state located at the external frontier of the European Union such as the Netherlands or Belgium, movement of goods between a country outside the European Union and a member state which is the final destination of the goods will be divided into two trade flows: one reported within Extrastat, the other reported in Intrastat.

9.4.7 Community statistics require this approach to ensure that export and import data from non-EU countries at aggregate level are as accurate as possible and are not counted twice or omitted.

9.4.8 As explained in the main text of Chapter 9, goods may increase substantially in value between customs clearance and arrival in the country of final destination. The phenomenon is sometimes called the Rotterdam effect, from the name of one of the main ports where goods enter the European Union.

9.4.9 According to some studies made in the European Union, it seems that the Rotterdam effect is not a peculiarity of EU trade, but can affect trade data wherever goods are transported through the territory of one or more countries before reaching the country of final destination.

9.4.10 Few EU member states can identify and exclude correctly this type of trade from their national statistics.[37] Most have no means of establishing if what is imported into their country by a non-resident remains there or not, so they assume that whatever is cleared for free circulation in the country is imported (and consumed) in the country, or re-exported.

9.4.11 Extrastat has been revised recently to adapt statistics on trade with countries outside the European Union to the modernized coding introduced with Regulation No 450/2008 (OJ L145, 4.6.2008). Article 106 of the modernized customs code introduces a centralized customs clearance (CCC) procedure which allows companies to lodge the customs declaration in any member state and not necessarily in the member state where the

[35] Apart from a collection fee of 25 per cent retained by member states, import duties are paid into the Community budget. Non-resident fiscal representatives may pay the import duties.

[36] Eurostat, 2008, pages 28-29.

[37] For Extrastat, quasi-transit trade can be considered to coincide with transactions where the declarant uses customs procedures that exempt him from payment of the VAT in the EU member state of entry of the goods (identified by procedure codes 42 and 63). Linking the Extrastat import with the subsequent Intrastat movement (which may anyway fall below the threshold exempting small traders from Intrastat reporting) is more difficult. The Netherlands is able to distinguish between quasi-transit and normal trade because in its Intrastat forms it requires an additional field for the special procedure code.

goods enter the European Union and are submitted to customs controls.[38] Under this new procedure, the lodging of the customs declaration may therefore be dissociated from the place of entry or exit of the goods in the European Union, and from the place of final destination.

9.4.12 It is not yet clear what consequences the new system will have for quasi-transit trade. Implementation of the CCC procedure may reduce the Rotterdam effect. Currently, the trade flow is recorded in the country where the customs declaration is lodged, which is not necessarily the country of final destination of the goods. In future, with CCC, the trade flows will be recorded in the country of final destination and today's distortions will be reduced. However, the CCC will not lead to an improvement if companies, when clearing the goods for free circulation, do not know where the goods will finally be sold. The final buyer and country of destination may become known only after some time, in which case the Rotterdam/quasi-transit trade effect will continue.

[38] The CCC and single European authorization procedures will enable enterprises to centralize the accounting and payment of custom duties for all transactions in the authorizing member state (which should be the one where the enterprise has its main records), although the movement of goods may take place in another member state.