Working Party on International Trade in Goods and Trade in Services Statistics

PROGRESS REPORT ON THE EUROSTAT TASK FORCE
GOODS SENT ABROAD FOR PROCESSING

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OECD Headquarters

This document for item 7.2 of the agenda presents for information and discussion, a progress report on the Eurostat Task Force ‘Goods sent abroad for processing’.

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5th meeting of the Working Party on International Trade in Goods and Trade in Services Statistics

7. Global production
Progress report on the Eurostat Task Force
Goods sent abroad for processing
STD/TBS/WPTGS(2012)10

Paris, 23 October 2012
Outline

- **Mandate**
- **Timetable and reporting**
- **Main consequences identified by the Task Force**
- **Recommendations**
- **Next steps**
Directors of Macro Economic Statistics agreed that Eurostat set up a Task Force on goods for processing in 2011.

The main objectives of the Task Force were:

- to study the main consequences of the implementation of the new treatment of goods sent abroad in ESA 2010;
- to identify the need for new data sources;
- to promote the exchange of experiences related to goods for processing;
The mandate

The main objectives of the Task Force were:
• to propose some practical solutions to the main difficulties encountered;
• to examine the links with quasi-transit trade, global manufacturing and merchanting;
• to address the links between national accounts and balance of payments statistics.
Timetable and reporting

- **Task Force met 3 times.**
- **21 Member States, ECB and OECD participated in the Task Force.**
- **The final report will be presented to the Directors of Macro Economic Statistics in their meeting of February 2013.**
Main consequences identified by the Task Force

• A major difficulty is lack of consistency between balance of payments, national accounts and business accounting on the one hand and international trade in goods statistics on the other hand.

• For supply-use tables there is a need of breakdown by products.
Main consequences identified by the Task Force

• *It will be difficult for compilers to increase the burden on the reporting population, reflecting current policy of non-excessive burden on respondents.*

• *Replacing the flow of goods with service fees will change technical input-output coefficients in supply-use tables and input-output tables.*
Main consequences identified by the Task Force

- **Evidence of underestimation of exports of goods for processing.** Data show that some Member States are inward processing countries, which is in contradiction to the economic reality.

- A breakdown of processing fees according to Classification of Products by Activity (CPA) is required.

- A 4-digit-level of breakdown of processing fees according to CPA classification should be sought.
Recommendations of the Task Force

R1: Principle of ownership as key point for goods for processing

• The key point is the principle of no change in ownership, when deciding to classify the transactions as goods for processing.
• The extent of the physical transformation of a product was considered as less important.
R1: Principle of ownership as key point for goods for processing

*Principal's (client) activities considered as merchanting:*

- *Principal (client) is fully charged for final product and processor takes full risk and responsibilities for own operations.*
- *Principal (client) contributes only a 'logo' for a car or small quantity of additional materials for processing.*
R2: 'Nature of transaction' system for estimating processing fees

- Guide with case studies illustrates various scenarios and their recording according to Intrastat and Extrastat on the treatment of processing under contract in international trade in goods statistics.

- The guide with case studies proposes practical solutions and guidelines to the main difficulties related to goods for processing.
R2: 'Nature of transaction' system for estimating processing fees

- Guide with case studies could not tackle all the varieties of cases.
- Nature of transaction system promising to estimate processing fees, but it would require strengthening of the requirement for traders to complete the relevant boxes on the VAT declaration.
R2: 'Nature of transaction' system for estimating processing fees

- *This would allow the identifying of transactions in goods which should be removed from international trade in goods statistics and replaced by processing fees when preparing national accounts and balance of payments statistics.*
R3: Flexibility of data sources

• *Flexibility needed in the use of data sources. Practical guidance in the manual on implementation should help to ensure comparability, completeness and reliability of data.*

• *Applying data sources for the compilation of goods for processing with broad breakdown by product and at least annual frequency.*
R3: Flexibility of data sources

• § 3.132 ESA 95: Imports and exports of goods occur when there are changes of ownership of goods between residents and non-residents.

• § 3.133(c) ESA 95: Goods for significant processing to order or repair are recorded both in imports and exports although no change of ownership occurs.

• A change of ownership is imputed (gross principle) under ESA 95.
R3: Flexibility of data sources

- **Current treatment**: import/export of goods for processing, after processing export/import of goods with processing fee.

- **With ESA 2010 net treatment**: registration of only import/export of processing fee (rule of change of ownership).

- **The non-imputation of the change of ownership principle requires removing goods for processing from customs data and to align them with annual surveys on production.**
R3: Flexibility of data sources

• National statistical institutes need to continue to gather information on goods sent abroad for processing.

• Reconciliation tables of international trade in goods statistics and the domestic system of balance of payments and business surveys.

• Explaining discrepancies between the international trade in goods statistics and national accounts and balance of payments.
R4: Strengthening cooperation and exchange of experiences

- *Cooperation and exchange of experiences between national statistical institutes and central banks.*
- *Establishment of 'large and complex cases units' at the national statistical institutes.*
- *International exchange of experiences in the area of goods for processing.*
R5: Activities of non-residents registered for VAT (VAT traders)

- Conceptual and measurement challenges shown in case studies presented on VAT registered entities without physical existence.
- Distortion in data and imposed important changes on national accounts and balance of payments.
R5: Activities of non-residents registered for VAT (VAT traders)

• **Activities of non-resident VAT traders to be addressed in the manual on goods sent abroad for processing to be finalized by Eurostat in 2013.**

• **Cooperation on a bilateral level between national compilers with regard to multinationals operating VAT traders.**
R5: Activities of non-residents registered for VAT (VAT traders)

• **Analysis at a company level using business accounting. Link between trade and business data.**

• **International exchange of micro-data and mirror comparisons for large companies.**
R6: Development of price deflators for processing fees

• Since the price of goods processed and the price for processing fees will most likely differ, the Task Force recommends the development of price deflators for processing fees.
R7: Development of price indexes

• Need to develop price indexes different for both the production and intermediate consumption for producers acting as processors.

• Further analysis on prices related to assembling products.
R8: Areas for future work

• Development of operational criteria to distinguish between processing and merchanting as well as other forms of global manufacturing, including factory-less goods producers.
Next steps

• The results of this Task Force will be reported to the National Accounts Working Group on 20 November 2012.

• The final report of this Task Force will be presented to the Directors of Macro Economic Statistics on 14 March 2013.

• Manual on goods sent abroad for processing will be drafted in 2013.
Thank you for your kind attention

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