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STATISTICS DIRECTORATE

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

### MANUFACTURING SERVICES ON PHYSICAL INPUTS OWNED BY OTHERS

7-9 November 2011, OECD Headquarters, Paris

*This contribution is for information and discussion under item 9.1 of the agenda and has been prepared by Anita BANY.*

*This document is available in pdf format only.*

Contact person: Anita BANY, E-mail: [anita.Bany@ksh.hu](mailto:anita.Bany@ksh.hu)

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**Hungarian Central Statistical Office  
Foreign Trade Statistics Department**



# **Manufacturing Services on Physical Inputs Owned by Others**

## **Challenges**

**WPTG Trade in Goods and Services, Paris  
November 7 – 9, 2011**

**Anita Bány**

# Topics covered

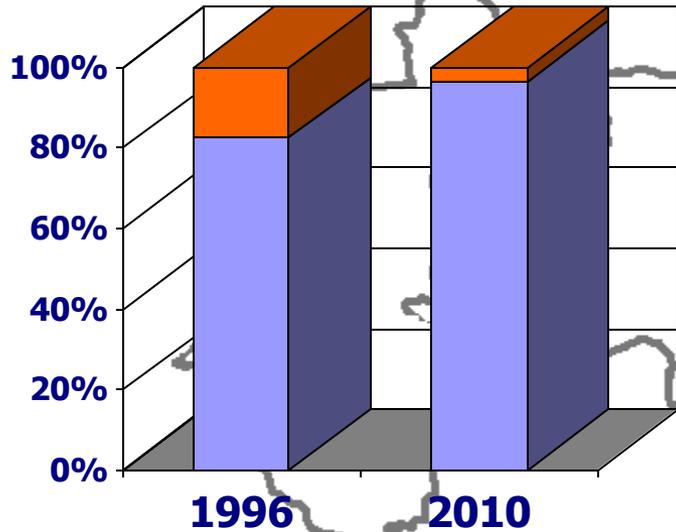
- Main characteristics of processing activity in Hungary
- Survey on processing
- Some examples of inward processing
- Example of outward processing
- Special issues
- Conclusions

# Headlines of economic newspapers

- „Optimistic prospect in Hungary for growing processing in EMS (Electronic Manufacturing Services )” - World Economy
- „Hungary is the largest electronics producer in Central and Eastern Europe” - Reed Electronics Research
- „The shift of electronic production from the higher labour cost Western Europe to Central & Eastern Europe has continued” - Reed Electronics Research

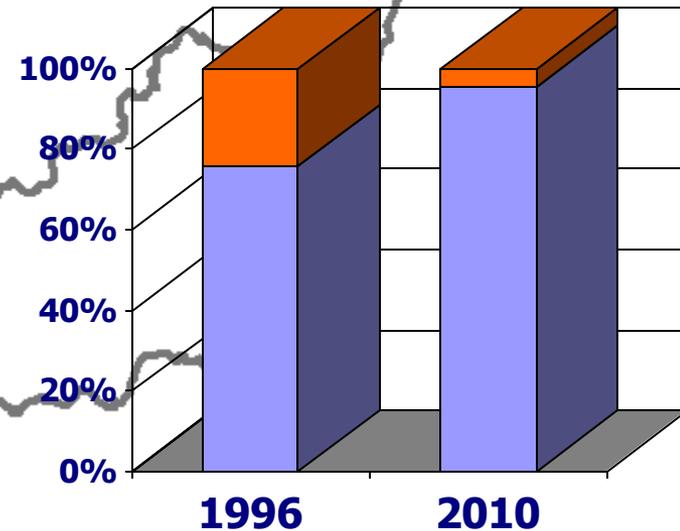
# External trade by types of transactions 1996, 2010

## Imports



■ Normal transactions ■ Processing

## Exports



■ Normal transactions ■ Processing

# **Manufacturing services on physical inputs owned by others**

## **The changed treatment in *BOP, NA***

- Will reduce the gross value of goods' exports and imports
- Will increase exports and imports of services

## **The question is how much?**

**Hungarian specialty: processing fee as value added has to be reported as invoice value (for NOT 51/52)**

# Survey on processing, 2010 (1/2)

## Goals:

- Improving data quality
- Better consistency with administrative data (balance sheets)
- Revealing special cases
- Separation from normal transactions (change of ownership)

# Survey on processing, 2010 (2/2)

## Questions:

- Residence of processee
- Distribution of value added (own material and other costs)
- Purchase of inputs (material) in Hungary by the processee
- Sales of finished goods in Hungary
- Reasons for the discrepancy of calculated (inputs plus fee) and reported values of finished goods
- Time lag between material import and goods export

# Inward processing (1/5)

**A transports material for processing to B.  
After processing the finished goods are returned to A**

*Transaction codes: 41 for imports, 51 for exports*

*Coverage in FTS*

- Reporting obligation: resident service provider (**how to find them?**)

*VAT*

- in country B: does not imply the declaration of goods, special box in VAT for services export,
- in country A: declaration of service import

*Ownership of goods, which country: B charges for the processing fee to A or to any other country?*

# Inward processing (2/5)

**A transports the material for processing to B, then the finished goods are sent from B to C.**

*Transaction codes: 42 for imports, 52 for exports*

*Coverage in FTS*

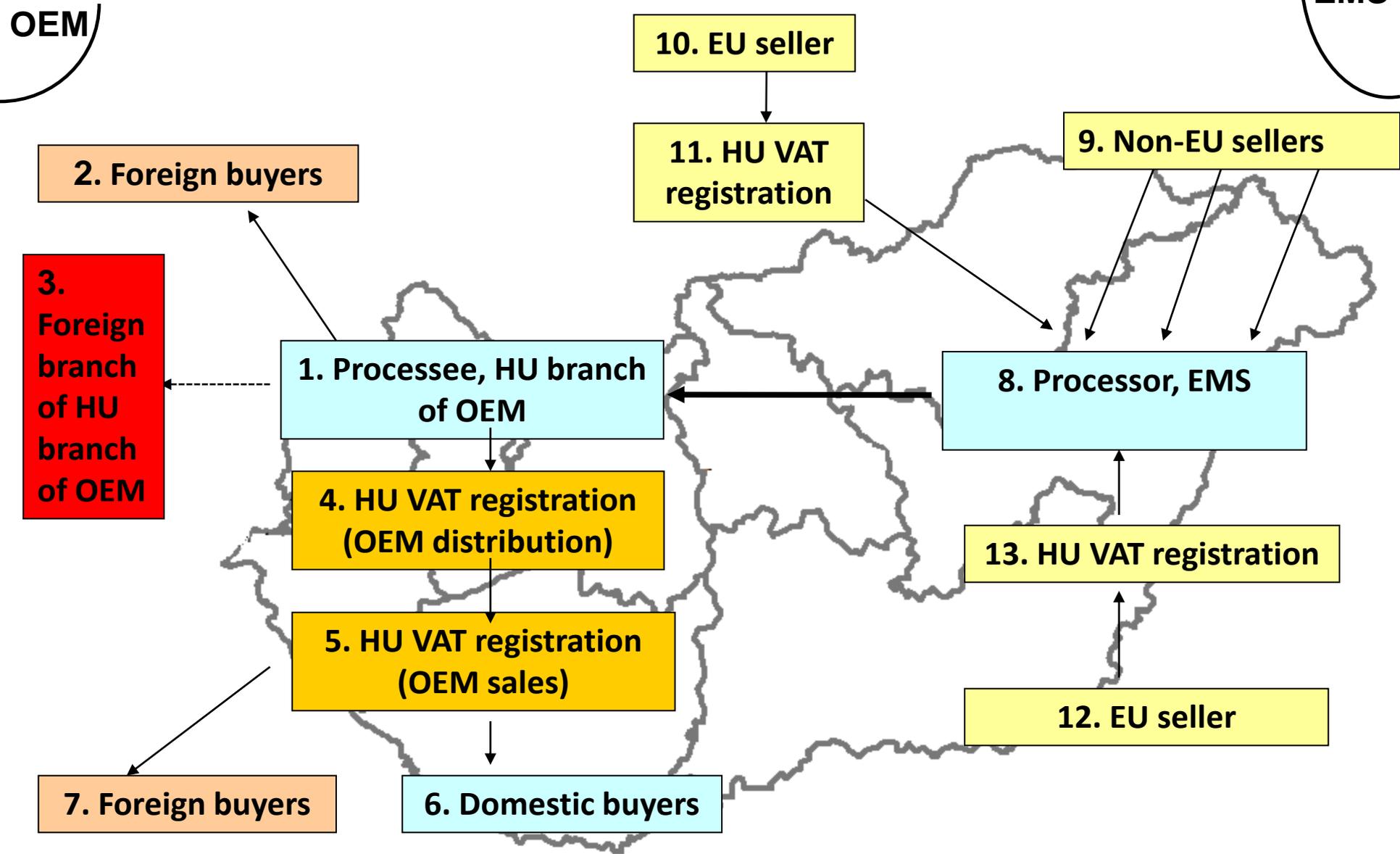
- Reporting obligation: VAT registrations of non resident enterprises (possible **double reporting**, resident service provider), in lots of cases **normal transactions**

*VAT*

- in country B: declaration of goods export and import, special box in VAT for services export
- in country A: declaration of goods export, services import
- in country C: declaration of goods import

*Ownership of goods, which country: B charges for the processing fee to A or C or to any other country?*

# Inward processing, complexity in EMS (3/5)



## 4. Inward processing, complexity in EMS, role of participants (4/5)

1. Processee: Hungarian branch of the Original Equipment Manufacturers (OEM) having 5-6 employees, export of goods, domestic purchase from HU VAT regs (11, 13) and processor
2. Foreign buyers: direct import from the H processee
3. Foreign branch of HU branch (having 1-2 employees): invoicing, book-keeping, balance sheet
4. HU VAT reg of the European distributor of OEM, domestic purchase from the H processee, than domestic sales to the HU VAT reg of the European sales team of OEM
5. HU VAT reg of the European sales team of OEM: domestic purchase from the HU VAT reg of the European distributor of OEM, then domestic sales to H buyers and export to foreign buyers
6. Domestic buyers: domestic purchase from HU VAT reg of the European sales team of OEM
7. Foreign buyers: import from HU VAT reg of the European sales team of OEM
8. Processor: Hungarian affiliate of the Electronic Manufacturing Services (EMS) company, import of goods on behalf of the processee (from non-EU countries) and export of manufacturing services, domestic sales to the processee
9. Non-EU sellers: export of goods from non-EU countries to the processor
10. EU seller: export of goods
11. HU VAT reg of EU seller (10): import of goods
12. EU seller: export of goods
13. HU VAT reg of EU seller (12): import of goods

# Inward processing, challenges in EMS example (5/5)

- Inconsistent data in different data sources (VAT, balance sheets, SBS, FTS)
  
- To whom the HU processor provides manufacturing services:
  1. HU branch of OEM,
  2. Foreign branch of the HU branch
  3. OEM?

# Outward processing (1/2)

**A transports the material to B for processing, then A sells the finished goods to C.  
For this sale A needs to have a VAT registration in B;**

*Transaction codes:* export (material) to B; transaction code 42;

*Coverage in FTS*

- Reporting obligation in country A: resident service buyer

*VAT*

- in country A: declaration of goods export, services import
- in country B: declaration of goods export and import (VAT reg of A), services export (processor)
- in country C: declaration of goods import

***FTS ≠ BOP, NA*** in country A

Export of finished goods (from country B), import of processing services+material bought in country B or a third country

# Outward processing (2/2)

## Example:

- ❑ A (processee) owns goods worth 100, which are sent to country B for processing and then sold in country C
- ❑ After processing the goods are worth 200
- ❑ The difference of 100 includes:
  - Processing fee of 20
  - Other material used as input for processing bought in country B or elsewhere of 20
  - **HOLDING GAINS OF 20**
  - **OVERHEADS OF 40 ((FINANCING, MARKETING, KNOW HOW)**

FTS records in country A 100 of goods export, while BOP/NA should record

- 20 as manufacturing services import,
- 20 as goods import and
- 200 as goods export.

# Services as inputs in processing

## Example:

- Customised software downloaded from the internet
- NO change of ownership
- Contribution to the improving trade balance of FTS
- How to measure (imputed goods or services)?

# Multiple phase processing

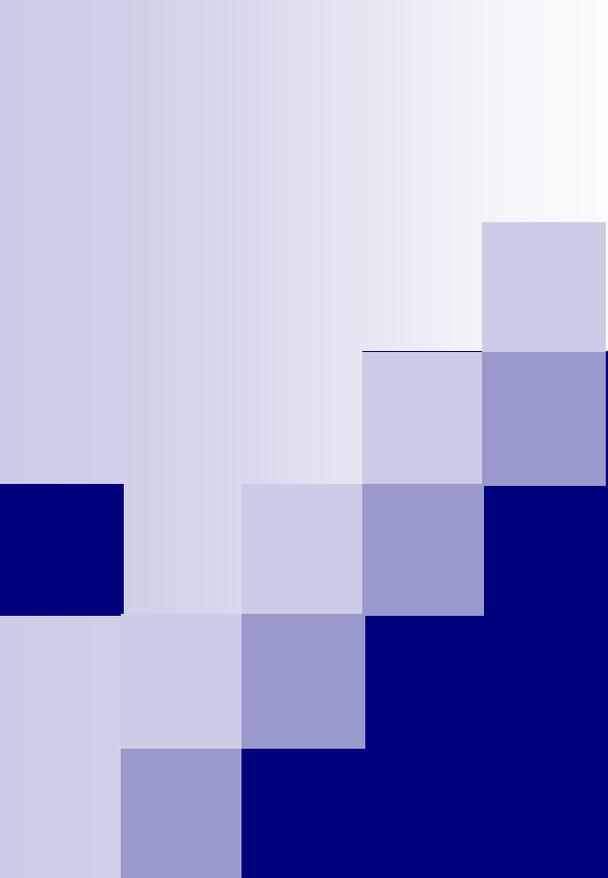
*A* transports the material to *B* for processing, then *B* sends the semi-finished goods to *C* for a second phase.

Two scenarios for the processing contract in the second phase between:

1. *A* (processee) and *C* (processor2): no services export/import transaction between *B* and *C*
2. *B* (processor1) and *C* (processor2): subcontracting of the manufacturing services, services export/import transaction between *B* and *C*

# Conclusions

- It is likely that the values of inward and outward processing transactions are underestimated
- Reconsidering the data validation procedure
- Estimating the services flows and also the partner country information by using FTS data
- Special cases: further investigation (EMS)
- Time series



Thank you for your attention!

[anita.bany@ksh.hu](mailto:anita.bany@ksh.hu)