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Country Presentation
France

Item 6: Goods for Processing

Goods sent abroad for processing, economic ownership and country of production

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There were in 1993 SNA 4 exceptions to the "change of ownership" principle for external trade

›   § 14.58: *"The first exception concerns goods which are the subject of a financial lease. [...]"* .

›   § 14.59: *"The second exception [...] to a foreign affiliate which belongs to the same group of enterprises as the exporter.[...]"*

ownership vs. economic ownership

›   § 14.60: *"The third exception [...] relates to merchants [...] who buy commodities [...] from non-residents and then sell them again to non-residents [...] without the commodities actually entering the economy in which the merchants are resident.*

issue n° 41 of 1993 SNA rev.1

›   § 14.61:*"The fourth exception [...] to goods which are sent for processing abroad [...] the goods received back are essentially new goods produced abroad. [...]"*

issue n° 40 of 1993 SNA rev.1

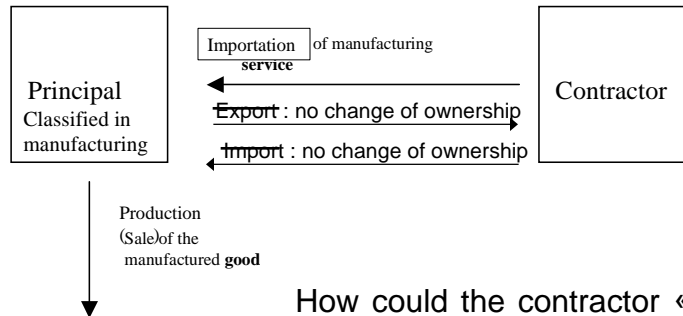=> Now, full consistency with « economic ownership »

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New rules for outsourcing in activities and products

When the principal owns the physical input material (processing)

Principal
Classified in
manufacturing

Importation of manufacturing **service**

~~Export~~ : no change of ownership

~~Import~~ : no change of ownership

Contractor

Production
(Sale)of the
manufactured **good**

How could the contractor « export » a good it does not own neither produce? How could the principal « import » a good he has always own and is reputed produced by himself?

Similarity of « processing » and « repairs »

› They belong to a same family of « industrial services », classified usually in manufacturing for the activity but in services for the « products », distinct of the goods on which they are performed :

› Division 87 of CPC ver.2: "*Maintenance, repair and installation (except construction) services*"

› Division 88 of CPC ver.2: "*Manufacturing services on physical inputs owned by others*"

$\Rightarrow$ Similarity of treatment in IMTS (to be excluded but recorded separately for BoP and NA purposes)

Problem: only 50% of the countries apply recommendation on exclusion of repairs in IMTS (source: 2006 NCDP report)

Gross or net value?

› Paragraph 123 of IMTS, rev.2 recommends the recording of a net value for repairs, gross value for processing. The same choice should now be made. The net value could seem more convenient for NA and BoP, but the gross value is more consistent with the « customs logic », before and after processing respectively, for inward or outward processing (4 kinds of flows). The triangle shaped exchanges should demand several notions of values...

› Anyway, if the "true" statistic on these topics is to be compiled by BoP or NA through enterprise surveys, the most important thing is to collect the identifier of the domestic enterprises involved and a simple order of magnitude.
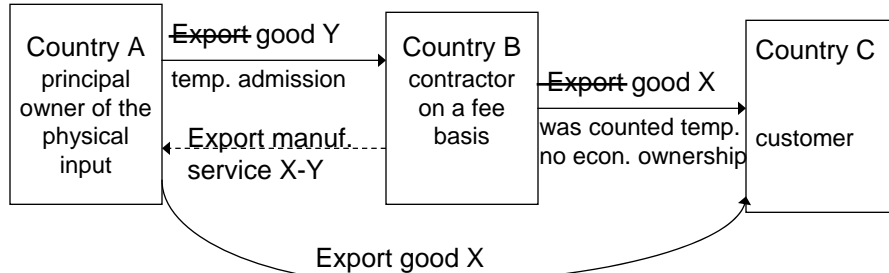

Regimes & procedures or « nature of transaction »?

› "Nature of transaction" exists in Single Administrative Documents and European "Declarations of Exchanges of Goods", but in case of triangle-shaped exchanges, a good can be sent "after processing" and "for sale".

› The more practical for "customs statistics" is certainly to use detailed codes for "regimes", with the inclusion of the previous regime and a special code for "repairs" or "processing" (according to the declaration).

› Numerous regularizations are to forecast, as it will be frequent that goods after processing will for a part return to the "exporting" country, for a part will be exported to another country, and for a part brought into free circulation in the processing country.

› The restriction of the SNA rule to "back and forth" flows is perhaps not convenient.

Some cases of triangle-shaped exchanges

Country A principal owner of the physical input	~~Export~~ good Y temp. admission Export manuf. service X-Y	Country B contractor on a fee basis	~~Export~~ good X was counted temp. no econ. ownership	Country C customer

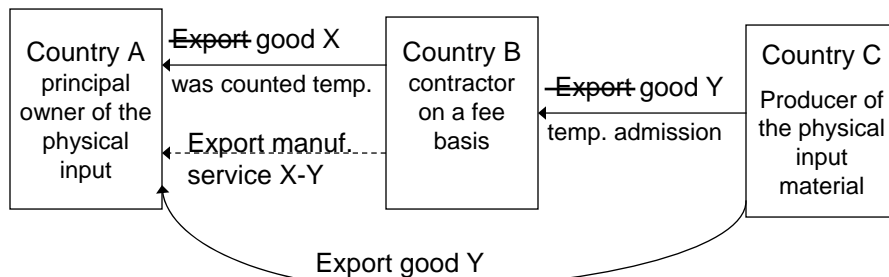Export good X

Export: NA, BoP and IMTS

Import: NA and BoP

The difficulty for country A is to declare good X and not Y (which moves physically) and the final value for the last destination country C. For country C, it is to impute country A for « origin ». But it should be more consistent with the taxation system.

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Some cases of triangle-shaped exchanges (2)

Country A principal owner of the physical input	~~Export~~ good X was counted temp. Export manuf. service X-Y	Country B contractor on a fee basis	~~Export~~ good Y temp. admission	Country C Producer of the physical input material

Export good Y

Export: NA, BoP and IMTS

Import: NA and BoP

Country A should declare good Y and not X (which moves physically), with the initial value, from « country of production » C. Country C should declare country A for last known destination.
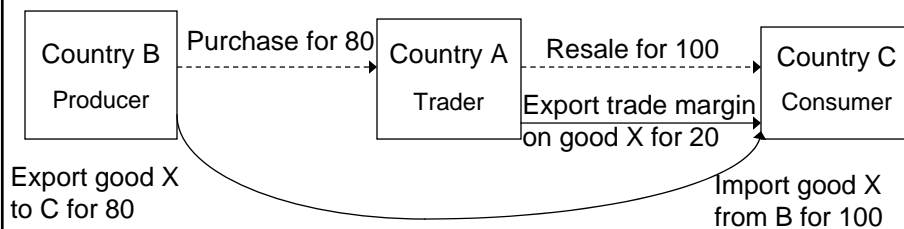
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« Country of origin » vs. « country of production »

> › For the purposes of NA and BoP, the partner countries should be respectively the « country of production » and the « country of consumption ».

> › If the « country of origin » is supposed to reflect the « country of production », the rules of convention of Kyoto are to be revised (accounting the economic ownership of the physical input material, no reference any longer to « 40% of VA »).

> › But this rule for the « country of origin » can satisfy the political aspect of GATT management. To be recorded apart, but not in statistics for mirror flows?

Case of merchanting

Country B	Purchase for 80	Country A	Resale for 100	Country C
Producer		Trader	Export trade margin on good X for 20	Consumer

Export good X to C for 80

Import good X from B for 100

Commodity flows of good X

	Production	Imports	Trade Margin	Consumption	Exports
Country A			20		20
Country B	80				80
Country C		100		100	

The country of the trader is not to be recorded in IMTS for Fob values (here it makes a difference with taxation and "ownership").

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Is the concept of « change of economic ownership » principle to be introduced in IMTS, rev.3?

› It is not necessary to do so if we have only to justify the exclusion of goods sent abroad for processing. Their temporary admission, which is not supposed to "add or subtract from the stock of material resources of the country" is enough.

› It would be necessary to justify the inclusion of merchanting, which does not add or subtract from the stock of material resources.

› It could be useful to prove the convergence between concepts of NA, BoP, international classifications of activities and products and IMTS.

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Is merchanting to be included in IMTS, rev.3?

› Pros: consistency with « balance of goods » in BPM6. Could be obtained in a long term by international cooperation of customs offices and taxation offices?

› Cons: nothing in common with the other « customs statistics » and the definition of "national stock of material resources". Involves probably the implication of the NSI or of the Balance of Payments statistical service, with enterprise surveys.

› Big consequences on the national organisations (respective roles of customs offices / NSI / Balance of Payments).

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