A. Definition and examples of goods for processing

20.3. **General definition of goods for processing.** Goods for processing are goods that are sent abroad or brought into a country under a specific arrangement between the involved parties (which may or may not include the change of ownership) and for specific operations as defined by the statistical authorities of the compiling country (see IMTS 2010, para. 1.19). In principle, any good that is crossing borders and is intended for use in the production of a new or improved product, or any good that is expected to undergo certain specific operations in another country, might be treated as a good for processing (see sect. B for exclusions). However, customs and statistical authorities in many countries adopt various versions of a more narrow definition of goods for processing, which in most cases would allow for the identification of such goods. It is good practice to adopt a clear and operational definition of goods for processing which can be systematically applied, and to include that definition in the trade statistics metadata.

20.4. **Specific definitions of goods for processing based on customs procedures.** Many countries have adopted definitions of goods for processing based on specific customs procedures, such as “inward processing”, under which certain goods can be brought into a customs territory conditionally relieved from payment of import duties and taxes, on the basis that such goods are intended for manufacturing, processing or repair and subsequent exportation.[1] To the extent that it is beneficial for traders to use specific procedures that are reserved for goods for processing, such goods are identified in a highly reliable manner by customs procedure codes. Customs procedures such as “inward processing” and “outward processing” provide clear definitions of goods for processing. However, depending on national regulations and practices, “free zone” and “drawback” procedures, for example, could also include goods for processing. In general, specific customs procedures for goods for processing are put in place as part of the trade and economic policies of a country and in direct support of certain economic activities.

20.5. **Limitations of the use of customs procedures.** Customs procedures might not provide either sufficient information about, or a reliable definition of, goods for processing, as in many cases, using such procedures could be perceived as non-beneficial by traders owing, e.g., to the reduction or elimination of duties. It might be preferable for traders to clear goods for processing for free circulation at import and as regular exports when they leave the country.[2] In that case, there may be no means of identifying imports for processing based on customs records. Identifying exports for processing or re-exports of processed goods may be even more difficult. Also, for trade within a customs union, there might be no customs declarations and procedures that could identify goods for processing.

20.6. **Other definitions of goods for processing.** In the absence of relevant custom procedures, goods for processing are defined based on economic or other criteria which might reflect specific information requirements (see the example provided in box XX.1 below).

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Box XX.1

**Definition and identification of goods for processing in the European Union**

European Commission Regulation No. 1982/2004 defines processing as operations (transformation, construction, assembling, enhancement, renovation...) with the objective of producing a new or really improved item (annex III, footnote 6). It is specified that this does not necessarily involve a change in the product classification. However, the statistical recording of goods for processing through a so-called nature-of-transactions code in the extra- and intra-EU trade system of the European Union is limited to processing under contract without transfer of ownership to the processor. This means that processing activities on a processor’s own account are not covered.[3] A proper distinction of processing without change of ownership is important for BOP and national account purposes. For this purpose it is useful to limit the definition for goods for processing to processing under contract.

*Footnotes:*

[1] See revised Kyoto Convention (RKC), Specific Annex F, Chapter 1, definition E3/F2. See also chaps. II and XVIII of this Manual.

[2] Also, according to most-favored-nation agreements, goods can be exempted from import duties and may be admitted through the customs procedure for goods declared for home use (free circulation); hence, the customs procedure used would not necessarily be an indication of a processing activity.

[3] This list should not be considered prescriptive or complete; rather, it is a reference list of activities that could be regarded as constituting processing, depending on a country’s circumstances.

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**Description of processing under contract.** Processing under contract means that no change of ownership takes place. The ordering party provides the primary or intermediate product to the subcontractor responsible for the processing and stays the owner of these products. The subcontractor sends the processed good after processing back to the ordering party or out to another trader to whom the ordering party has sold the processed good.

**Operations considered processing.** The following operations are frequently considered to be processing but countries might treat some other operations as processing as well:[3]

- Manufacturing/assembly of goods (e.g., semiconductors)
- Oil refining, gold refining, etc.
- Conservation (e.g., by the addition of preservatives)
- Treatment (e.g., against parasites or rust)
- Mixing goods of different qualities to produce goods of a new quality
- Labelling of goods, providing the labels are part of a sale transaction; if not, labelling is a service
- Bottling of liquid (e.g., wine from barrels)
- Canning of goods (e.g., tinned food)
- Making up of textiles into products (e.g., clothing, handbags, curtains)
- Dilution or concentration of liquids (e.g., orange juice)
- Uranium enrichment