B.1. Goods-related services

Introduction

14.19. Subsection B.1 deals with goods-related services, which include manufacturing services on physical inputs owned by others; maintenance and repair services n.i.e.; and freight transport and insurance (as subcomponent of transport). Those service categories are strongly related to flows of imported and exported goods. However, the value of services cannot necessarily be directly derived from the gross value of merchandise trade statistics. Additional information, from surveys, for example, is often needed to measure the exact value of the services provided.

14.20. Manufacturing services on physical inputs owned by others include activities such as processing, assembly, labelling and packing that are undertaken by enterprises that do not own the goods (see also MSITS 2010, paras. 3.66-3.77). Such services may also be referred to as contract manufacturing, toll manufacturing or toll services and are also described in BPM6[1] and the BPM6 Compilation Guide. In the case of manufacturing services imports (those services can, for example, be rendered under a special customs procedure: outward processing of goods), the principal (goods owner) has goods it owns processed by another unit (processor), which is resident of another economy. The principal pays a fee to the processor for the services provided. In the case of manufacturing services exports (those services can, for example, be rendered under a special customs procedure: inward processing of goods), a processor transforms goods belonging to the principal who is resident of another economy. In return for a processing fee, the processor transforms the goods using its own labour and capital. Over the course of the transformation process, the economic ownership of the goods remains with the principal. The manufacturing service equals the processing fee, i.e., the value of the contract between the owner of the goods and the manufacturer. Gross values of goods associated with manufacturing services should be identified as EBOPS supplementary items in economies in which such an activity is significant.[2]

14.21. Maintenance and repair services n.i.e. include maintenance and repair work by residents on goods that are owned by non-residents and vice versa. The value recorded for maintenance and repairs is the value of the repair work, not the gross value of the goods before and after repairs (see also MSITS 2010, paras. 3.78-3.79).[3]

14.22. Freight transport and related freight insurance services are part of the EBOPS categories of transport and insurance services, respectively (see MSITS 2010, paras. 3.97-3.103 for freight transport and 3.178-3.180 for freight insurance). It refers to freight charges between residents of the compiling economy and non-residents on goods with change of ownership, as well as on freight where there is no change of ownership.

Compiling statistics for goods-related services

14.23. It is suggested that compilers consider that enterprise surveys generally represent the most efficient method for collecting information on goods-related services. The surveys could include questions on the value of the service fee, as well as the value of the goods sent and received for processing or repair. That information can be used to adjust the goods account to measure merchandise trade on a change of ownership basis.

14.24. An ITRS and customs declarations may also be used for the compilation of goods-related services, although those sources are generally not sufficient and may need to be supplemented with enterprise survey data. When using ITRS data for information on fees for manufacturing services or maintenance and repair services, the compiler should ensure that such amounts do not include payments for other goods and services. Administrative sources, including tax records, can also provide useful information (see BPM6 Compilation Guide, paras. 12.20-12.25, for manufacturing services, and 12.35-12.37 (including tables 12.1 and 12.2), for freight transport).

14.25. Compilers may consider combining data from customs declarations with the results of enterprise surveys, when both data sets are available. While such merged data would not necessarily provide compilers with advantages in developing aggregate measures of goods-related services, such data could be very useful, in combination with appropriate screening questions on enterprise surveys, for determining partner country attribution and the detailed product composition of exports and imports for firms that indicate that they either receive or send goods abroad for processing or repair.

14.26. Compilers may also consider comparing the trend in the value of goods under inward and outward customs procedures (and the pattern of the application of the transaction codes) with the trend in the magnitude of manufacturing services over time. While the actual monetary amounts will be different, compilers could expect the growth trend between the series to be similar, which could provide a useful quality check for compiling statistics on the international trade of manufacturing services.

Compilation of manufacturing services

14.27. Compilers should be aware that the difference between the value of the goods before processing and the value of the goods after processing may differ from the value of the manufacturing fee for various reasons, including the sale of processed goods in the economy of the processor or in third countries, holding gains or losses or the inclusion of brand names after processing (see BPM6 Compilation Guide, para. 12.14).

14.28. The compilation of data on manufacturing services on inputs owned by others may be facilitated by following the change of ownership principle in general merchandise trade statistics. However, the recording of the movements of goods across borders and statistical surveys on trade in services are usually independent and therefore not mutually consistent.

14.29. As for the export and import of manufacturing services, box 14.1 provides an example of a possible data adjustment in the compilation of resident/non-resident trade in services statistics when net all necessary information is available to the compiler and misreporting of goods after processing can be expected to be the main cause of the difference between the processing services and the value of goods before and after processing. It also provides an example of other adjustments of data on the import and export of goods related to the import of processing services that may be conducted in order to compile BOP statistics. Table 14.1 presents possible combinations of related movements of goods and services across borders for processing and after processing, as well as without cross-border movements. It also explains the difference in the recording of exports and imports of goods between International Merchandise Trade Statistics: Concepts and Definitions 2010 (IMTS 2010) (cross-border concept) and BPM6 (ownership concept). It is obvious that, in some cases, there is no cross-border movements of goods related to the transfer of goods between processor and principal (either before the processing or after the services have been provided).
Manufacturing services: borderline cases

14.30. It is important to separate manufacturing services on inputs owned by others from transactions that may have similar aspects, but should be recorded differently, according to BPM6.

Box 14.1

Numerical example of possible adjustments to the import and export of goods for balance of payments purposes in relation to the import of processing services in the absence of full information

Assume that country A imports processing services from country B in the value of 7 (5 is related to processed goods returned to the economy of principal A, 1 is related to goods that were sent for processing without returning to country A and 1 is related to goods sourced abroad that were processed in country B and imported (brought) to country A after processing). A’s international merchandise trade statistics (IMTS) record—export of goods for processing (returning to country A after processing)—is 10, but the import of goods after processing is only 5, therefore the import value in the IMTS record must be corrected.

The margin between goods sent for processing (10) and returning after processing (5) is -5. The value of those goods cannot be accounted for as general merchandise in the BOP and their value is therefore subtracted to obtain the gross flows of exports and imports according to the BPM6/MSITS 2010 recommendations. In addition, the import of services related to the goods returning to A is 5, so the adjustment of the import after processing value has to be +10 (=5+5), i.e., the adjustment of general merchandise according to BPM6/MSITS 2010 is 10.

Apart from the adjustment for misreporting, there may be also other adjustments in goods due to insufficient data sources and imported processing services. Assume that country A exports goods for processing with a value of 10 that are not returning to country A after processing. Strictly speaking, the value of the goods should be also subtracted from general merchandise, since no change of ownership occurs when the goods cross the border and imports of goods should be recorded only when a sale abroad after processing occurs (e.g., in the value of 11.10+1.1, for the processing services). However, there is usually no data source for such sales abroad and, thus, the value of goods exported for processing that do not returning to the exporting country may not be subtracted from that of general merchandise (10). In addition, the import of services for 1 (corresponding to the value of imported services processed on goods sold abroad) is supposed to be imputed to the export of goods. Analogously, assume that the import of goods purchased abroad and processed in country B (in the value of 11: purchase for 10, services for 1). The value of import, according to BPM6/MSITS 2010, should include only the value of goods brought from abroad (excluding the 1 corresponding to the value of imported services processed on goods purchased abroad and imported to country A).

Table 14.1 (a)
Export of processing services: resident is the processor (contractor)

<table>
<thead>
<tr>
<th>Recording BOP, national accounts and IMTS</th>
<th>Goods that should be captured in IMTS of processor’s territory (physical movement of goods)</th>
<th>Goods and services that should be recorded in the BOP and national accounts of processor’s economy (change of ownership principle)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Abroad</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-resident</td>
<td>Goods received by resident processor for processing, transformed goods leave processor’s economy once processed.</td>
<td>Import of processed goods</td>
</tr>
<tr>
<td>Resident</td>
<td>Goods received by resident principal, transformed goods purchased by residents of processor’s economy after processing</td>
<td>Import of goods for processing</td>
</tr>
</tbody>
</table>

Table 14.1 (b)
Import of processing services: resident is the owner (principal)

<table>
<thead>
<tr>
<th>Recording BOP, national accounts and IMTS</th>
<th>Goods that should be captured in IMTS of processor’s territory (physical movement of goods)</th>
<th>Goods and services that should be recorded in the BOP and national accounts of processor’s economy (change of ownership principle)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Abroad</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resident</td>
<td>Resident principal sends goods input to non-resident processor, transformed goods are returned to the economy of principal.</td>
<td>Export of goods for processing</td>
</tr>
<tr>
<td>Non-resident</td>
<td>Non-resident principal sends goods to non-resident principal, transformed goods are sold abroad by principal to non-resident.</td>
<td>Export of goods for processing</td>
</tr>
</tbody>
</table>

Manufacturing services: borderline cases

14.30. It is important to separate manufacturing services on inputs owned by others from transactions that may have similar aspects, but should be recorded differently, according to BPM6.
14.31. First, compilers should carefully distinguish between manufacturing services and manufacturing on own account, using the economic ownership of the inputs as the distinguishing criterion. Even if the processor not only transforms the goods owned by others (i.e., the principals), but also provides some physical inputs in the process, their exported output will be recorded under manufacturing services (i.e., including the value of physical inputs provided by the processor). That distinction is particularly relevant for countries with locations or zones with special taxation arrangements, such as export processing zones or free zones. Compilers should be aware that enterprises that operate in such zones are not necessarily by definition engaged in manufacturing services. If such enterprises are the economic owners of the goods that they process (whether purchased domestically or from the rest of the world), their exported output would not qualify as manufacturing services, but as general merchandise. Similarly, many enterprises may be engaged in manufacturing services, without necessarily being in special locations (see also BPM6 Compilation Guide, paras. 12.15-12.16).

14.32. Some enterprises may be affiliates of direct investors abroad, and may use technology transferred to them by that direct investor. Compilers should note that the mere existence of a direct investment relationship does not imply the provision of manufacturing services, even when the processed products are sold to the direct investor. Since the classification is determined solely by the economic ownership of the inputs, the activity would still be recorded by the affiliate as manufacturing on own account (and hence not a manufacturing service).

14.33. A second area in which compilers need to make a careful distinction is the difference between transactions related to manufacturing services on inputs owned by others, and those related to merchanting (see BPM6 Compilation Guide, para. 12.19). When, in the case of merchanting, the nature of the goods does not change, the gross values of the associated goods must be recorded as trade in goods (negative and positive exports).

14.34. In the case that goods under a merchant’s ownership are subjected to certain manufacturing services that change the condition of the goods, relevant purchases and sales of those goods should be recorded under general merchandise instead of merchanting, whereas the minor processing or packaging fee would still be recorded under manufacturing services.

14.35. Compilers are advised to also consult the present Guide to measuring global production for more suggestions on how to deal with the different cases with which compilers may be confronted, as well as possible solutions for compiling the related items in the goods and services account.

Include pages:
Country experience: Czech Republic (Chapter 14)
Country experience: Hong Kong (Chapter 14)
Country experience: Germany (Chapter 14)
Implementation guide drafted by the Informal Reflection Group of the OECD Working Party on International Trade in Goods and Trade in Services Statistics (WPTGS) on Merchanting and Manufacturing Services

Next: B.2. Passenger transport and travel

[3] In this chapter, the following terminology is applied: The “principal” is a unit that enters in a contractual relationship with another unit (here called “processor”) to carry out some part (or all) of the production process; the processor is a unit that carries out a specific production process on the basis of a contractual relationship with a principal. The activities performed by the processor are denominated “on a fee or contract basis”. “Processing” is a contractual agreement according to which the principal requires the processor to carry out a specific production process. The term “subcontracting” is sometimes used, as well. In that context, the production process also includes supporting activities. Manufacturing services on physical inputs owned by others can be performed on goods leaving the county of the principal and entering the country of the processor under various arrangements, depending on the customs laws of the countries involved, including (but not limited to) specific customs procedures called “outward” and “inward” processing. Outward processing customs procedures means the customs procedure under which goods in free circulation in a customs territory may be temporarily exported for manufacturing, processing or repair abroad and then reimported with total or partial exemption from import duties and taxes. Inward processing customs procedures means the customs procedures 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. See IMTS 2010, paras. 1.19-1.21 and annex B, para. B.1-8.12.
[5] No distinction is made between repairs that maintain the item in working order and are considered as intermediate consumption, as opposed to those that extend the efficiency or capacity of the goods or extend its life and thus are included in capital formation.