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TRANSIT TRADE AND RE-EXPORT

QUASI TRANSIT TRADE IN EUROPE: WHEN VALUE ADDED DOES NOT BELONG TO THE REPORTING ECONOMY

Note by Eurostat and the European Central Bank

Summary

"Quasi transit trade" is a term introduced to distinguish a specific kind of transaction different from "transport transit" and "re-exports". It is a peculiar kind of transit trade where goods are declared as imports (to the Customs' authorities) in the relevant transit country, but are not considered as imports in the compilation of national accounts, since the very same goods are re-exported (without any major transformation or treatment) to another country. The paper explains the differences between the three above terms and describes the specific nature of quasi transit trade as recognised by European Union (EU) merchandise trade statistics. Also, it presents the examples of quasi transit trade analysed by the Task Force on the Rest of the World account (TF RoW), proposes a solution how to record these flows in the context of European BoP statistics and explores the impact of the new manuals on the treatment of "quasi transit trade".

I. INTRODUCTION

1. European regulations and guidelines require the transmission of Balance of Payments (BoP) and merchandise trade data to Eurostat and to the European Central Bank (ECB) compiled according to the "community principle", reflecting the common border of the European Union (EU). This implies that part of what from a national perspective would be identified as "transit trade", and hence not be included in the national statistics on trade, has to be included in the data reported to Eurostat and the ECB in the national contributions to the EU and euro area BoP.

2. This part, called "quasi transit trade", has a disturbing feature: the declared value of the goods entering the EU and the declared value of the goods leaving for another EU Member State is substantially different, even though no change of ownership or material change occurs in the nature of the goods in the reporting country.

3. This kind of transactions are problematic when compiling data for an economic or monetary union, but may pose problems also for national compilers, who have to address tricky issues of residency and change of ownership.

4. "Quasi transit trade" is a term introduced to distinguish a specific kind of transaction different from "transport transit" and "re-exports". Section II of this paper explains the differences between these three terms.

5. According to the European guidelines related to merchandise trade statistics, quasi transit trade has to be included in the data reported to Eurostat. Section III describes the specific nature of quasi transit trade as recognised by EU merchandise trade statistics. It should be noted that merchandise trade data are the data source for the BoP "goods" item in all the EU Member States (but one).

6. Quasi transit trade became an issue also for National Accounts and Balance of Payments (BoP) when Eurostat and the ECB started compiling European and Euro area sector accounts. Section IV is based on the analysis made by the TF RoW, section V presents the workaround solution found for the reporting of these flows in the context of European BoP statistics, section VI presents the examples of quasi transit trade analysed by TF RoW.

7. Section VII provides an illustration of the overall size of the problem posed by quasi transit trade to the BoP and RoW data of the European Union and of some EU Member States. Section VIII addresses the issue of where the ‘missing value added’ should be recorded. Section IX considers the impact of the new manuals on the treatment of "quasi transit trade". The paper closes by formulating some conclusions and considering some open questions.

II. SIMPLE TRANSIT, QUASI TRANSIT TRADE, AND RE-EXPORTS: SOME DEFINITIONS

8. A clear definition of these terms is not immediately available from the various manuals. We will therefore propose our definitions and provide references to the terms and definitions of the very same concepts available from the different manuals.

9. "Simple transit trade" describes transactions in goods which simply cross a country on their way to their final destination and that are generally excluded from foreign trade statistics (FTS) and BoP.

10. "Re-exports" describes transactions in goods which are imported in a country by a resident and then re-exported. Re-exports are generally included in FTS and BoP.

11. "Quasi transit trade" describes transactions in goods which are imported in a country by an entity considered non resident and then re-exported to a third country within the same economic union or customs area.

12. The boundary between re-exports and quasi transit trade is not always unambiguous, since it is only based on the residency of the owner of the goods. In the context of global manufacturing, multinational enterprises transfer merchandise from one country to another without it being clear whether or not there is a change in ownership. And the ownership of the goods can as well be shifted from one country to another quite independently from the physical movements of the goods.

13. Simple transit, quasi transit and re-exports have a common element: in the three cases goods do not add up to the stock of goods available for consumption in the reporting economy.

14. Each of these concepts is further explored in the subsections II.A-II.C.

15. Subsection II.D briefly recalls the fifth edition of the Balance of Payments Manual (BPM5) and the sixth edition of the Balance of Payments Manual (BPM6) definitions of “merchanting”, concept that shall be used in the successive paragraphs.

16. It should also be noted that, according to BPM6, which does not substantially change, on this point, compared to BPM5, "the residence of the seller/purchaser of the good is the preferred concept for identification of the partner" according to the change of ownership principle. The same concept was expressed, in other terms, by BPM5: "the change of ownership is considered to occur at the time the parties to the transaction record it in their books or accounts" (BPM5 §114 and 204).

17. However, BPM6 also recognises that "in practice, available data may be based on the economy of origin, consignment, destination, or other criteria that differ from the economy of the seller/purchaser. In general, the economy of final destination (for the partner to exports) is considered to be more likely to correspond with the party taking ownership of the goods. Similarly, the economy of origin (for the partner to imports) is considered to be more likely to correspond with the party conveying ownership of the goods" (BPM6 §4.150).

A. Simple transit/Direct transit trade/Transport transit trade/Goods in simple circulation

18. Simple transit trade describes transactions in goods which simply cross a country on their way to their final destination and that are generally excluded from FTS and BoP.

19. These kinds of transactions are also named with different terms in the international manuals.

20. Intrastat Regulation n°638/2004 Article 2 (g) defines "goods that are in simple circulation between Member States" as "Community goods dispatched from one Member State to another, which, on the way to the Member State of destination, travel directly through another Member State or stop for reasons related only to the transport of the goods". These goods are excluded from EU FTS[1].

21. The *International Merchandise Trade Statistics compilers manual* (§102.) defines the criteria for identification of "goods being simply transported through a country". "These are goods entering the compiling country for transportation purposes only. Transportation may involve simple handling operations and temporary storage. … If the goods destination, at the time of crossing the compiling country's border, is another country, these goods are to be treated as being simply transported through the country and are to be excluded from trade statistics".

22. BPM5 (§209.) defines "direct transit trade" as "goods in transit through an economy" and specifies that these have to be exclude from imports and exports.

23. BPM6 (§10.22.a) defines "transit trade" as "goods admitted under special customs procedures that allow the goods to pass through the territory " and specifies that these have to be exclude from general merchandise because there is no international transaction.
European System of National Accounts 95 (ESA95) (3.136) specifies that imports and exports of goods exclude “Goods in transit through a country”.

B. Re-exports/re-imports

24. Re-exports describe transactions in goods which are imported in a country by a resident trader and then re-exported. In this case a change of ownership from the non-resident to the resident enterprise occurs. Re-exports are considered as normal transactions in trade in goods and are included in both the national and the European concept.

25. The *International Merchandise Trade Statistics compilers manual* (§136.) defines re-exports as "foreign goods exported (or re-imported) … in the same state as previously imported (or exported)." These goods have to be included in total merchandise exports/imports.

26. BPM6 defines Re-exports (§10.37) and Re-imports (§10.40). "Re-exports are foreign goods (goods produced in other economies and previously imported) that are exported with no substantial transformation from the state in which they were previously imported. The price of the re-exported good may differ from its price at the time it was originally imported, due to factors such as transport costs, dealer’s margins, and holding gains/losses. For goods to be included in re-exports for balance of payments statistics, a resident must acquire, then resell the goods with the goods passing through the territory" (BPM6, §10.37).

[1] Regulation n°638/2004, Article 3(2a) and (3b).

C. Quasi transit trade/ disguised transit trade/indirect trade/quasi trade

27. According to merchandise trade terminology, "Quasi transit trade" describes transactions where goods enter an economic union Member State, are then cleared for free circulation within that economic union (with Custom duties paid) and are finally dispatched to another Member State. The same kind of trade is also known as "disguised transit trade", to be distinguished from goods in “simple transit", where no administrative clearance takes place.

28. Quasi transit trade concerns mainly imports, but also exports may be affected, to a smaller extent[2].

29. National Accounts manuals (ESA95, System of National Accounts 1993 (SNA93) and SNA2008) do not make any reference to quasi transit trade.

30. ESA95 (§3.132) states that "Imports and exports of goods occur when there are changes of ownership of goods between residents and non-residents". SNA93 (14.88) defines exports of goods as “sales, barter, gifts, or grants” from residents to non residents.

31. SNA93 (14.59) and ESA95 (3.132 and 3.133) allow for an exception to the change in ownership rule in case of delivery of goods between affiliated enterprises (branch or subsidiary, or foreign affiliate): "a change of ownership is to be imputed whenever goods are delivered between affiliated enterprises".

32. This exception has been removed from SNA2008, which together with BPM6 now strictly follows the change of ownership principle (SNA2008, para 26.20-26.21).

33. According to this national accounts' terminology, quasi transit trade can be defined as goods that are imported in a country and then re-exported by an entity which is not considered an institutional unit and not considered as resident in the reporting economy. The importing entity, not being considered an institutional unit, cannot be considered as acquiring the ownership of the goods.

34. Alternatively, quasi transit trade can be described as re-exports of goods where the owner of the goods is not a resident in the reporting economy. This definition clearly recalls the concept of merchanting that we shall review in chapter II.D.

35. In the country where the goods enter the EU and are cleared for free circulation, the entity which is handling the import of the goods may be a company with little or no staff employed but with a value added tax (VAT) number, required to comply with the necessary customs declarations of importing the goods into the EU as well as with the necessary Intrastat declarations. The entity can for instance be a logistics service provider, a fiscal agent or a tax representative.

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[2] E.g. some Baltic EU Member States, according to their Extrastat data, export goods which clearly cannot have origin in these Member States, like French wine. But the Intrastat arrival declaration from another EU Member State is missing.

36. Whenever quasi transit trade becomes a matter of treatment of companies with little or no physical presence, the usual problems connected with the possible interpretations of ESA and SNA rules related to the identification and the residency of institutional units come into play.

37. BPM6[3] (§10.37) specifies that "goods cleared by customs, but re-exported without coming into ownership by a resident of that economy, should not be included in re-exports for balance of payments statistics purposes." This reflects the idea that the concepts of "economy of origin" (imports) and "economy of last destination" (exports) are acceptable approximations to the change of ownership principle (BPM6 §4.150 and §A3.27).

38. However BPM6 Appendix 3 *"Regional arrangements*" also clarifies that "in the context of an economic union, where customs declarations are in many cases completed in a third economy (economy of consignment) that does not obtain itself the ownership of the goods, double recording of "extra" trade flows is likely; first at the port of entry into the economic union, second at the economy of final destination". To avoid this problem, BPM6 recognises that a departure from the recording of imports only according to the country of origin and final destination shall be necessary (BPM6 A3.27) and recommends an approach which closely reflects the current Intrastat and Extrastat practice in Europe (see BPM6 Box A3).

39. According to our understanding, the BPM6 prescription related to quasi transit trade (§10.37) does not apply in case of economic unions.

D. Merchanting

40. "Merchanting" is considered a service in BPM5 and defined as "the purchase of goods by a resident (of the compiling economy) from a non resident and the subsequent resale of the good to another non resident" where the goods do not enter or leave the territory of the compiling economy (BPM5 §262). The difference between the value of goods when acquired and the value when sold is recorded as the value of the merchanting service (BPM5 §262).

41. "Merchanting" is defined in the same way but included under goods in BPM6. According to BPM6, "The treatment of merchanting is that: (a) The acquisition of goods by merchants is shown under goods as a negative export of the economy of the merchant; (b) The sale of goods is shown under goods sold under merchanting as a positive export of the economy of the merchant" (BPM6 §10.44). "In the counterpart exporting and importing economies, export sales to merchants and import purchases from merchants are included under general merchandise" (BPM6 §10.45).

42. It should be noted that even if merchanting will be part of goods according to BPM6, it will remain out of the scope of merchandise trade statistics[4]**.**

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[3] "*Balance of Payments and International Investment Position Manual, Sixth edition*", Pre-publication draft, December 2008, page 384.

[4] The United Nations Statistics Division (UNSD) has started to work at the revision of the manual "*International Trade Statistics, concepts and definitions*" (IMTS, rev2). An "Expert Group on International Merchandise Trade Statistics" (EG-IMTS) has been established to assist the UNSD in the revision of the manual. This expert group

III. QUASI TRANSIT TRADE AND THE COLLECTION OF DATA ON TRADE ON GOODS IN THE EUROPEAN UNION

A. Collection of data on merchandise trade in the European Union

43. The European Union is an economic union with a common customs territory. The customs union entered into force on 1 July 1968 and since then the EU Member States apply a common tariff to extra-EU imports. There are no customs duties on intra-EU trade.

44. Customs duties are due when the goods are *released for free circulation* within the EU[5]. Other duties (such as alcohol or tobacco excises or VAT, which are not harmonised across the EU countries) are due when the goods are *released for consumption*. Release for consumption (i.e. payment of VAT and excise duties) is virtually always done in the country of destination.

45. The internal market was largely completed as of 1 January 1993, when all border controls within the EU were abandoned. Since then two different procedures are in place for collecting data on trade in goods among EU member States and with other countries: the Intrastat and the Extrastat system.

46. The Intrastat system has been created for collecting data on trade in goods between EU Member States, is linked to the value added tax system, based on enterprise surveys and collects data according to the country of consignment (in case of arrivals) and destination (in case of dispatches[6].

47. The Extrastat system is based on customs data and collects data according to the country of origin/final destination.

B. Goods entering the EU in a Member State and then moving to other MSs: the Rotterdam effect

48. When the goods enter the customs territory of the Community, they are subject to customs supervision in the country where the goods are located until their custom status is changed (art 91 EC 450/2008). When the Customs clearance takes place in a Member State which is not the Member State of final destination (but a Member State located at the external frontier of the

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agreed "that the existing recommendation on exclusion of merchanting (paragraph 50, IMTS, Rev.2) be confirmed"**.** ESA/STAT/AC.137.11, United Nations, expert Group on International Merchandise Trade Statistics, *"Report of the first meeting*", New York, 3-6 December 2007, page 6-7.

[5] Since 1975 (for coal and steel since 1988) the revenue from these customs duties (incl. agricultural levies) has been an EU own resource. Member States keep a collection fee of 10% (25% since 2001). The fiscal representatives may pay the import duties. The Gross National Product (GNP) Committee has examined the problem of import duties paid by non-residents in relation to the eventual need to adjust (=reduce) the national figures of import duties, "Import duties paid by non-residents, the Rotterdam effect and the accession effect", 42nd meeting of GNP Committee, 3-4 July, Eurostat/B1/CPNB/342.

[6] Eurostat, "*Guidelines for the Implementation of the Intrastat Legislation*", MET 956 rev1, January 2008, pages 28-29.

European Union like Rotterdam or Antwerp) movement of goods between a non-Member country and a Member State will be divided into two trade flows: one reported within Extrastat, the other reported for Intrastat.

49. According to Extrastat, an import or export has to be declared in the Member State where the goods are cleared by customs for free circulation (i.e. submitted to custom duties and released for import, export or processing in all the territory of the European Union) even if the final destination of these goods is another EU Member State. When these goods are dispatched to the Member State of final destination, an Intrastat dispatch declaration has also to be filled[7].

50. Community Statistics require the application of this double reporting to assure that export and import figures from non-EU countries at aggregate level are as accurate as possible and not affected by double counting or omissions. When the goods enter the territory of the European Union the statistics closely reflect customs` records. Extrastat statistics are in fact based on a copy of customs` records, the customs` single administrative document (SAD) declaration. The statistical recording of successive movements of these goods across Europe produced via the Intrastat survey system cannot be so accurate. Moreover, in Intrastat the information related to the country of origin is not obligatory, the reporting agent in the country of final destination may therefore not know at all the non-EU country of origin of the goods and have only the information related to the country of consignment.

51. The phenomenon of "quasi transit trade" is generally attributed in Europe to the interface between the Intrastat and Extrastat trade data collection systems and has traditionally been described by the experts in merchandise trade as ‘Rotterdam Effect’, from the name of one of the main ports where goods enter the EU.

52. However, experts believe[8] that the Rotterdam effect is not confined to trade between EU Member States, but can affect trade between any pair of countries where goods are transported via the territory of one or more other countries before reaching the country of final destination. In all these cases problems of asymmetries may exist between the data on exports reported by the country of origin and the data on imports reported by the country of final destination that may not know where the goods are originating from.

53. It is worth mentioning that the possibility to clear the goods for free circulation in an EU country which is not the country of final destination may crucially depend on the means of transport. "As a general rule, for non-community goods that enter the EU via road the transit procedures (Transport Internationaux Routiers (TIR) or the common transit procedure) are used, i.e. the goods are not treated by customs at the EU frontier, but in the country of destination. Similar considerations apply to rail. For air transport there will be no effect to the extent that airfreight will tend to arrive in an airport of the country of destination (an effect could however be imagined for airports with significant cargo volumes that are close to another Member State’s

[7] The reference for this point is: Eurostat, “*Guidelines for the Implementation of the Intrastat Legislation*”, MET 956 rev1, January 2008, pages 66-68.

[8] HM Revenue and Customs, ‘*Analysis of asymmetries in intra-community trade statistics with particular regard to the impact of the Rotterdam and Antwerp effects*’, Edicom report 200453202017, December 2005, page 4.

border). For goods arriving via the sea (maritime transport), the likelihood that the goods are treated by customs in the country (harbour) of first entry is much higher than for the other means of transport. Therefore, it can be assumed that island states with their own access to the sea are unlikely to face a significant … (quasi transit trade) effect. Countries with large harbours – such as Rotterdam or Antwerp - serving as an entry point for hinterland countries without access to the sea will tend to show a significant positive … (quasi transit trade) effect. The hinterland countries will show a negative effect"[9].

54. While merchandise trade data (and BoP data) transmitted to Eurostat have to include quasi transit trade, Member States are free to produce and publish national merchandise trade data compiled according to other criteria.

55. Only a few EU Member States are able to identify and exclude correctly this type of trade from their national statistics[10]. The statisticians of most EU Member States have no means to establish if what is imported by a non-resident does remain in their country or not, so they assume that whatever is cleared for free circulation in their country is also imported (and consumed) in the country or re-exported.

56. Extrastat legal provisions are currently under revision to adapt statistics on trade with non-member states to the Modernised Custom Code introduced with the Regulation n° 450/2008 (OJ n° L145, 4/06/2008). Article 106 of the Modernised Customs Code introduces the possibility of "Centralised Clearance".

57. The 'Centralised Customs Clearance' procedure allows companies to lodge the customs declaration in any Member State and not necessarily in the Member State where the goods enter the European Union and are submitted to customs controls[11]. Under this new procedure, the lodging of the customs declaration may therefore be dissociated both from the place of entry or exit of the goods in the EU and from the place of final destination. It is not clear, yet, what consequences the new system shall have on "Quasi transit trade" in the short term. In the long term, when data exchange systems between Member States will be established, it is possible that

[9] "*Import duties paid by non-residents, the Rotterdam effect and the accession effect*", 42nd meeting of GNP Committee, 3-4 July 2003, Eurostat/B1/CPNB/342, page 4.

[10] For Extrastat, quasi-transit can be consider to coincide with transactions where the declarant use customs procedures that exempt him from payment of the VAT in the EU Member State of entry of the goods (identified by procedure codes 42 and 63). What is more difficult is to link the Extrastat import with the subsequent Intrastat movement. Netherlands is able to distinguish between quasi transit and normal trade because in its Intrastat forms it requires an additional field for the Special Procedure code. The method used by NL to identify quasi-transit trade is described in: "*EU study on the Rotterdam effect*", Edicom contract n°741100020, page 7-10. See also: HM Revenue and Customs, '*Analysis of asymmetries in intra-community trade statistics with particular regard to the impact of the Rotterdam and Antwerp effects*', Edicom report 200453202017, December 2005, page 8.

[11] The Centralised Customs Clearance and the Single European Authorisation will enable economic operators to centralise the accounting and payment of custom duties for all transactions in the authorising Member State (which should be the one where the economic operator has the main accounts, documentations and records) although the movement of goods may take place in another Member State.

the "quasi transit trade" problem could disappear, because the compilers in the country of final destination would be able to allocate correctly this kind of imports to the country of origin.

58. We however doubt that the traders and the multinationals that are currently exploiting the possibility to rise prices of goods after the goods are cleared for free circulation in the European Union (and the import duties are paid) and before the goods are finally delivered to the Member State where the goods will be consumed, will really be interested in the Centralised Customs Clearance procedure.

IV. THE ANALYSIS AND CONCLUSIONS OF TF ROW[12]

59. In June 2007 Eurostat and the ECB started publishing quarterly sector accounts for the EU (and the euro area) seen as a single entity[13]. These accounts also show interactions between the EU (or the euro-area) and the Rest of the World (RoW). To produce EU and Euro area sector aggregates, intra EU (and intra euro-area) transactions had to be removed from the Rest of the World account[14]. Since quarterly RoW data produced by the Member States have no geographical breakdown, BoP was identified as the source of the information related to the breakdown between intra and extra EU transactions.

60. Eurostat/ECB Task Force on the Rest of the World Account (the TF-RoW) was set-up to investigate the problems that should be addressed to make BoP more respondent to the needs of sector accounts compilers. In a first round of work, TF RoW recommended the regular reporting of the detailed BoP transactions related to income and transfers that allow for a better match with the corresponding transactions complied in sector accounts[15]. In a second round of work TF RoW analysed the reasons of the discrepancies between BoP and RoW and produced recommendations for increasing consistency between the two data sets[16].

61. In relation to the item "Goods", the largest contributor to differences between BoP and RoW identified by the TF was "Quasi transit trade".

62. "Quasi transit trade" data are included in the national contributions from BoP and merchandise trade statistics reported to Eurostat, but not in the RoW data of some Member States.

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[12] Acknowledgments: Chapters IV, V and VI of this document are based on the final report of the joint Eurostat/ECB Task Force on the Rest of the World account. The following people contributed with comments to this paper: Ales Capek, Jorge Diz-Diaz, Valdone Kasperiuniene, Francis Malherbe, Denis Leythienne, Paolo Passeini.

[13] For details on the European Sector Accounts see http://epp.eurostat.ec.europa.eu/portal/page?_pageid=2553,64638007,2553_64938511&_dad=portal&_schema=PORTAL

[14] See the draft Chapter 19, "European accounts", of ESA2010, § 19.35-19.37.

[15] "*Task Force on the Rest of the World account, final report*", 23 December 2003, CMFB 04/01/B4.

[16] "*TF RoW: Consolidated reports*", BP/07/31, 4 October 2007. TF RoW2 reports were presented to the CMFB in January and June 2007; the consolidated version of the various reports has been circulated as document BP/07/31.

63. This causes large differences in the gross value of exports and imports resulting from BoP and RoW, but also large gaps between the balances of the goods account measured in the two frameworks. The values of quasi transit exports are in fact substantially higher than the value of the quasi transit imports, and the gap is much larger than what can be expected to result from storage, tax, transport and insurance fees.

64. The differences in the levels of exports and imports for an economic union matters to the analysts, in being able to correctly measure the size of the external sector and to make correct relationships between values and price developments.

65. The difference in the balance matters to the compiler of national accounts aggregates for the economic union because it provides two different measures of the contribution of the external sectors to the gross national production.

66. To ensure that the balance of trade in goods shown by EU BoP and EU RoW would be comparable, TF-RoW recommended that, for the sake of the compilation of EU Balance of Payments, the units through which the goods enter the EU are always considered as residents and that an adjustment under services should be introduced to explain the gap in the value of quasi transit trade imports and exports.

67. TF-RoW also considered the possibility that problems of transfer pricing could be hidden behind the "quasi transit trade" phenomenon.

68. Intra-group transactions in goods and services can be valued by multinationals at artificially high/low prices when they enter the EU with the purpose of shifting profits from one country to another or avoiding custom duties. The TF concluded that it would not be appropriate to revise (upwards) the value of intra-group transactions related to goods imported from non-EU countries, because this would affect value indexes. Furthermore the companies involved in this quasi transit trade, if questioned about the reasons for this increase of the prices, would reply that this is done for covering research, planning, marketing and advertising services provided by the mother company.

69. The recommendations produced by TF RoW[17] have been translated in Guidelines for BoP compilers which are described in Section V below.

V. THE GUIDELINES FOR THE TREATMENT OF "QUASI TRANSIT" IN THE COMPILATION OF THE EUROPEAN BALANCE OF PAYMENTS

70. In relation to quasi transit trade, the following definitions and guidelines are included in the "*Balance of Payments vademecum*", the reference document for the transmission of Member States' data to Eurostat.

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[17] See "*TF RoW: Consolidated reports*", BP/07/31, pages 13-15 and 51-63.

71. "Quasi transit trade is a term used to define goods which enter the European Union in Member State A, are cleared for free circulation (and submitted to import duties) in Member State A, are then dispatched to the EU Member State B.

72. In Member State A, a company with little or no staff employed (but with a VAT number) might be managing the Customs procedures related to these goods. In case Member State A treats this company as non-resident for National Account purposes, the transactions concerned would not be included in the goods compiled according to the national concept. However, they are included in the Community Concept followed in merchandise trade and BoP. Theoretically, "quasi transit trade" should have no impact in net terms. In practice the value of the goods re-exported can be much higher than the value of the goods which entered Member State A. This creates significant differences between the net value of trade in goods recorded in BoP and in RoW.

73. The gap between imports and dispatches (excluding changes in price due to storage, tax and insurance) should be recognised in BoP as "Service", at least when reporting data to Eurostat and the ECB. More precisely:

74. For transactions between independent parties the gap is recognised as an import of services originated by merchanting activities and reported under Bop item 270, Current account, Services, Merchanting.

75. For intra-group transactions the gap is recognised as an import of services originated by intra-group operations and reported under Bop item 201, Current account, Services, Branding, Quasi transit adjustment. The geographical breakdown of "Branding" can be compiled on the basis of the residency of the parent enterprise. This information could be collected from the fiscal agent in charge of the customs formalities. Consultations with the counterpart country (the country of residence of the parent company) should always be made in order to reduce intra-EU asymmetries."[18]

VI. SOME EXAMPLES OF QUASI TRANSIT TRADE

76. We present some examples of the different cases of transit trade that may be encountered. In these examples we will show the flows of goods and the corresponding flows of payments (which of course could follow even more complicated paths than those shown in our examples).

(a) Country Y is the non-European country producing the goods and from which the goods enter the European Union;

(b) Country X is the country where the importer of the goods X is located; country X may be located inside or outside the European Union;

(c) Country A is the Member State where the goods enter the European Union;

[18] Eurostat, "*Balance of Payments Vademecum*", December 2008, page 23-24.

(d) Country B is the Member State where the goods are finally delivered and consumed.

77. The importer of the goods X can be a pure trader or a multinational involved in global manufacturing.

78. In country A, the unit A which takes care of all the custom procedures and that pays import duties is not recognized as a statistical unit and not treated as a resident by the national accounts compilers. Unit A may be a local fiscal representative which is in charge of the customs formalities. The fiscal representative is seen by A as a provider of services to non-residents.

79. Units in countries X and A may be independent (as it is generally the case in Netherlands) or related (as it is often the case in Belgium); unit X can be located in country B (and in such a case country B=country X).

80. In examples 1 and 2, the goods acquired by country X from country Y enter the euro area/EU through a Member State A. Goods are then dispatched to Member State B, which provides a payment to country X that in turn pays Y.

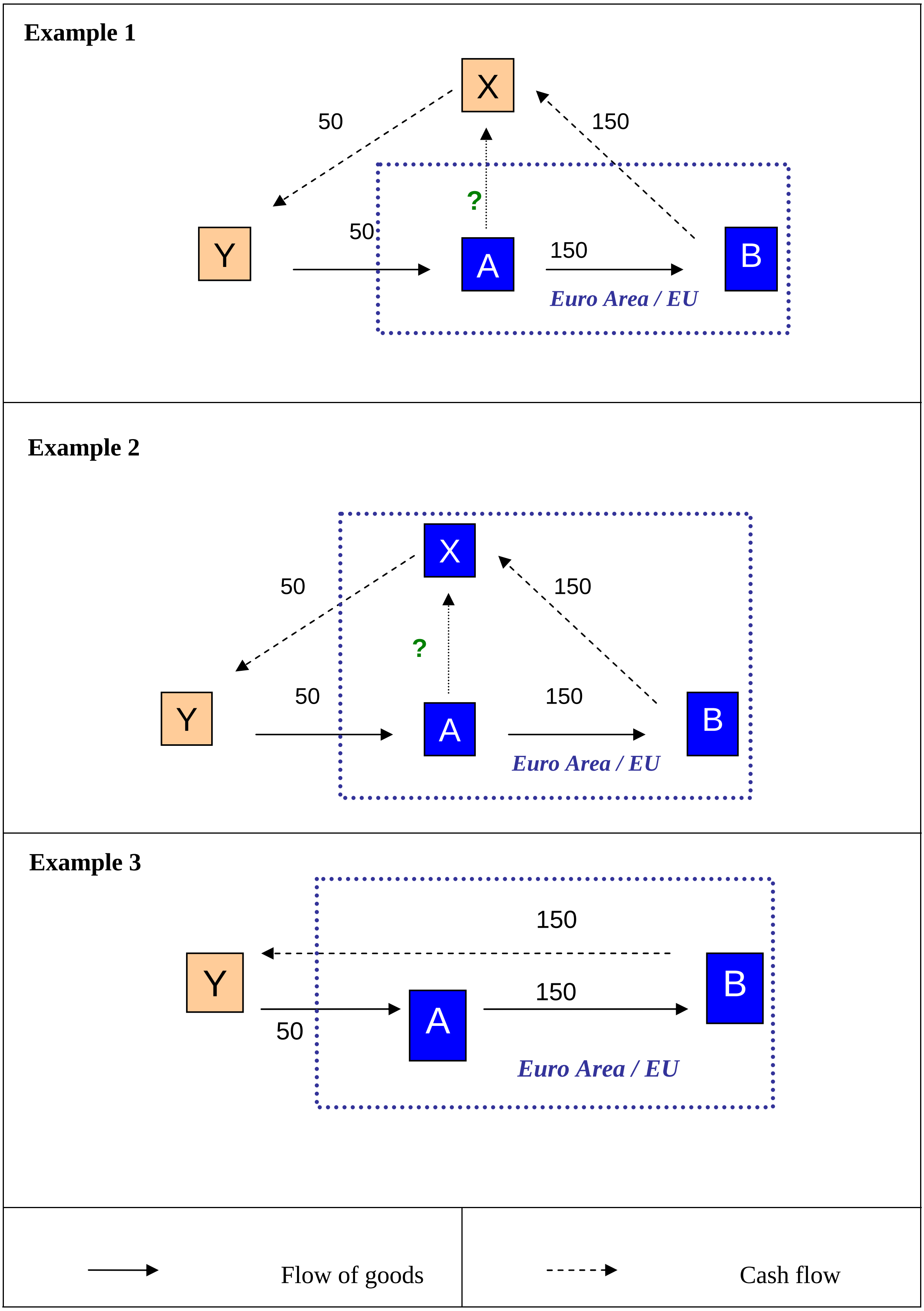
81. In example 1 the importer X is resident in the economic union/monetary union and in example 2 the importer X is not resident in economic union/monetary union.

82. The price gap is observed between the import value recorded in Extrastat when entering the EU, thus reported by A according to the ‘origin principle’ with counterpart Y, and the value recorded in Intrastat when goods are dispatched to country B; B according to the ‘consignment principle’ will report “imports” from A (and not from Y). This Community concept avoids a double counting of imports from Y at aggregated level.

83. Example 3 can be seen as a special case of example 2, where X and B are merged. In the example 3 the cash flows take place directly between country Y and country B, the country of final destination in the EU.

84. An important consideration is the relationship between the units in X, Y and B. Evidence available shows that these units may be independent parties and, in such cases, the price gap could be attributed to merchanting activity. However in the more significant cases displaying the largest price gaps, these units are interrelated and belong to the same multinational group.

Figure 1. Examples of quasi transit trade schemes characterised by major price gaps



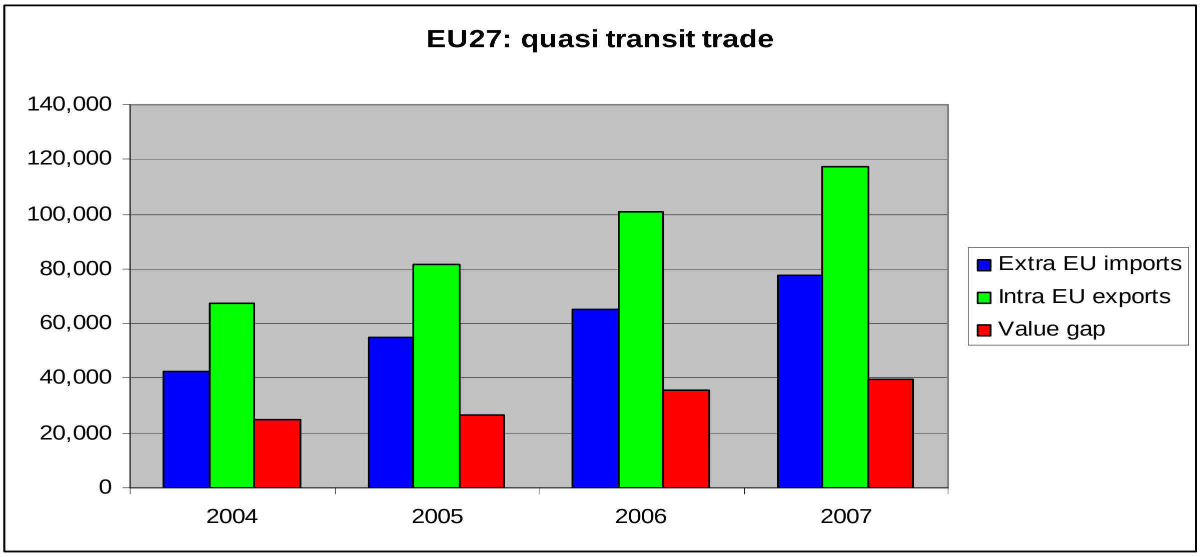
VII. THE SIZE OF "QUASI TRANSIT TRADE" IN THE EUROPEAN COUNTRIES

85. Currently transit trade is very significant in Belgium, Luxembourg and Netherlands and affects to a minor extent the data of Austria. Following EU enlargements the transit trade phenomenon is discovered by other Member States, particularly those with large borders and with a growing trade with Asian or sub-Mediterranean countries.

86. Figure 2 compares quasi transit trade Extra-EU imports with quasi transit Intra-EU exports and shows the gap between these two values, gap that in the EU reached 40 billion Euro in 2007. This value is the sum of the gaps emerging from all the Member States that declared problems of quasi transit trade in the Reconciliation Tables[19]: Austria, Belgium, Luxembourg, Latvia, Netherlands, Hungary and Slovenia.

87. The data related to quasi transit in each of these countries are shown in Annex I. Looking at the national data on quasi transit in Annex I it is evident that the gap between the value of quasi transit trade Extra-EU imports and quasi transit Intra-EU exports is particularly large in Belgium and Luxembourg and significant in Netherlands. For all the other countries the picture is not so clear.

Figure 2. Quasi transit Extra EU imports and intra EU exports.



88. Figure 3 compares, for each year, the total value of Imports (Debits/Resources) and Exports (Credits/Uses) of goods and the balance as resulting from BoP (partner World) and from RoW. The data used for this figure are those reported by BoP and Sector Accounts compilers to Eurostat and used in the BoP/RoW survey run by Eurostat in February 2009.

[19] The Reconciliation Tables show the transition from the value of goods published in merchandise trade and the analogues value published in BoP. Reconciliation tables are compiled each year by EU Member States as part of Eurostat's BoP quality report.

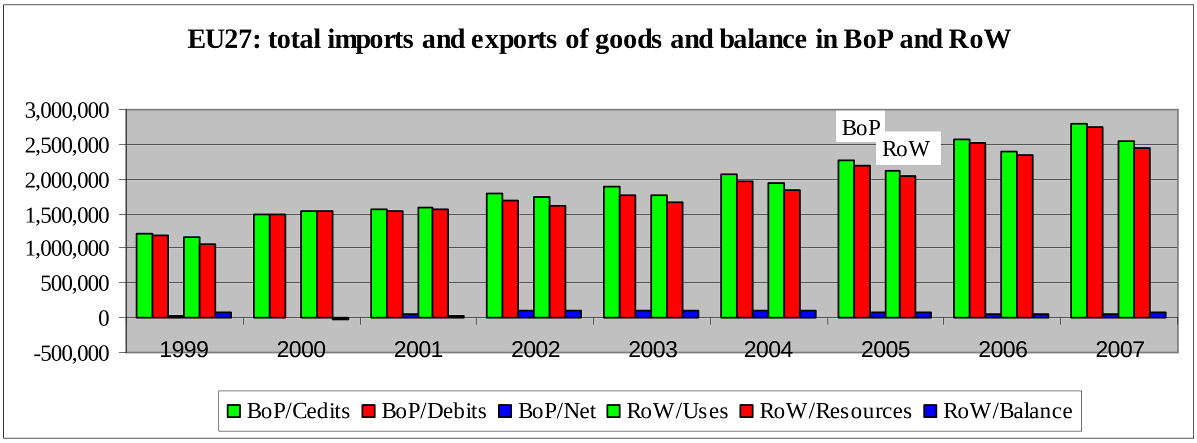
89. As it is evident from figure 3, a sizeable gap exists between the gross and also between the net value of imports and exports of goods recorded in BoP and in RoW accounts.

90. The BoP/RoW survey showed that the difference between the value of goods in BoP and RoW is mainly due to the quasi transit trade problem affecting the data of few countries: Austria, Belgium, Luxembourg and Netherlands.

91. For all the other Member States which declared to be affected by quasi transit trade in the Reconciliation Tables, no difference emerges when comparing the values of BoP and ROW (which very likely means that they do not compile BoP according to the community concept).

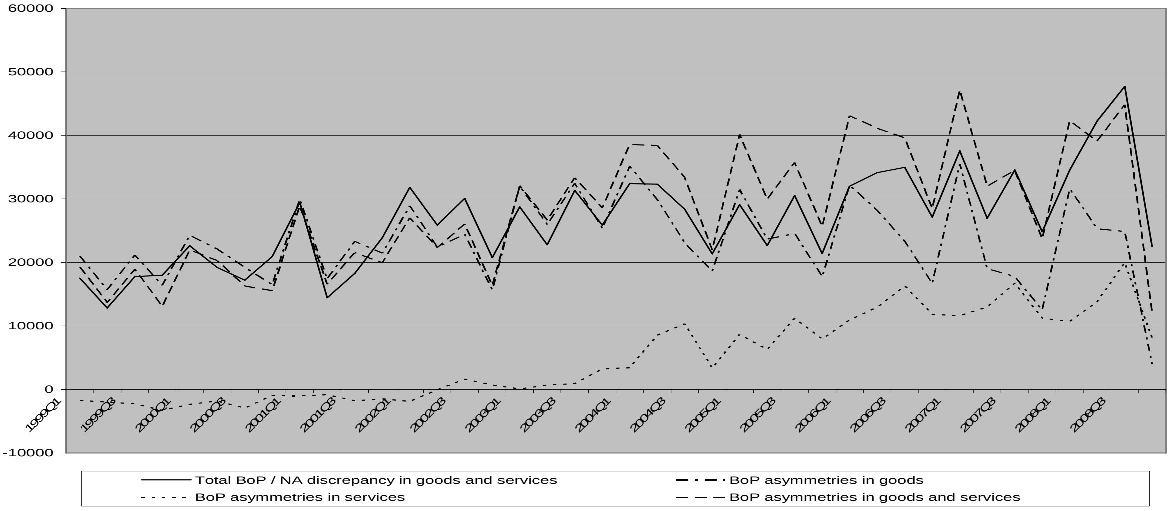
92. The comparison between the BoP and RoW data of Austria, Belgium, Luxembourg and Netherlands is available in Annex II.

Figure 3. Total trade in goods (with partner World) in BoP and RoW accounts



93. Intra-EU asymmetries in services that were almost nil till 2003 have significantly increased from 2004 onwards, almost reaching the size of the asymmetries in goods. This trend is shown in Figure 4. It would be interesting to investigate whether at least part of these asymmetries in services could be due to quasi transit trade being recorded (as merchanting) in the country of the mother company, but not in the Member State where the goods are imported and dispatched in quasi transit.

Figure 4. Total BoP/RoW discrepancies in goods and asymmetries



VIII. IN WHICH ECONOMY SHOULD THE VALUE ADDED BE RECORDED - THE TF ROW SOLUTION AND ESA 95

94. The TF RoW recommendations related to the treatment of quasi transit trade have been developed for the purpose of compiling European Accounts, while at the same time recognizing the considerations brought forward by the Member States most affected by quasi transit trade, not very keen of including quasi transit in their national accounts figures.

95. In terms of national accounts, the treatment agreed implies that the value added generated by the trade margin (corresponding to the price difference between quasi transit trade imports and subsequent dispatches), is attributed to the country of the importer, 'X' if we keep to the example described in chapter VI.

96. Example 4 shows the way the quasi transit trade transactions and the connected services imputation should be recorded in the national accounts of the countries involved: Y, the exporting country, A (the point of entry in the economic union), B (the final destination(s) in the economic union), and X (the country of residence of the importer) .

Table 1. Treatment of quasi transit trade according TF-ROW recommendations

	Country Y		Country A		Country B		Country X	
	Uses	Resources	Uses	Resources	Uses	Resources	Uses	Resources
Domestic use					150			
Exports/Imports of Goods	50		150	50		150		
Exports/Imports of Services				100			100	
Value Added		50		0		0		100
	Country Y		Country A		Country B		Country X	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Financial Accounts	50					150	150	50
			100					100

97. It is noted that, whereas this solves the discrepancies occurring in the recording of the quasi transit trade in the country of consignment (country ‘A’), it puts additional burdens on the statistical reporters of country ‘A’ that have to identify the geographical breakdown of the margins recorded.

98. As regards country ‘X’, there are doubts if it is equipped to record the value added that it obtains from purchasing or manufacturing goods in country Y, and re-selling these goods at a significant margin in country B. The BoP and hence the RoW of that country may not record the merchanting or branding margins, as it might simply be unaware of these.

99. Obviously, if the accounts of the importer (located in ‘X’) reflect the value of the goods imported as 50 and the cost of goods sold as 150, there is no reason for the accounts of this enterprise not to reflect the 100 trade margin. Hence the value added, as measured by the production approach or income approach will be measured correctly. However the national accounts compilers will need to identify the correct expenditure components to reconcile the expenditure approach. Here the compilers in country ‘X’ are faced with difficulties in identifying either the export of merchanting or branding services as the correct expenditure category, and might falsely assign these to domestic uses.

IX. QUASI TRANSIT TRADE IN THE FRAME OF THE NEW MANUALS

100. As noted in section II.C, the BPM6 and the SNA 2008 take a firm view on the application of the change in ownership as being the only criterion in determining imports and exports. In the SNA2008 para 26.21 it is explicitly stated that there are no exceptions on this point.

101. Change of ownership is explained in SNA 2008 in para 2.46 and following. The SNA makes a distinction between the legal ownership and the economic ownership of goods and services. The criterion for recording the transfer of goods and services from one unit to another is whether the economic ownership of the good has changed from the first unit to the second. This principle is also applied to large enterprises (See para 2.49), where there may be specialised establishments located outside the country of residence of the head office. SNA 2008 proposes to record deliveries between these establishments when the receiving unit assumes the responsibility, in terms of economic risks and rewards, of the items being delivered.

102. As noted in section II.D, BPM6 and the SNA 2008 also changed the treatment of merchanting, which was a service in BPM5 and SNA93 and is instead included under goods in the new manuals.

103. According to the new manuals, re-exports are recorded as imports and exports of goods, and merchanting is recorded as negative and positive exports.

104. How will the treatment proposed by TF-RoW be affected by the introduction of the new manuals?

105. It is possible that, under the provisions of the new manuals, by adhering to the change of economic ownership criterion and following the new treatment of merchanting, the treatment of ‘quasi transit trade’ might be conceptually simplified as regards the national point of view.

106. Most of the analysed transit trade cases considered seem in fact to easily fall into the new definition of merchanting which will end up including, besides the traditional trade, also large parts of transactions related to global manufacturing.

107. Reading only the provisions of the manuals and assuming that the data sources will adapt to the new definitions of change of ownership, from the national point of view the quasi transit trade problem should not exists anymore.

108. Doubts however exist about the possibility that the data sources related to merchandise trade and merchanting could, in the future, strictly follow the change of the economic ownership principle foreseen by SNA2008.

109. The country of final destination, which is considered an acceptable proxy for the change of ownership criterion in case of goods (BPM6 §4.150), does not reflect the change in ownership concept in the case where the buyer is not resident in the country of final destination, as it is generally the case in 'quasi transit trade' transactions.

110. Hence economic union statistics, as well as national statistics, may continue to struggle with quasi transit trade issues also in the future.

111. When the provisions of the new manuals will be implemented, the solution to the quasi transit trade problem proposed by TF-RoW might need to be adapted, mainly as a consequence of the changes introduced in the treatment of cross-border transactions between affiliated enterprises and merchanting.

X. CONCLUSIONS

112. Quasi transit trade is a pernicious problem for the compilers of trade statistics and balance of payments statistics but has also consequences for the compilers of national accounts.

113. This problem may not be relevant at the reporting country level, where such trade may be treated as simple transit trade, and thus excluded. Quasi transit trade is however included in the national contributions to Eurostat and the ECB, where the discrepancies emerge in the compilation of EU and euro area national accounts.

114. To address this problem, the treatment recommended in the European Union is to impute the difference in valuation either to a branding service or to merchanting activities. The value added implied by the valuation gap is imputed to the country of residence of the importer.

115. Within the framework of the new manuals, transit trade problems would not exists, if the data sources would strictly follow the definitions of change of economic ownership.

116. However, as long as merchandise trade data will be based on customs data and not on the accounts of the traders, this data source can (at best) produce data according to the country of origin and country of final destination, not data according to the seller/purchaser of the goods.

117. Hence it can be expected that economic union statistics, and possibly also national statistics, may continue struggling with quasi transit trade issues also in the future.

XI. QUESTIONS AND ISSUES

118. The following questions are submitted to the attention of the readers:

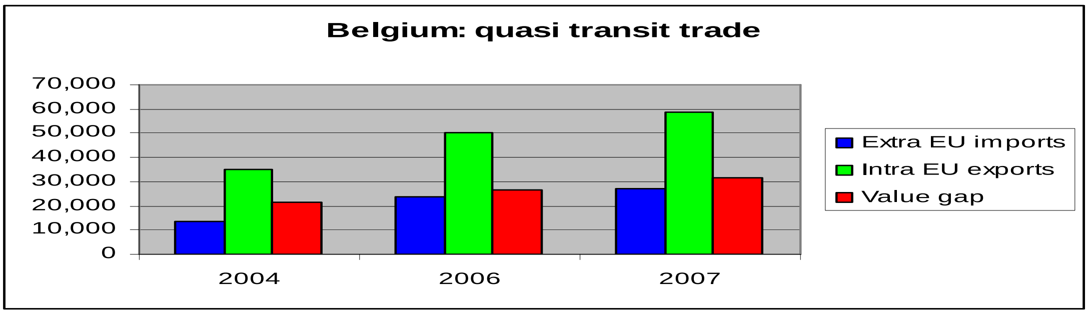
(a) Is "Quasi transit trade" a problem only for the European Union, or does it affect other economic unions and custom areas?

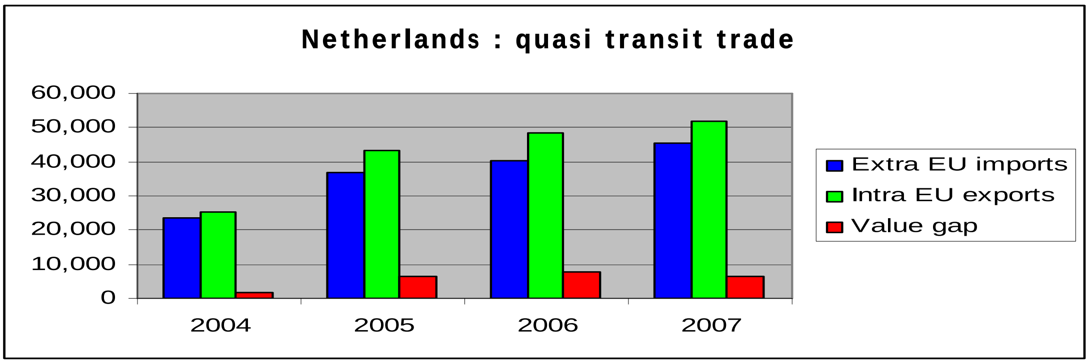
(b) Is "Quasi transit trade" a problem only for economic unions and custom areas, or does it represent a problem also for national economies?

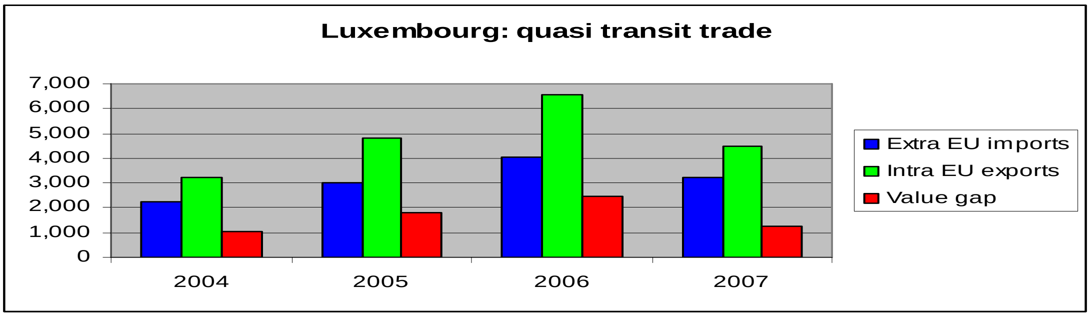
(c) In case of merchandise trade involving subsidiaries of multinational enterprises, do the experts foresee a major change in the way the transactions in goods will be recorded in the future, as a consequence of the drop of the assumption of change of ownership?

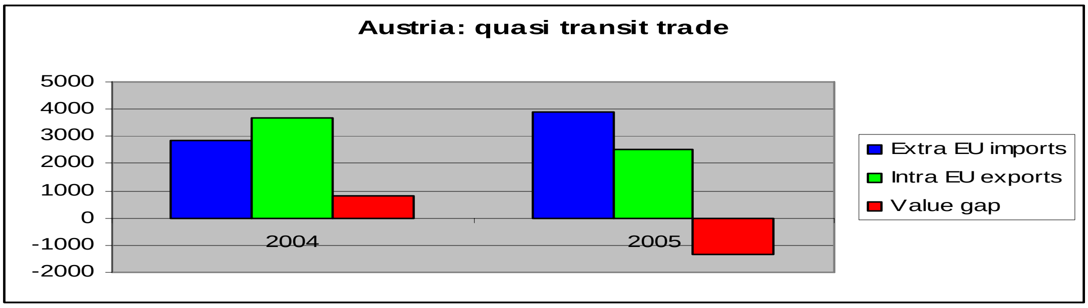
ANNEX I

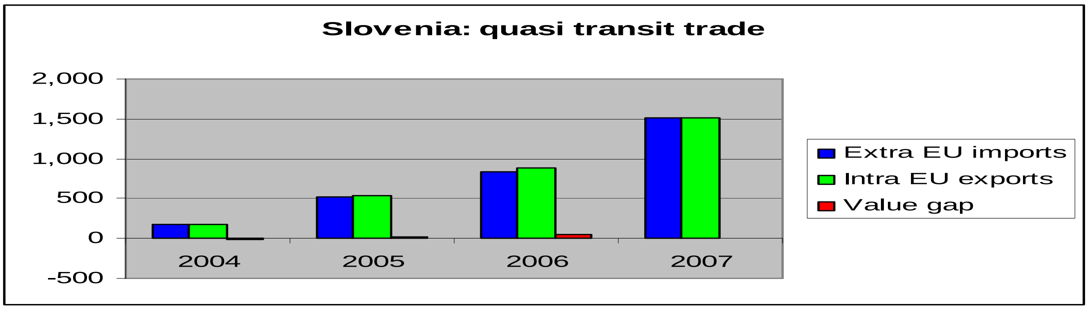
Quasi transit values in some European countries





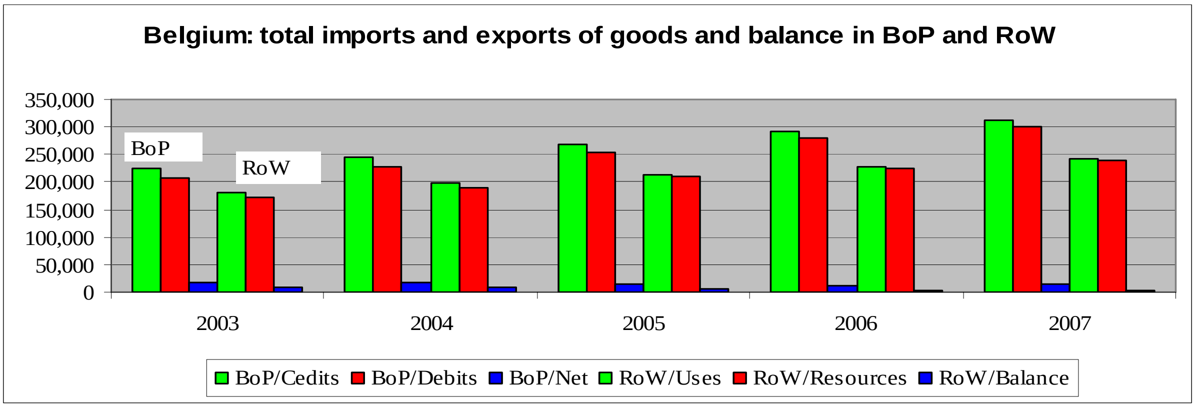


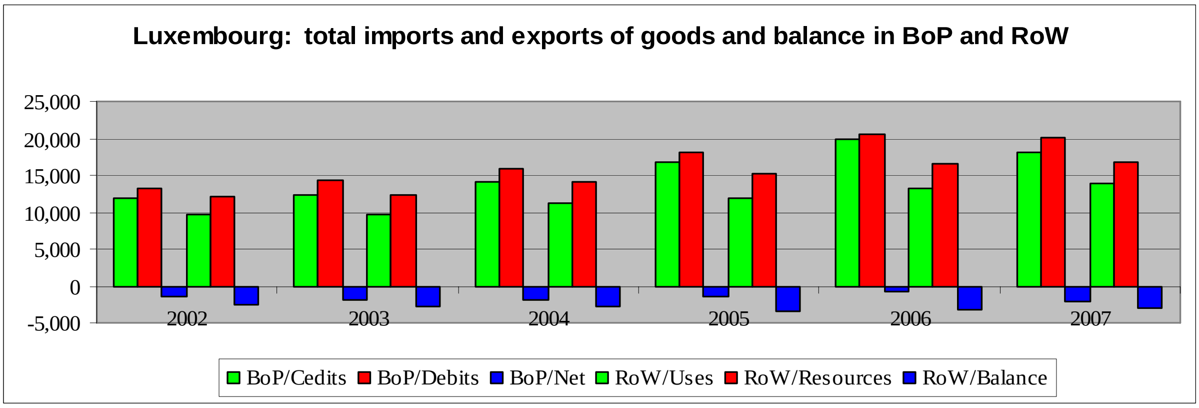


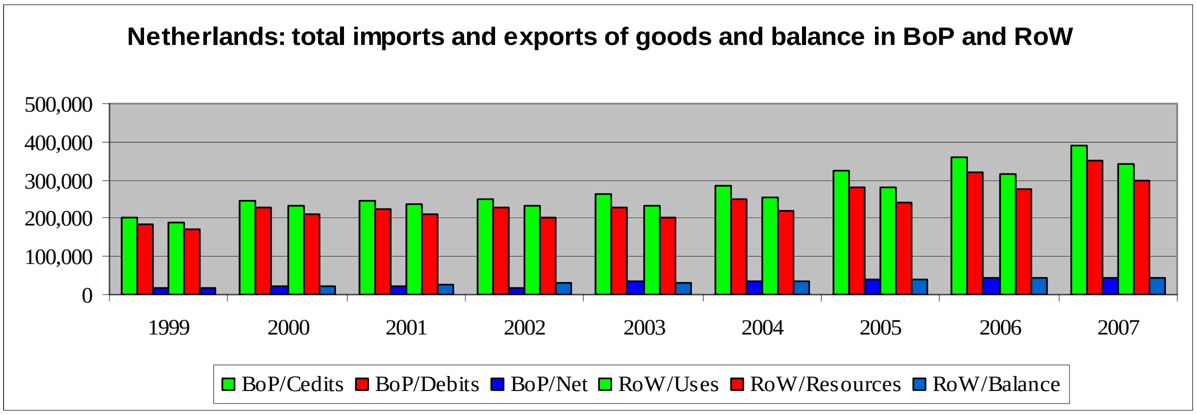

Slovenia: quasi transit trade
2,000
1,500
1,000
500
0
-500
2004
2005
2006
2007
Extra EU imports
Intra EU exports
Value gap

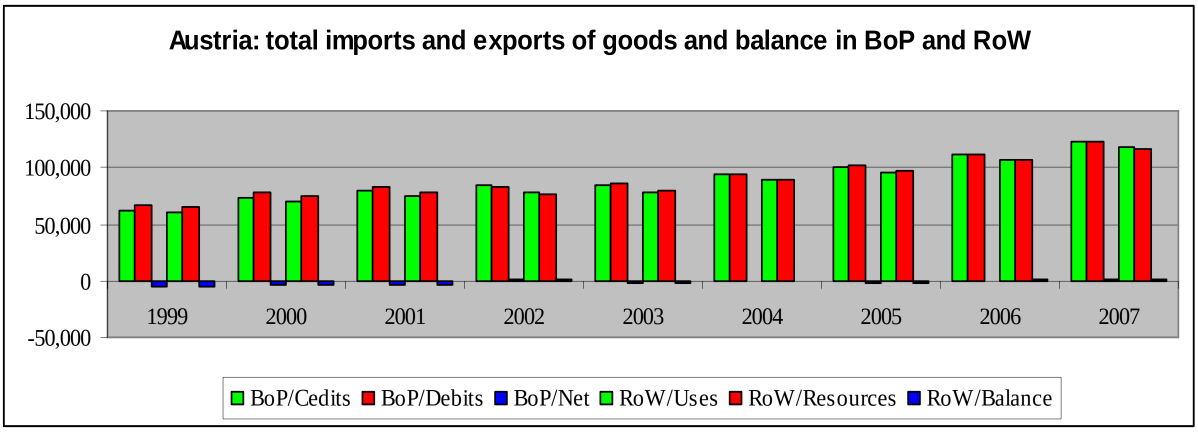
ANNEX II

Total trade in goods (with partner World) in BoP and RoW accounts








Austria: total imports and exports of goods and balance in BoP and RoW
150,000
100,000
50,000
0
-50,000
1999
2000
2001
2002
2003
2004
2005
2006
2007
BoP/Cedits
BoP/Debits
BoP/Net
RoW/Uses
RoW/Resources
RoW/Balance

* * * * *