

**Nineteenth Meeting of the
IMF Committee on Balance of Payments Statistics
Frankfurt, Germany, October 23–26, 2006**

***BPM5* Update: Goods for Processing and Merchanting**

**Prepared by the Statistics Department
International Monetary Fund**

BPM5 Update: Goods for Processing and Merchanting

Two issues subject to considerable Committee discussion over the past two years have been goods for processing and merchanting.

Since the previous meeting of the Committee in June 2005, these issues have been discussed by the Advisory Expert Group of the SNA and recommendations made. Attached is the responses from countries to the AEG recommendations. Unlike for merchanting, for goods for processing there is not an overwhelming consensus for change, although there is a clear majority.

The Committee through written correspondence agreed to the recommendations on merchanting and on good for processing, given conflicting views, agreed to see what the national accountants felt. Relevant background material is attached, including the numerical example on merchanting originally sent to Committee members in May.

Issue 40: Goods for Processing

Date of last entry: October 11, 2006

The comments are those shown on the UNSD web page for issue 40. Like the web page, they are shown from the most recent comment back. The comments have been rearranged by region.

The issue was discussed in the AEG meetings held in December 2004 and July 2005 (see the recommendations at the end of the table.) As of October 11, 2006 there were a total of 44 (with some duplications marked with *), which are shown in the table below. They include both responses to the individual recommendations and the Full Set of Provisional Recommendations (FSPR). Only the latest response received from the National Statistical Offices, Central Banks and institutions have been reckoned with in the totals. A total across the regions is at the end of the table.

The headings:

Agree: specific comment—the comment is specific to issue 40. Reasons are summarized in the Notes column.

Agree: general comment—the comment says, in effect, “We agree with the AEG’s recommendations.”

Agree in principle, but...—the comment notes agreement in principle/theory/concept, but flags concerns (most often about implementation) summarized in the Notes column.

Disagree—Usually with reason(s), which are summarized in the Notes column

Other—comments that are not clear, suggest misunderstanding, or otherwise cannot be put in the earlier columns.

Comment by (date)	Specific comment	Agree General comment	Agree in principle, but ...	Disagree	Other	Notes
North America						
Canada (2005-12-13)					X	Canada opted, at the time of implementation of SNA93, to adopt a gross basis for trade, implicitly imputing an ownership change. Harmonization between BOP and SNA is needed.
USA (2005-11-21)				X		Imputing a change in ownership would allow the input-output statistics to accurately and consistently reflect the underlying production processes.
Total for the region	-	-	-	I	I	

Comment by (date)	Specific comment	Agree General comment	Agree in principle, but ...	Disagree	Other	Notes
Africa						
Tunisia, Bank (2006-09-19)				X		
South Africa, Bank (2006-02-23)				X		Difficulties in the accuracy of input-output statistics, inconsistencies in the production process, international trade statistics and labour/output relationships. Requests some options for greater flexibility in the final update.
Kenya (2005-12-19)		X				
<i>Total for the region</i>	-	1	-	2	-	
Asia-Pacific						
Singapore (2006-08-18)			X			Problems in determination of changes in ownership of the goods, and ensuring of data quality
Korea, Bank (2005-12-12)			X			Difficult to separate goods sent out for processing and goods returned after processing from other movements of goods in records of international trade flows
Australia (2005-12-02)		X				
*(2005-05-09)	[X]					ABS supports a strict change of ownership treatment.
Hong Kong, China (2005-12-01)			X			Harmonization of national accounts with international merchandise trade statistics, difficult to distinguish between goods for processing and other merchandise trade, Compared with merchandise trade statistics, the survey-based estimates of goods for processing may be subject to considerable sampling and non-sampling errors.
Vietnam, Bank (2005-11-30)			X			Difficulty in getting requisite data. See also NSO comment on 2005-05-06.
Pakistan, Bank (2005-11-30)		X				
China, Bank (2005-11-29)		X				

Comment by (date)	Specific comment	Agree General comment	Agree in principle, but ...	Disagree	Other	Notes
Kazakhstan, Bank (2005-11-29)		X				
Indonesia, Bank (2005-05-19)			X			Difficulties in implementation.
Thailand, Bank (2005-05-12)				X		Goods before and after processing could be very different in nature and character and categorized under different commodity groups.
Vietnam (2005-05-06)			X			Guidance required, difficulty in getting data. See also State Bank of Vietnam comments on 2005-11-30.
Total for the region	-	4	6	1	-	
Europe						
Sweden (2006-10-10)		X				
Norway (2006-09-15)				X		Pays too much attention to the wish to avoid imputed ownership changes, relative to the need to describe actual production activities of the concerned units.
*(2005-12-01)				[X]		
Latvia (2006-09-15)		X				
UK (2006-09-15)	X					Implications for national recording should be described.
*(2005-12-01)	[X]					Guidance needed on: <ul style="list-style-type: none"> recording by product and industry, especially when goods are sent abroad to assist statistical and customs authorities to identify such goods Clear definition of processing to distinguish it from assembly. See also comments of NSO on 2006-07-28
Lithuania, Bank (2006-09-14)		X				
Italy (2006-08-18)		X				
*(2005-11-30)		[X]				

Comment by (date)	Specific comment	Agree General comment	Agree in principle, but ...	Disagree	Other	Notes
Lithuania (2006-07-28)		X				See also comments of Bank of Lithuania on 2006-09-14
Serbia and Montenegro (2005-12-22)		X				
France (2005-12-14)	X	X				Recording like a simple exchange of services.
Russia (2005-12-09)		X				
Denmark (2005-12-05)		X				
Netherlands (2005-12-02)		X				
Moldova, Bank (2005-12-01)				X		Goods before and after processing could be very different.
Macedonia, Bank (2005-11-30)				X		Physical alteration of the merchandise occurs.
Croatia, Bank (2005-11-30)	X					Harmonize treatment of the goods sent abroad for processing in various statistics.
Finland(2005-11-30)					X	Should be discussed in the broader context of globalization and merchandising issues.
Slovak Republic (2005-11-30)		X				
Czechoslovakia, Bank (2005-05-12)		X				
<i>Total for the region</i>	3	11	-	3	1	
Western Asia						
Israel (2006-07-31)	X					Guidance required helping identify goods sent abroad for processing in foreign trade statistics.
Turkey (2005-12-02)		X				
<i>Total for the region</i>	1	1	-	-	-	
Central American, Caribbean, and South America						
El Salvador, Bank (2006-01-27)	X					Should be harmonized with the BPM5. For the analysis of the input of product it has to be separated and treated like a single branch of activity

Comment by (date)	Specific comment	Agree General comment	Agree in principle, but ...	Disagree	Other	Notes
Chile, Bank (2006-01-27)				X		Difficult to distinguish the processing services of the raw materials sent to be transformed and the finished products that return to the country
Nicaragua, Bank (2005-12-01)	X					In highly indebted poor countries gross recording could lead to incorrect analyses of some macroeconomic indicators
Brazil (2005-12-01)				X		
<i>Total for the region</i>	2	-	-	2	-	
TOTAL	6	17	6	9	2	

AEG recommendations:

Meeting	Posted	Recommendation
July 2005	2005-09-30	The AEG agreed that the current situation is undesirable. There was a clear majority for never imputing a change of ownership for goods being sent abroad for processing. The same approach of not imputing change of ownership for goods being processed domestically should be adopted in all cases even if it is between related enterprises.
December 2004	2005-01-10	The AEG's views were divided. Good arguments on both conceptual and practical grounds were presented for both the gross treatment as goods and the net treatment as services. This issue is of increasing importance due to the growth in outsourcing. The IMF agreed to prepare a paper covering all aspects of the issue, with pros and cons for both treatments in BOP and SNA. This will form the basis of a written consultation of BOPCOM and AEG members before a final decision is taken.

Background Information—Goods for Processing

1) UNSD Overview of Comments on Goods for Processing

See Appendix.

Individual responses can be found in full at:

<http://unstats.un.org/unsd/sna1993/comments.asp?ID=41&atp=1>

2) 2004 Committee Paper (prepared by ONS)

Available at:

<http://www.imf.org/external/pubs/ft/bop/2004/04-27.pdf>

3) 2005 AEG/Committee Paper (prepared by Anne Harrison et al.)

Available at:

<http://unstats.un.org/unsd/nationalaccount/AEG/papers/m3Goods.pdf>

4) Committee Conclusion (at meeting in Washington, June-July 2005)

“In light of the many conflicting views, with some in favor of always imputing a change of ownership for goods for processing, some for never doing so, and some for retaining the present arrangement, Mr. Edwards suggested that the way to proceed was to see what the national accountants felt and to have the balance of payments harmonize with that position. ... The Committee was evenly divided as to whether imputations should be made in all cases or in none. The Committee decided that additional data on processing fees, materials, and finished goods flows should be provided to show a full picture of processing arrangements.”

5) AEG Recommendation (at meeting in Bangkok, July 2005)

“The AEG agreed that the current situation is undesirable. There was a clear majority for never imputing a change of ownership for goods being sent abroad for processing. The same approach of not imputing change of ownership for goods being processed domestically should be adopted in all cases even if it is between related enterprises.”

Issue 41: Merchancing

Date of last entry: October 13, 2006

The comments are those shown on the UNSD web page for issue 41. Like the web page, they are shown from the most recent comment back. The comments have been rearranged by region.

The issue was discussed in the AEG meeting held in January-February 2006 (see the recommendations at the end of the table). As of October 13, 2006 there were 30 comments (with some duplications marked with *), which are shown in the table below. They include both responses to the individual recommendations and the Full Set of Provisional Recommendations (FSPR). Only the latest response received from the National Statistical Offices, Central Banks and other institutions have been reckoned within the totals. A total across the regions is at the end of the table.

The headings:

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Disagree—Usually with reason(s), which are summarized in the Notes column

Other—comments that are not clear, suggest misunderstanding, or otherwise cannot be put in the earlier columns.

Comment by (date)	Agree Specific comment	Agree General comment	Agree in principle, but ...	Disagree	Other	Notes
North America						
USA (2006-08-18)			X			Split. Agrees with most recommendations, but disagrees with treating the net export as goods; prefers that they continue to be classified as trade in services. ... Many countries will have considerable difficulty in measuring merchancing flows.
Canada (2005-12-13)					X	
<i>Total for the region</i>		-	I	-	I	
Africa						
South Africa, Bank (2006-08-01)		X				

Comment by (date)	Specific comment	Agree General comment	Agree in principle, but ...	Disagree	Other	Notes
Sierra Leone, Bank (2006-07-27)		X				
Total for the region	-	2	-	-	-	
Asia-Pacific						
Korea, Bank (2006-09-29)			X			Valid in theory, but difficult to collect exports and imports data which are related with merchanting, especially holding gains and losses of inventory assets.
Hong Kong (2006-08-01)	X					Comment similar to that on G for P. We agree with adoption of change in ownership principle and support the proposed treatment of recording merchanting in net exports in goods.... Resolve differences with trade statistics before final recommendations. Asks whether the recommendation requires the breakdown into global manufacturing, etc.
*(2005-12-02)				[X]		Comments based on paper to be discussed. Although agree with change of ownership principle, there are practical problems. Therefore would prefer no change.
Macao SAR (2006-07-31)		X				
Vietnam (2006-07-28)	X					
Total for the region	2	1	1	-		Seems to agree but misstates the recommendation.
Europe						
Armenia (2006-10-11)		X				
Sweden (2006-09-15)	X					The recommendation confirms that global manufacturing and global wholesaling and retailing shall result in output value despite no goods having been produced in or even entered the country. This is in line with the present Swedish treatment.
*(2005-07-06)					[X]	Three-page note.
Latvia (2006-09-15)		X				
UK (2006-09-15)		X				

Comment by (date)	Agree Specific comment	Agree General comment	Agree in principle, but ...	Disagree	Other	Notes
Lithuania, Bank (2006-09-14)		X				
Netherlands (2006-08-18)		X				
Moldova, Bank/NBS (2006-08-01)		X				
Bosnia and Herzegovina (2007-07-31)		X				
Poland, Bank (2006-07-28)		X				
Portugal, Bank (2006-07-28)		X				
Lithuania (2006-07-28)		X				
Slovakia, Bank (2006-07-28)		X				
Italy, Bank (2006-07-25)		X				
Switzerland (2006-07-24)	X					.. nevertheless are concerned that national economic characteristics –for Switzerland, the presence of global players in wholesaling and retailing, of high volumes combined with relatively low margins- may lead to strange results when gross accounting is used in a strict way. This may lead to distortions in the external account... Given the fact that these markets are characterized by high price volatility and very active trading, special attention must be paid to the exclusion of holding gains and losses. This issue can be dealt with in the framework of the overall coherence and consistency of the system, with references made to the decision taken by the AEG for financial corporations and the price/volume measurement of financial services.

Comment by (date)	Specific comment	Agree General comment	Agree in principle, but ...	Disagree	Other	Notes
Denmark (2006-07-10)		X				
ECB (2006-08-02)		X				
<i>Total for the region Western Asia</i>	2	14	-	-	-	
Israel (2006-07-31)					X	Does not want global manufacturing to be part of merchandising. We are also in favour of the gross recording of flows of goods in cases of global manufacturing.
Azerbaijan, Bank (2006-07-24)		X				
<i>Total for the region Central American, Caribbean, and South America</i>	-	1	-	-	1	
Chile, Bank (2006-08-01)	X					It is ok to us to classify merchandising in goods with no need to distinguish among global manufacturing, global wholesaling/retailing, and commodity dealing..... It is not clear to us the treatment when this type of transactions produce a loss.
Nicaragua (2006-07-31)				X		...if the imports registry is made on a gross basis in goods, this will distort the economic analysis derived from the balance of payments.
<i>Total for the region</i>	1	-	2	1	2	
TOTAL	5	18	2	1	2	

AEG recommendations:

Corresponding meeting	Date posted	Recommendation
Jan-Feb 2006	2006-04-07	(a)-(g) The AEG agreed that all three types of merchandising (global manufacturing, global wholesaling/retailing, and commodity dealing that is settled by trade in commodities) should be recorded as follows: “The acquisition of goods is recorded as an import (shown as a negative export) by the global manufacturer, global wholesaler/retailer or commodity dealer (merchant). The subsequent resale of the goods is recorded as exports by the

merchant. The difference between the two is shown as net exports of goods by the merchant. The merchant's output is recorded as a wholesale/retail service within the national accounts, exclusive of holding gains/losses while the goods are held (in inventory) by the merchant.”

The inclusion of the wholesale/retail margin and the holding gains/losses accruing while in inventory in the gross value of exports by the merchant is consistent with the measurement of supply and use of these margins in the SNA and the BPM.

IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS

MERCHANTING:

**SOME NUMERICAL EXAMPLES OF THE PRESENT AND PROPOSED TREATMENTS IN BALANCE
OF PAYMENTS AND NATIONAL ACCOUNTS**

**Prepared by Hidetoshi Takeda, Statistics Department
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May 2006

The views expressed in this paper are those of the author and should not be attributed to the International Monetary Fund, its Executive Board, or its management.

Some Numerical Examples of the Present and Proposed Treatment of Merchanting in Balance of Payments and National Accounts

Introduction

At the Advisory Experts Group on National Accounts (AEG) at its fourth meeting held during January 30-February 8, 2006, the outcome on merchanting was that; (i) the acquisition of goods is recorded as import (shown as a negative export), (ii) the subsequent resale of the goods is recorded as exports by the merchant, (iii) the difference between the two is shown as net exports of goods by the merchant, and (iv) the merchant's output is recorded as a wholesale/retail service within the national accounts, exclusive of holding gains/losses while the goods are held (in inventory) by the merchant.

The subsequent consultation with the IMF Committee on Balance of Payments Statistics (BOPCOM) indicated that the AEG outcome was an acceptable compromise. Several members noted the usefulness of an example. So, the following example illustrates the basic principle for recording of merchanting transactions in balance of payments and national accounts based on the AEG's outcome, contrasting the present and proposed treatments.

Balance of Payments

All transactions are assumed to occur within the recording period, with the goods physically moving from Country B to Country C directly, and not entering into Country A. It is assumed that all transactions are settled by currency and deposits.

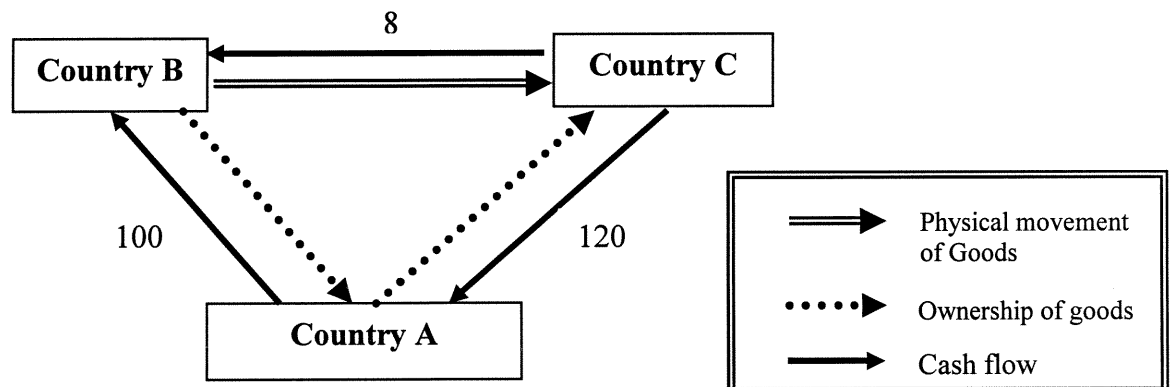
Goods purchased by a resident of country A from a resident of B 100

Goods that A resold to a resident of C 120

- Cost of goods sold: 102
- Holding gain : 2

Transportation and insurance on physical export of the goods in question from country B to Country C 8

- Transportation : 5
- Insurance : 3



Present treatment			Proposed treatment (net recording in goods)		
Country A	Credit	Debit	Country A	Credit	Debit
			Goods	20	
			Goods under merchanting	20	
			Goods acquired under merchanting	-100	
			Goods sold under merchanting	120	
Services					
Merchanting	20				
Currency & deposits		20	Currency & deposits		20
Country B			Country B		
Goods	100		Goods	100	
Services			Services		
Transportation	5		Transportation	5	
Insurance	3		Insurance	3	
Currency & deposits		108	Currency & deposits		108
Country C			Country C		
Goods		120	Goods		120
Services			Services		
Transportation		5	Transportation		5
Insurance		3	Insurance		3
Currency & deposits	128		Currency & deposits	128	
Global balance¹			Global balance		
Goods	100	120	Goods	120	120
Services			Services		
Transportation	5	5	Transportation	5	5
Insurance	3	3	Insurance	3	3
Merchanting	20				
Currency & deposits	128	128	Currency & deposits	128	128

¹ Merchanting is recorded only in the country A (the exporter of merchanting services). This causes global imbalances in goods and services as no debit entry in merchanting is recorded.

*National accounts***Country A: current treatment**

Uses				Resources	
	Rest of the world	Total economy		Total economy	Rest of the world
I. External account of goods and services			Imports of goods and services		0
	20		Exports of goods and services		
	-20		External balance of goods and services		
I. Production account			Output	18	
		18	Net value added		
II.4. Use of income account		18	Net saving		
	-20		Current external balance		

Changes in assets			Changes in liabilities and net worth		
III.1. Capital account			Net saving	18	
			Current external balance		-20
	-20	-2	Change in inventories		
		20	Net lending/borrowing		
III.2. Financial account	-20	20	Net acquisition of financial assets		
III.3.2. Revaluation Account		2	Nominal holding gains/losses on inventories		

Country A: proposed treatment

Uses				Resources	
	Rest of the world	Total economy		Total economy	Rest of the world
I. External account of goods and services*	20 (= -100+120) -20		Imports of goods and services		
			Exports of goods and services		
			External balance of goods and services		
I. Production account		18	Output	18	
			Net value added		
II.4. Use of income account	-20	18	Net saving		
			Current external balance		

Changes in assets			Changes in liabilities and net worth		
III.1. Capital account	-20	-2 20	Net saving	18	
			Current external balance		-20
			Change in inventories		
			Net lending/borrowing		
III.2. Financial account	-20	20	Net acquisition of financial assets		
III.3.2. Revaluation Account		2	Nominal holding gains/losses on inventories		

* As the Rest of the World (ROW) column is recorded from the perspective of ROW, rather than compiling economy (country A), an alternative approach would be to show imports (100) in the row of "imports of goods and services" and exports (120) in the row of "exports of goods and services". This would be consistent with recording of country B and C.

Background Information—Merchanting

1) UNSD Overview of Comments on Merchanting

See Appendix.

Individual responses can be found in full at:

<http://unstats.un.org/unsd/sna1993/comments.asp?ID=42&atp=1>

2) 2006 AEG/Committee Paper (prepared by Hidetoshi Takeda)

Available at:

<http://unstats.un.org/unsd/nationalaccount/AEG/papers/m4Merchanting.pdf>

3) AEG Recommendation (at meeting in Frankfurt, January-February 2006)

“The AEG agreed that all three types of merchanting (global manufacturing, global wholesaling/retailing, and commodity dealing that is settled by trade in commodities) should be recorded as follows:

“The acquisition of goods is recorded as an import (shown as a negative export) by the global manufacturer, global wholesaler/retailer or commodity dealer (merchant). The subsequent resale of the goods is recorded as exports by the merchant. The difference between the two is shown as net exports of goods by the merchant. The merchant's output is recorded as a wholesale/retail service within the national accounts, exclusive of holding gains/losses while the goods are held (in inventory) by the merchant.

“The inclusion of the wholesale/retail margin and the holding gains/losses accruing while in inventory in the gross value of exports by the merchant is consistent with the measurement of supply and use of these margins in the SNA and the BPM.”

4) Extract from Manik Shrestha's E-mail to Committee Members (February 22, 2006)

“Merchanting: The AEG agreed that for the three types of merchanting discussed in the paper - global manufacturing, global wholesaling/retailing, and commodity dealing that is settled by trade in commodities- the acquisition of goods is recorded as an import (shown as negative export) by the merchant. The subsequent resale of goods is recorded as an export by the merchant. The difference between the two is shown as net exports of goods by the merchant. The merchant's output is recorded as a wholesale/retail service within the national accounts, exclusive of holding

gains/losses while the goods are held (in inventory) by the merchant. (please see pages 11-12 of the AEG report)

“There was considerable discussion leading up to this agreement among AEG members, as the various issues that were raised in the paper were debated in some depth. The outcome was a compromise among those that were concerned about the implications of gross reporting for the trade data, those concerned about the change of ownership principle and those that saw a service being provided.

“Feedback requested: We would welcome BOPCOM members’ views on whether this outcome from the AEG is acceptable.”

5) Extract from Manik Shrestha's E-mail to Committee Members on Results of the Electronic Consultation (March 23, 2006)

“... I can also report the outcome of your responses concerning the treatment of merchanting agreed at the AEG meeting in February 2006. I received seven responses, six of which considered that the AEG outcome is an acceptable compromise. Several members also noted the usefulness of a numerical example on the AEG outcome covering both balance of payments and national accounts statistics. IMF staff will put together such an example, which we will circulate to you.”