

How to adequately measure the manufacturing processing services and merchanting fees

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14.94. As noted above, some care is needed in using customs data to estimate processing fees. Certainly crude estimates that take the difference between import material inputs and exported (processed) goods should be avoided as such estimates may, for example, include the value provided by intellectual property owned by the principal contracting the processing service (see also Box 3).

14.95. In practice therefore, because of limitations with customs data, countries typically rely on business surveys (albeit with one eye on customs statistics for anecdotal checks).

Reasons for differences between the value of goods before and after processing compared to the manufacturing service (i.e. the processing fee)

Sale of goods after processing in the economy of the manufacturer or to a third economy; in such cases, the value of the processed goods that are returned to the owner is diminished by the value of goods sold to the economy of the manufacturer or to a third economy, the latter being separately recorded as exports by the owner of the goods.

Incorrect assessment of the values of goods sent and returned; since there is no sale or purchase of the goods, the values recorded by customs at the time of import and re-export are notional values, whose balance probably does not differ by the amount of the processing fee received (resulting in balance of payments errors and omissions). Also, these values may be assessed differently by the customs authorities of the economy of the sender and the customs of the economy of the receiver.

Recording of the goods before and after processing across different periods.

Inclusion of holding gains or losses; holding gains or losses accrue to the owner of the goods. However, it is likely that the changes in the value of the goods while in the possession of the manufacturing company could be included in the value of the goods and hence be mistaken for part of the manufacturing services. For example, if the price of oil changes substantially after the manufacturer takes possession of the consignment, then the value of oil after manufacturing would include the price increase, the manufacturing services, and the value of other inputs.

Scrapping of the goods while in the possession of the manufacturer; these goods may be included in the value of goods sent but excluded in the value of goods returned.

Inclusion of manufacturer's overheads in the value of the goods after processing;* the manufacturing services should include overhead costs only to the extent they relate to the processing of the goods.

Value of brand names in goods after processing; for example, a shoe manufacturer's logo adds value to the goods after processing. However, this value should not be included in the manufacturing services.

Inclusion of the value of materials sourced from the economy of the manufacturer; materials procured by the processor as inputs in the production process and that may be sourced from the economy of the manufacturer (or sourced from third economies and then transported directly to the economy of the manufacturer) are included in the overall cost of production. It may be that only a portion of their value is reflected in the manufacturing services, the rest being inputs in other processing activities including on its own.

** Overhead costs include expenses related to the operation of a business. Most commonly, overhead costs include accounting fees, advertising, depreciation, insurance, interest, legal fees, rent, repairs, supplies, taxes, telephone bills, travel, and utilities costs.*

Source: Balance of Payments and International Investment Position Compilation Guide, BPM6CG

14.96. It should be noted that some countries still rely, to some degree, on the International Transactions Reporting System (ITRS). For example, France notes that it is able to identify and capture over 80% of merchanting through this system (direct reporters). However, even in this case, surveys are required and contacts are often made with direct reporters to ensure accuracy and quality. In addition, there are many other limitations of the ITRS (see for example BPM6 CG paras. 4.73-4.78), which has seen many countries move away from using this source for their balance of payments compilation.

Box Add.4

The Situation in the United Kingdom Office for National Statistics - Short-term Solution

The move to BPM6 saw the ONS add a new question to their International Trade in Services Survey to capture manufacturing services on the physical inputs owned by others.

New Question

For imports: Include the fees charged by foreign businesses for the processing, assembly, labelling and packing of goods overseas that are owned by your business.

For exports: Include services such as processing, assembly, labelling and packing of goods that are owned by another foreign business.

In addition the ONS is investigating other possible avenues:

- Introducing a new separate survey;
- Matching the ONS business register to enterprises in the IMTS database;
- Using NoT codes for Intrastat transactions to make estimates; and/or
- Use partner country (mirror) information.

The **Israeli Central Bureau of Statistics (CBS)** measures manufacturing services as follows:

Manufacturing services on physical inputs by abroad subcontractor

Israel companies which produce goods through abroad subcontractors, deal with product development, design, technical specifications, marketing, etc. while the actual production is carried out by abroad subcontractors (including intermediate stages).

If your company produced goods through abroad subcontractors in 2011, please complete the following data:

Price of the goods abroad:

	Country	Country	Country	Total	Out of which:	
					Payments to related enterprises	Payments to enterprises which are not related
Value of manufacturing services abroad (the total sum which was transferred to the subcontractor abroad for the goods produced)						
Value of goods dispatched to nonresidents for manufacturing						
Price of the goods purchased abroad and which were transferred to the abroad subcontractor, for the production process, without passing through Israeli borders						

Sales of goods abroad

	Country	Country	Country	Total	Out of which:	
					Revenue from related enterprises	Revenue from enterprises which are not related
Value of manufactured goods sold abroad on behalf of your company						

Returning goods to Israel:

Value of goods which were produced by abroad subcontractors during 2011 and which were returned to Israel after the manufacturing process.	
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- Do you also manufacture your own goods in your company (not through subcontractors)? ☐ Yes ☐ No
- Is the raw materials inventory or the inventory of products in process, connected with the production by the abroad subcontractors, recorded in your company's financial statement? ☐ Yes ☐ No

14.97. In **Belgium** manufacturing services are collected in surveys F01DGS and F02CMS while *merchandising* is collected in survey F01MER. While legally the National Bank of Belgium can include all national enterprises in their surveys, the major challenge is in identifying relevant enterprises, as no specific activity code is available.

14.98. For manufacturing services, the following instructions are given to enterprises completing the questionnaires:

Code A2300 - Processing of goods (manufacturing services) on goods owned by others, if the movement of the goods before or after processing has not been declared as such in Intrastat or customs:

- involves the processing of goods on a contractual base and with remuneration: goods are imported and are re-exported again (to the country of origin or another country) after processing in Belgium (active processing) or goods are exported and re-imported after processing abroad (passive processing). Only the service performance (the fee) has to be declared. It only includes the processing as far as **the manufacturer is not the owner of the goods and the movement of the goods is not declared or not registered** by your company either in the Intrastat or customs declaration (Extrastat) with **transaction code 4 or 41** (transactions with a view to processing) **and/or transaction code 5 or 51** (transactions after processing).
- Example: If a non-resident, owner of the goods, uses a tax representative or a direct VAT registration in Belgium, and the processing work is done by a resident manufacturer, this is considered as a processing transaction between a resident and a non-resident.

Code A2301 - Processing of goods (manufacturing services) on goods owned by others, if the movement of the goods before or after processing has been declared as such in Intrastat or customs.

- It involves the processing of goods on a contractual base and with remuneration: goods are imported and are re-exported again (to the country of origin or another country) after processing in Belgium (active processing) or goods are exported and re-imported after processing abroad (passive processing). **Only the service performance (the fee) has to be declared.** It only includes the processing as far as **the manufacturer is not the**

owner of the goods and the movement of the goods is registered in the Intrastat or customs declaration (Extrastat) with **transaction code 4 or 41** (transactions with a view to contract processing work) and/or **transaction code 5 or 51** (transactions after contract processing work).

14.99. In **Sweden**, Statistics Sweden (SCB) collects manufacturing services data in question 104 of their International Trade in Services Survey:

104 Manufacturing services on physical inputs owned by others

Manufacturing services on physical inputs owned by others covers processing, assembly, labelling, packing, and so forth undertaken by enterprises that do not own the goods concerned. The manufacturing is undertaken by an entity that receives a fee from the owner. Since the ownership of the goods does not change, no general merchandise transaction is recorded between the processor and the owner. The value of fees charged for manufacturing on physical inputs owned by others is not necessarily the same as the difference between the value of goods sent for processing and the value of goods after processing. Reconstruction of vessels, aircraft and other transport equipment is included in this item.

Excluded are: the assembly of prefabricated construction (included in SCB code 412, Construction and installation services abroad or SCB code 413, Construction and installation services in Sweden). Labelling and packaging incidental to transport (included in SCB code 173 and 193, Other supporting and auxiliary transport services).

14.100. In **France**, the Banque de France (BdF) provides the following guidance to respondents where “manufacturing services on physical inputs owned by others” is defined as follows:

It encompasses all industrial subcontracting transactions (processing, assembly, labelling, packing, and so forth), operated by a processor that is not the owner of the processed goods. The manufacturing is undertaken by an entity that is paid a fee by the owner. The ownership of the goods does not change and goods are sent back to the economy or their owner or to a third economy after their processing.

Examples of processes include oil refining, liquefaction of natural gas, nuclear reprocessing, assembly of clothing and automobile, transformation of minerals and metals.

The fee charged for the manufacturing services by the processor is only included in this item. The fee may not be equal to the discrepancy between the value of the goods sent for manufacturing and their value after the processing.

Excluded from this item are the assembly of prefabricated constructions, which are included in construction and labelling and packing incidental to transport which are included in transport services.

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