Annex II

National accounts methodological and practical improvements

Project 2:
Globalisation issues in foreign trade with goods and services

Czech Republic

GRANT AGREEMENT NUMBER 20101.2010.004-2010.208
FOREIGN TRADE in Czech National Accounts

(ESA 2010)

Methodology guide

(Up-date May 2014)

Compiled by the Czech Statistical Office, Annual and Quarterly National Account Departments

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Foreword

The methodology guideline represents the comprehensive description of all sources and methods underlying estimates of foreign trade in the national accounts in the Czech Republic. It also describes the cooperation between the Czech Statistical Office and other institutions related to the compilation of the exports and imports, namely with the Czech National Bank, responsible for the compilation of the balance of payment.

The guideline explains the whole procedure of compiling the exports and imports of goods and services according to the European System of Accounts 2010 (ESA 2010) in the Czech Republic.

Since the major data sources are based on the cross-border movements (the Foreign trade Statistics) but the system of national accounts follows the concept of change of ownership between residents and non-residents, rather than physical movements of goods, this guideline is focused mainly on transition of the initial data sources to data complying with the change-of-ownership principle. It also contains all other methodical adjustments that ensure the correct and exhaustive recording of relations between the Czech economy and the rest of the world. The recording of goods and services are covered in coherence in the guide as both issues are closely related and cannot be dealt separately.

As the ESA 2010 introduced many significant changes in the recording of these relations, such as new approach to goods sent abroad for processing or to merchanting, the text is covering these issues in great detail. It also contains useful Appendixes explaining in detail some methodical or practical issues concerning the recording of export and import.

This draft represents a present state of preparation works on the guideline. Many methodical issues has already been covered and discussed (especially those related to changes resulted from the ESA 2010 and to the globalisation phenomena). The issues already discussed are as follows:

- Goods sent for processing and processing services,
- Quasi-transit trade and other issues related to the foreign traders in the Foreign Trade Statistics (non-resident’s transactions in the data sources).

There are also some issues yet-open and waiting to be describe, as the highlighted parts of the texts indicate (mostly those where no change is demanded by the introduction of the ESA 2010).

However, there are still some issues that will be further discussed, such as merchanting, transport services or operating lease, in order to decide the correct recording in the Czech national accounts under the ESA 2010.

The final compilation and publication of the guide is scheduled for the end of the year 2013. However, it is going to be updated regularly in the future, when it is demanded by a significant change in methodology or procedure.
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1. Introduction

1. The main objective of this paper is to provide a complex view on export and import methodology in system of national accounts (SNA)\(^1\) according to revised standard ESA 2010 in the Czech Republic.

2. Throughout the text exports and imports of goods and services are considered to be only the **change of ownership between resident and non-resident**, which has parallel impact on financial flows. This is how SNA concept ensures consistency with other macro aggregates.

3. The foreign trade statistics (FTS) is considered in this paper as a cross-border statistics, following merely the concept of physical movements of goods across the borders. It is based on the customs principles of the international merchandise trade statistics, i.e. Intrastat and Extrastat in the Czech practice.

4. Foreign trade is in this text understood as a trade of goods and services. Fundamental principles of foreign trade compilation are illustrated on the following scheme.

---

**Figure 1 Fundamental principles scheme of foreign trade compilation in the NA**

Data source 1
(Foreign Trade Statistics)

Data source 2
(Export and import of services statistics)

Primary estimate of foreign trade in SNA concept

Verification and balancing

Final estimate of foreign trade in SNA concept

Data source 3
(external estimates, e.g. from CNB)

Conceptional adjustments required by ESA 2010 standard

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\(^1\) This concept is almost identical with balance of payment concept according to 6th Balance of Payment Manual (BPM6).
2. Data sources for foreign trade compilation

2.1. Goods

2.1.1. Foreign trade statistics – Intrastat and Extrastat

5. Foreign trade statistics (FTS), published monthly, is conceptually based on former custom statistics. Its aim is to approximate changes in ownership of goods by following the physical movements of goods across the borders, which is quite easily measured.

6. There are two main data sources from which the FTS with its cross border concept is compiled: Intrastat and Extrastat.


8. As it was mentioned above, this system of collection of data is based on recording of the physical movements of goods across the borders. That is why it meets mainly the data needs for the FTS based only on cross-border concept.

9. However, the ability to capture the change of ownership is limited. For example, if the change of ownership occurs within the borders or outside the borders, it is not covered by these data sources. Accordingly, Intrastat and Extrastat do not distinguish implicitly between residents and non-residents reporting to the Intrastat and Extrastat, since both groups can carry out transactions across the borders and are obliged to report them. So in some cases the FTS contains transactions that should not be included into an export- or import-performance of the domestic economy.

10. In any case, Intrastat and Extrastat are the fundamental data source for any estimate of foreign trade in the Czech NA. If these data are adjusted it is done in order to follow the ownership concept required by the SNA or ESA. Thus only transactions related to the Czech economy are taken into account.

2.1.2. Value Added Tax declarations and National Concept of Foreign Trade

11. Firstly, the value added tax declarations (VAT declarations/return/statements) are used as the most important data source for Intrastat\(^2\) data control and for grossing-up\(^3\) in the foreign trade statistics data compilation. For these purposes, following data entries are used:
   
   - Dispatches of goods to other EU countries and export to countries outside EU
   - Acquisition of goods from other EU countries and import from countries outside EU

12. Secondly, VAT declarations serve as fundamental data source for the transition from cross-border FTS to national concept of foreign trade, which follows better the ownership principle.

13. VAT data are used for the estimation of transactions carried out by non-residents in the internal market of the Czech Republic. The trade between residents and non-residents that occurs within the Czech borders cannot be recorded in the FTS, whereas cross-border transactions without any change in ownership are recorded in the FTS. Thus the FTS must be adjusted for all these transactions in order to better estimate the real change in ownership between residents and non-residents. And national concept of foreign trade takes into accounts these adjustments (see Chapter 4.1.2).

\(^2\) E.g. control of respondent duty or total value reported by entities to foreign trade statistics

\(^3\) Grossing-up of entities below threshold and non-response.
14. VAT data source offers the entries that capture directly the change of ownership in the territory of the domestic economy (i.e. purchase or sale by non-residents), which represent the real trade between residents and non-residents and thus must be considered as export and import for the Czech economy. The most important entries from the VAT statements are:
- Received taxable supplies (purchases) with place of supply in the Czech Republic
- Realised taxable supplies (sales) with place of supply in the Czech Republic

15. Generally, the data from VAT declarations are available monthly (about +50 days after the end of term). Non-resident units are mostly monthly VAT payers⁴. Therefore first sufficiently complete VAT data for national concept of foreign trade, suitable for quarterly national accounts estimated, are available about t+80 days after the end of quarter. All earlier national concept estimates are more or less based on VAT estimates.

2.1.3. Other data sources

Apart from Intrastat, Extrastat and VAT declarations there are also other data that are crucial either for the adjustment of these fundamental data sources or for the complete coverage of export and import of goods. These sources are as follows.

Prům 2-01, Prům 1-12

17. Production of selected commodities (e.g. CPA26) is used as an additional data source for national concept of foreign trade. This adjustment is conducted in commodity groups which are seriously affected by quasi-transit transaction of non-residents in the Czech territory and thus the linkage between production and export in foreign trade statistics is significantly weakened.

18. Data are used for estimate of export of selected commodities production via non-residents (see 4.1.2.2), as well as a supporting data source for setting parameters in national concept of foreign trade when cross-border transactions reported by non-residents are adjusted.

Statistical survey on import and export of services (ZO 1-04)

19. Estimation serves as a data source for merchanting values and goods purchased at the border.

Czech National Bank (original data source – Czech Post)

20. CNB serves for CZSO as a source of data about dispatches below any the threshold on the import of goods side (that are not even in grossing-ups of Intrastat). CNB gets the data from the Czech Post.

NA department estimates

21. For smuggling of drugs, tobacco, fuels and property rights abuse etc.

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⁴ Since 1 January 2013 all VAT payers in the Czech Republic are monthly payers, unless they meet the exclusivity conditions defined in §99a of the VAT Act (e.g. turnover per year less than 10 CZK million). As for the majority of non-residents registered for VAT in the Czech Republic, they are monthly payers. However until 31 December 2012 they were mostly quarterly VAT payers.

⁵ From 1 January 2014 all VAT payer with the turnover above 6 CZK million will be obliged to submit their VAT declaration via on-line e-administration. It can be assumed that this change will increase the completeness of the first data input.
2.2. **Services**

2.2.1. **Statistics of exports and imports of goods and services (ZO1-04)**

22. Foreign trade services survey is conducted by the Czech Statistical Office as a *Survey on services import and export survey (ZO 1-04)*. This quarterly survey includes all enterprises which import and export services with the exception of tourism. Respondents are chosen according to mixture of criteria (economic activity CZ-NACE, number of employees, sales), with maximum number of respondents up to 5 000 units. Since 2011, non-response, which represents approximately 10% in the survey, has been grossed-up by method based on VAT declarations.

23. ZO 1-04 survey does not include units in tourism, as well as financial services provided by financial institutions. Furthermore, survey does not include imputed rent of non-resident units in their dwellings in the Czech Republic.

2.2.2. **Other data sources**

**Czech National Bank**

24. *Tourism* (business and private trips) are estimated by the CNB. As these data already cover also transactions that are considered as *illegal*, these transactions are detached from data on tourism – namely prostitution (E) and alcohol smuggling (I). This illegal trade is estimated by the CZSO on the basis of external sources.

25. *FISIM and other financial services* (in addition to those surveyed by ZO 1-04) are supplied by the CNB. This data source constitutes most of financial services.

26. *Insurance and reinsurance* services are also partly provided by the CNB.

**Ministry of Finance of the Czech Republic**

27. *Customs duty* (for import of services) – quarterly, yearly specification by NA estimate (according to bank stocks).


**NA department estimates**

29. *Notion units* are estimated by the NA departments and for technical reasons are handed over for ZO 1-04 processing, which means it is incorporated in ZO 1-04 table sets

30. *Illegal trade*. 


3. Timetable and revision policy

3.1. Principles of quarterly and annual compilation

31. The basis for the foreign trade compilation in the SNA is a quarterly estimate published 90 days after the end of a quarter (T+90 days).

32. The main aspect of the revision policy is availability of the FTS and VAT data for the computation of national concept of foreign trade, as the main data source for the compilation of export and import in NA. The FTS is available monthly, about 30 days after the end of the month. VAT statements are also available monthly but after considerably longer period. The so called second VAT data entry, which Central Financial and Tax Directorate (CFTD) gives to CZSO (i.e. approx. 80 days after the end of the month), is the first sufficiently complete source for non-residents' VAT data and thus for reliable national concept of foreign trade estimates. This data entry is applicable for quarterly national accounts published 90 days after the end of reference quarter (T+90 days).

33. Quarterly national accounts department initiates the special compilation of national concept of foreign trade each quarter after VAT data in order to assure the most recent and complete data entry for the QNA estimates of a quarter. Usually, after the T+90 days computation of import and export, there are no more revisions until an annual revision of a given year.

3.2. Quarterly compilation of foreign trade

Goods:

For the compilation of the foreign trade in goods for the national accounts, the schedule is as follows:

34. T+40 days – flash estimate
   - national concept of foreign trade on gross basis (incl. goods sent for processing)
     - residents' goods are based on the monthly FTS data,
     - non-residents' data on transactions in the domestic market are based on VAT data for first two months of a given quarter and estimates and on industrial statistics,
     - data are processed along the standard compilation of the FTS on the 21st working day,
   - goods for processing excluded from national concept is defined according to the Nature of Transaction in Intrastat and Extrastat.

35. T+60 days
   - national concept of foreign trade on gross basis (incl. goods sent for processing)
     - residents' goods are based on the monthly FTS data,
     - non-residents' data on transactions in the internal market are based on estimates.
   - goods for processing excluded from national concept on gross basis is defined according to the Nature of Transaction in Intrastat and Extrastat,
   - compilation takes place in advance, before standard monthly compilation of national concept and the FTS – the special compilation of national concept of foreign trade takes place around the 51st calendar day after the end of quarter – in connection with VAT data delivery.

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6 National concept of foreign trade is published by the CZSO monthly, about 30 days after the end of each month. However, these first estimates of national concept are based on VAT data estimates.
7 VAT data are available for the first month of the quarter (2. data entry) and the second month of the quarter (1. data entry + grossing-ups). The third month is estimated.
8 VAT data are available for the first month of the quarter (3. data entry) and the second month of the quarter (2. data entry) and the third month (1. data entry + grossing-ups).
36. T+90 days

- national concept of foreign trade on gross basis (incl. goods sent for processing)
  - residents’ goods are based on the monthly FTS data,
  - non-residents’ data on transactions in the internal market are based on VAT data,
- goods for processing excluded from national concept is defined according to the Nature of Transaction in Intrastat and Extrastat,
- compilation takes place in advance, before standard monthly compilation of the FTS – special compilation of national concept of foreign trade takes place around the 81st calendar day after the end of quarter – in connection with VAT data delivery. These figures are usually no more revised until annual revision.

Figure 2 Compilation of monthly VAT for the national concept of foreign trade – 2nd data entry

<table>
<thead>
<tr>
<th>Quarter Month</th>
<th>1M</th>
<th>2M</th>
<th>3M</th>
<th>1Q</th>
<th>2Q</th>
<th>3M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Week</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

- 18th calendar day - 1st VAT data entry for month 3M in 1Q
- 19th-20th calendar day - 1Q estimation for NA
- 20th-21th calendar day - handover of data for QNA
- 25th calendar day: non-residents submit the VAT declaration for 1M in 1Q to the tax authority

Figure 3 Scheme of quarterly revision policy of export and import of goods

- Preliminary version for balancing (August 28 Y+1)
- Preliminary version of CNA (September 30 Y+1)
- Semidefinite version of CNA (March 30 Y+2)
- Definitive version of CNA (March 30 Y+3)
- Balancing of preliminary version of SNA
- Balancing of semidefinite version of SNA
- Balancing of definitive version of SNA

Timetable is stated approximately.

For monthly estimates – see Figure 11.

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9 The figures from this special compilation are also used in balance of payment.
10 VAT data are available for the first month of the quarter (4th data entry) and the second month of the quarter (3rd data entry) and the third month (2nd data entry).
Figure 4 Availability of VAT data, national concept of foreign trade compilation and quarterly national accounts estimate

<table>
<thead>
<tr>
<th>Calendar month</th>
<th>VAT declaration and delivery of data to CZSO</th>
<th>National concept of foreign trade</th>
<th>Quarterly National Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>1. delivery for 11M 2. delivery for 12M VAT return for 12M</td>
<td>2nd VAT data entry is sufficient for extra compillation for QNA</td>
<td>estimate of QHDP for Q</td>
</tr>
<tr>
<td>February</td>
<td>1. delivery for 13M 2. delivery for 11M VAT return for 1M</td>
<td>Feb 20 4Q</td>
<td>Dec 20 December fully estimated</td>
</tr>
<tr>
<td>March</td>
<td>1. delivery for 1M 2. delivery for 12M VAT return for 2M</td>
<td>Feb 20 4Q</td>
<td>Dec 20 December partly estimated</td>
</tr>
<tr>
<td>April</td>
<td>1. delivery for 2M 2. delivery for 1M VAT return for 3M</td>
<td>Mar 20 4Q</td>
<td>Mar 30 Complete data</td>
</tr>
<tr>
<td>May</td>
<td>1. delivery for 3M 2. delivery for 4M VAT return for 4M</td>
<td>May 20 1Q</td>
<td>May 30 March fully estimated</td>
</tr>
<tr>
<td>June</td>
<td>1. delivery for 4M 2. delivery for 3M VAT return for 5M</td>
<td>Jun 20 1Q</td>
<td>May 30 March partly estimated</td>
</tr>
<tr>
<td>July</td>
<td>1. delivery for 5M 2. delivery for 4M VAT return for 6M</td>
<td>Jul 20 1Q</td>
<td>Jul 30 Complete data</td>
</tr>
<tr>
<td>August</td>
<td>1. delivery for 6M 2. delivery for 5M VAT return for 7M</td>
<td>Aug 20 2Q</td>
<td>Aug 30 June fully estimated</td>
</tr>
<tr>
<td>September</td>
<td>1. delivery for 7M 2. delivery for 6M VAT return for 8M</td>
<td>Sep 20 2Q</td>
<td>Aug 30 June partly estimated</td>
</tr>
<tr>
<td>October</td>
<td>1. delivery for 8M 2. delivery for 7M VAT return for 9M</td>
<td>Oct 20 2Q</td>
<td>Sep 30 Complete data</td>
</tr>
<tr>
<td>November</td>
<td>1. delivery for 9M 2. delivery for 8M VAT return for 10M</td>
<td>Nov 20 3Q</td>
<td>Nov 30 September fully estimated</td>
</tr>
<tr>
<td>December</td>
<td>1. delivery for 10M 2. delivery for 9M VAT return for 11M</td>
<td>Dec 20 3Q</td>
<td>Dec 30 Complete data</td>
</tr>
</tbody>
</table>

Timetable is stated approximately, without relation to particular year.

Services:

For the compilation of the foreign trade in services for the national accounts, the schedule is as follows:

37. **T+40 days** – national accounts estimates, since data from neither ZO 1-04 nor Czech National Bank are available

38. **T+60 days** – ZO 1-04, figures taken over from Czech National Bank

39. **T+90 days** – ZO 1-04, figures taken over from Czech National Bank

Figure 5 Compilation of ZO 1-04

<table>
<thead>
<tr>
<th>Quarter Month Week</th>
<th>1M 1Q 2M 3M 1M 2M 3M</th>
<th>1M 2M 3M</th>
</tr>
</thead>
<tbody>
<tr>
<td>1234</td>
<td>1234</td>
<td>1234</td>
</tr>
</tbody>
</table>

15th calendar day - 1st possible processing of the survey ZO 1-04 for 1Q

22nd day - ZO 1-04 computation following the exceptional goods estimation - for DTCs

ZO 1-04 estimation is available already for T+60 days and also for estimation of adjustment of goods for processing (residents) for T+60 days.
3.3. Annual revision policy of foreign trade

Data on foreign trade are based on quarterly data sets and along the regular revisions of the annual NA also foreign trade can be revised.

**Goods:**

40. **Preliminary version (T+9 months)** – the final foreign trade data compilation of a given year takes place following year on the 20th working day of August. These figures enter the balancing process of supply and use tables (SUT) and they are verified and balanced on the basis of commodity flows in supply and use tables. During balancing of preliminary version of SUT an adjustment may occur of total value of export and import, usually due to additional exclusion of goods sent for processing, for transactions reported by non-residents, for operative leasing etc.). The result enters also the sector annual national accounts for the preliminary version.

41. **Semi-definitive version** – input data are figures after balancing of preliminary version. During balancing of semi-definitive version of SUT (CZ-CPA3) further adjustment usually within each CZ-CPA2 might be performed. It does not usually lead to the changes in the total value of goods\(^{11}\).

42. **Definitive version** – input data are figures after balancing of semi-definitive version. During the balancing of definitive version of SUT (CZ-CPA3) further adjustment usually within each CZ-CPA2 might be performed. However, these should not be significant and it should not lead to changes in total value of goods\(^{12}\).

43. **Occasional revisions** – revisions may occur also exceptionally if the model of national concept is updated or there is a significant change in methodology in accordance with EUROSTAT revision policy.

**Services:**

44. **Data source ZO 1-04** – schedule is the same as in the case of the FTS because of the calculation of the direct trade costs (DTC), as their estimation is based on the physical movement of goods, i.e. the definitive figures are available together with preliminary version.

45. **Data source Czech National Bank** – revision of the year Y takes place in March Y+2 years and these reviewed data enter the definitive version (March Y+3). It means that for the semi-definitive version the figures are the same as for preliminary version.

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\(^{11}\) Only in exceptional cases, due to goods for processing, additional adjustment may occur.

\(^{12}\) ditto.
4. Procedure of compiling of foreign trade according to ESA 2010 for basic term of national accounts T+90 days

46. Export and import of goods (chapter 4.1) and services (chapter 4.2) is estimated separately by the Foreign Trade Department, however it is processed in close relation. Completion of export and import according to ESA 2010 (goods and services) is done in National Accounts Department.

47. Table 1 captures the main components of export and import of goods and services in the Czech NA.

### Table 1 Basic overview of compiling of export and import of goods and services in the Czech NA

<table>
<thead>
<tr>
<th>Import</th>
<th>Export</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and services (P.7)</td>
<td>Goods and services (P.6)</td>
<td>The initial data source for the national accounts is national concept of foreign trade without goods sent for processing (net). It represent transition from the cross-border foreign trade statistics to national concept of foreign trade (gross) and exclusion of goods sent for processing.</td>
</tr>
<tr>
<td>National concept (net)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total import of goods - national concept (net)</td>
<td>Total export of goods - national concept (net)</td>
<td></td>
</tr>
<tr>
<td>including residents (without goods sent for processing - net)</td>
<td>including residents (without goods sent for processing - net)</td>
<td></td>
</tr>
<tr>
<td>of which</td>
<td>of which</td>
<td></td>
</tr>
<tr>
<td>re-export (estimate)</td>
<td>re-export (estimate)</td>
<td></td>
</tr>
<tr>
<td>non-residents</td>
<td>non-residents</td>
<td></td>
</tr>
<tr>
<td>Adjustment on exhaustiveness and other methodical adjustments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>Total</td>
<td>All transactions in goods can be a subject of balancing process.</td>
</tr>
<tr>
<td>including illegal activities (drugs, tobacco, fuel, rights)</td>
<td>including illegal activities (drugs, tobacco)</td>
<td></td>
</tr>
<tr>
<td>Import below threshold (Extrastat)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases at the borders</td>
<td>Purchases at the borders</td>
<td></td>
</tr>
<tr>
<td>Operational lease and other lending</td>
<td>Operational lease and other lending</td>
<td></td>
</tr>
<tr>
<td>Elimination of double-counting of imported processing services</td>
<td>Imputation of imported processing services (on goods sent abroad for processing and sale)</td>
<td></td>
</tr>
<tr>
<td>Negative merchanting</td>
<td>Traditional merchanting</td>
<td></td>
</tr>
<tr>
<td>Balancing adjustments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>Services (P.71)</td>
<td>Services (P.61)</td>
<td></td>
</tr>
<tr>
<td>ZO 1-04 (CIF/FOB)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>including processing services</td>
<td>including processing services</td>
<td></td>
</tr>
<tr>
<td>transport services incl. (Q)DTC</td>
<td>transport services incl. (Q)DTC</td>
<td></td>
</tr>
<tr>
<td>other</td>
<td>other</td>
<td></td>
</tr>
<tr>
<td>Insurance and financial services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>of which</td>
<td>of which</td>
<td></td>
</tr>
<tr>
<td>FISIM</td>
<td>FISIM</td>
<td></td>
</tr>
<tr>
<td>Business trips</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>including purchases by resident workers abroad</td>
<td>including purchases by non-resident workers in the CR</td>
<td></td>
</tr>
<tr>
<td>other</td>
<td>other</td>
<td></td>
</tr>
<tr>
<td>Private trips</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>including medical</td>
<td>including medical</td>
<td></td>
</tr>
<tr>
<td>educational</td>
<td>educational</td>
<td></td>
</tr>
<tr>
<td>other organised</td>
<td>other organised</td>
<td></td>
</tr>
<tr>
<td>other individual</td>
<td>other individual</td>
<td></td>
</tr>
<tr>
<td>Adjustment on exhaustiveness and methodical</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>including</td>
<td>including</td>
<td></td>
</tr>
<tr>
<td>Sugar duty and customs duty</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services by permanent establishments of non-residents (residents)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notional units (imputed rental)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balancing adjustments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>
4.1. Foreign trade with goods

48. Definition of import and export of goods is in national accounts (NA) and balance of payment (BoP) based on the change of ownership principle. Export and import arise according to the ESA 2010 from the change of ownership between residents and non-residents, regardless of the physical movements of goods across the borders (3.158-3.170).

49. Definition of export and import in the foreign trade statistics is based on the movement of goods across the state border. As it was mentioned in Chapter 2, on this principle is also based the overall system of data collection (Intrastat, Extrastat): the goods are recorded as import or export when crossing the border, regardless of residency of the entities reporting the transaction and regardless of any change of ownership between residents and non-residents.

50. Transition from transactions recorded in the foreign trade statistics (cross-border statistics) and import and export recorded in the national accounts is shown on Figure 7. The initial data entry for the NA and BoP is gross national concept of the foreign trade which took into account reduced ability of the cross-border statistics to describe the real foreign trade (change in ownership between residents and non-residents).

51. For the purpose of the estimation of the foreign trade in the national concept (export and import of good in the change of ownership principle) the FTS is considered to be a fundamental data source, but residency of the respondents must be taken into consideration. When computing national concept of foreign trade, data are sorted out by residency of reporting units and processed differently.

52. Transactions of goods across the borders reported into the Intrastat and Extrastat by residents are considered as an approximation of the change of ownership between resident and non-resident (Chapter 4.1.1). But transactions reported by non-residents are further assessed and adjusted in order to estimate the change of ownership between resident and non-resident (Chapter 4.1.2).

53. Apart from the national concept, there are other data entry that must be incorporated in order to compile import and export of goods. For example, merchanting and other adjustments on exhaustiveness (e.g. smuggling, dispatches below the threshold and so on) – Chapters 4.1.3 to 4.1.5.

**Figure 6 Foreign trade according to ESA 2010 – data sources and connection to FTS**

<table>
<thead>
<tr>
<th>Data source</th>
<th>Export and import according to FTS</th>
<th>Export and import according to ESA 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign trade statistics</td>
<td>Good for/after processing</td>
<td>Reexport</td>
</tr>
<tr>
<td></td>
<td>Reexport</td>
<td>Other goods</td>
</tr>
<tr>
<td></td>
<td>Other goods</td>
<td>Quasi-transit</td>
</tr>
<tr>
<td></td>
<td>Quasi-transit</td>
<td>Export/import of goods previously purchased/later sold in the internal market</td>
</tr>
<tr>
<td>ZO 1-04</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VAT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cross-border statistics</td>
<td></td>
</tr>
<tr>
<td>---------------------------</td>
<td>-------------------------</td>
<td>---</td>
</tr>
<tr>
<td></td>
<td>= A+B</td>
<td>A</td>
</tr>
<tr>
<td>Export (FOB) reported by</td>
<td></td>
<td></td>
</tr>
<tr>
<td>residents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>non-residents</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>= A+B-C-D</td>
<td></td>
</tr>
<tr>
<td></td>
<td>= A-C</td>
<td></td>
</tr>
<tr>
<td></td>
<td>= B-D</td>
<td></td>
</tr>
</tbody>
</table>

1) including goods for processing (residents)
2) without goods for processing (residents)
3) e.g. smuggling, dispatches below the threshold, sales on the airports, adjustments of goods for processing, merchanting etc.
4.1.1. Transactions reported by residents

4.1.1.1. Relation between the foreign trade statistics and national accounts

54. This chapter deals only with transactions that are reported into Intrastat and Extrastat by residents. This distinction (i.e. different approach for residents and for non-residents) is necessary in order to provide data on foreign trade in ownership principle.

55. When national concept of foreign trade is compiled, a different approach is applied to transactions reported by residents and by non-residents. In fact there is no adjustment of transactions reported by residents during the transition from the cross-border FTS to national concept of foreign trade\textsuperscript{13}.

56. In case of the transactions reported by residents into the FTS it is possible to consider the movement of goods across the border as an approximation to change of ownership between residents and non-residents. From this point of view it can be said that the most of the residents’ transactions in the FTS should be captured in export and import that follow the ownership principle (so called direct trade). See Figure 7.

57. Another reason for the distinction between residents and non-residents transactions is the fact, that there are some transactions reported by residents which do not fulfil the criterion of change of ownership and therefore cannot be recorded as export and import of goods in national accounts according to ESA 2010, such as transactions related to goods sent for processing (see Chapter 4.1.1.2). According to ESA 1995 these transactions belonged to exceptions from the general rule of change of ownership\textsuperscript{14}, but in ESA 2010 these exceptions are no more acceptable (3.164, 9.48).

58. The third reason is re-export, a newly recognised phenomenon in ESA 2010 related to globalisation tendencies (1.16 item 8). This phenomenon is connected exclusively to transactions reported by residents into Intrastat and Extrastat. According to general definition of change of ownership re-export is also included into export and import of goods\textsuperscript{15} since the change in ownership between residents and non-residents occurs.

59. Concerning other globalisation phenomena, ESA 2010 includes their more detailed list (1.16-1.7), with a statement, that these phenomena represent potential problems for national statistics, but does not include specific solution suggestions to the mentioned phenomena.

Identification of residents

60. Since the system of data collection for the FTS does not primarily work with the residency of individual respondents (reporting units), it is necessary for the compilation of national concept of foreign trade (and national accounts) to define the residents and non-residents in the Intrastat and Extrastat databases indirectly.

61. Resident’s definition: entity which is not considered as non-resident (see non-resident’s definition in Chapter 4.1.2.1).

\textsuperscript{13} But in case of non-resident transactions reported into Intrastat and Extrastat there is very weak linkage between cross-border flows of goods and real trade between residents and non-residents. That is why their data reported into Intrastat and Extrastat are adjusted during the transition from the FTS to national concept of foreign trade.

\textsuperscript{14} Together with the so called merchanting, when goods do not cross the border of domestic economy (recorded in export of services). These transactions are therefore not observed in FTS, data sources for its capturing in the Czech Republic is ZO 1-04.

\textsuperscript{15} More detailed rules for capturing or recommendation according to this phenomenon are in ESA 2010 not introduced, closer guideline is SNA 2008 (26.54, 26.47), according to which re-export is a part of goods, but from different reasons it may be useful to observe it separated from other export and import of goods.
4.1.1.2. Goods sent across the border for processing and after processing

62. According to the ESA 2010 the goods for processing, that is recorded in the FTS as export and import, is not included into export and import of goods, because there is no change of ownership between resident and non-resident (3.166, 9.48e). From this point of view only processing services of the goods are recorded. Thus national accounts and balance of payment get closer to business accounting and real money flows. In case of processing, NA and BoP record only:

- **export of the services** (so called inward processing)
- **import of the services** (so called outward processing)

63. The movement of goods across the border, which accompanies the provision of services, is not significant for the export and import of goods in the national accounts and thus is not included\(^\text{16}\). Table 3 captures different perspective of the FTS and NA on the movement of good for processing and the processing fees (services).

**Identification of goods sent for processing in the initial data source (national concept of foreign trade)**

64. The transactions associated with the goods sent for processing are identified by a **Nature of Transaction** in Intrastat (2-digit) and Extrastat (1-digit). For more details see Table 6.

65. The transactions with goods for/after processing are in Intrastat reported by residents (processors), who carry out the processing services\(^\text{17}\) (i.e. inward processing – export of services), or by residents\(^\text{18}\) (customers), who buy processing services abroad\(^\text{19}\) (i.e. outward processing – import of services).

66. In the Extrastat, however, transactions recording movement of goods across the border due to the processing may be reported by residents as well as by non-residents. It depends on who fills in the Single Administrative Document (SAD). At any case, for the estimation of import and export according to the ESA 2010 only resident transaction with goods sent for processing are of any significance in the compiling Czech NA, because national concept of foreign trade, which is initial data source for NA, consider no cross-border transaction reported by non-residents as export and import\(^\text{20}\). Thus only transactions reported by residents about goods sent for processing must be excluded from export and import of goods (recorded in national concept of foreign trade\(^\text{21}\)).

67. It should be also pointed out that declaring processing in Extrastat is usually followed by the suspension of customs payment and so is put under close customs control. Hence, from the data point of view Extrastat data on processing can be considered as more reliable than Intrastat.

68. Appendix 1 contains various case studies illustrating the movements of goods across the border for processing and related service along with the possible reporting of the transactions into the Intrastat. From the conclusions of each case study it is obvious that only a complex approach to import and export of goods following the ownership principle (i.e. adjustment for goods sent for processing combined with more general transition of the FTS to national concept of foreign trade) can ensure the correct estimation of export and import for the NA.

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\(^{16}\) Due to controls or estimations of e.g. transport services it is convenient to observe the value of goods for and after processing (it is e.g. part of a standard reporting of CNB – services).\(^\text{17}\) reporting the delivery of goods for processing and its subsequent transfer to the owner after processing

\(^{18}\) In exceptional cases these transaction can be reported into Intrastat by non-resident as well (export of goods for processing and subsequent import after processing). These cases were so far very rare. Nonetheless, these transactions are omitted by a special approach to non-residents transactions (see Chapter 4.1.2) as there is no change of ownership.

\(^{19}\) reporting sending of goods for processing abroad and its subsequent delivery from non-resident after processing

\(^{20}\) As it will be explained in Chapter 4.1.2, the estimation of the foreign trade in the national concept non-residents transactions are treated in a specific way regardless the customs procedure.

\(^{21}\) National concept of foreign trade do not include any cross-border transactions reported by non-residents that do not represent a change in ownership between residents and non-residents, such as good sent for processing or quasi-transit trade and similar operations.
Table 3 Basic definition of inward and outward processing in FTS and NA

<table>
<thead>
<tr>
<th>Steps</th>
<th>Services customer (owner of goods)</th>
<th>Services supplier</th>
<th>According to FTS</th>
<th>According to NA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inward processing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. acceptance of goods for processing by resident</td>
<td>resident</td>
<td>non-resident</td>
<td>import/acquisition of goods</td>
<td>-</td>
</tr>
<tr>
<td>2. processing services carried out by resident</td>
<td></td>
<td></td>
<td>-</td>
<td>export of services</td>
</tr>
<tr>
<td>3. handover of goods after processing to non-resident</td>
<td></td>
<td></td>
<td>export/dispatch of goods</td>
<td>-</td>
</tr>
<tr>
<td><strong>Outward processing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. sending of goods for processing by resident</td>
<td>resident</td>
<td>non-resident</td>
<td>export/dispatch of goods</td>
<td>-</td>
</tr>
<tr>
<td>2. processing services carried out by non-resident</td>
<td></td>
<td></td>
<td>-</td>
<td>import of services</td>
</tr>
<tr>
<td>3. handover of goods after processing to resident</td>
<td></td>
<td></td>
<td>import/acquisition of goods</td>
<td>-</td>
</tr>
</tbody>
</table>

**Difference between processing fee and the margin between goods declared for and after processing**

69. As it will be explain in this chapter, data collected by Intrastat about movement of goods for processing cannot be used for the estimation of processing fee (provided or received services). The reasons why the margin between the total value of goods for and after processing are not suitable for the estimation of services can be divided into two main categories:

- Mis-reporting of cross-border transactions related to processing.
- Export or import of services which is not accompanied by any cross-border movements of goods and such the goods is not recorded in Intrastat (either only on one side of the cross-border movements of goods or even on both sides),

For example, the imports of goods after processing were in the recent years usually lower than exports of goods for processing. It would lead to negative import of processing services.

70. Lower reliability due to mis-reporting of declared movements of goods for and after processing across the border in Intrastat is caused mainly by:

- lower importance of reporting of "processing" transactions (as it is not related to any customs advantage, in fact it is voluntary and thus not controlled),
- globalisation of chain processing (multinational processing companies with its chain sales inside the corporation) and thus less clear for those who finally export the goods after processing that it should be in fact reported as “goods after processing”,
- globalisation of trading (processing can no longer be viewed only as goods sent for processing and returned back to the owner after processing, because more likely the goods after processing is sent to other country for other processing or to the final customer).

71. One of the main consequences of the above mentioned aspects of processing practices is that in Intrastat goods for processing might be incorrectly **declared as a general import and export of**

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22 There may be also other reasons, especially in the past, when the Nature of transactions was one-digit and specifically in case of outward processing, the goods sent abroad for processing contained also goods that was after processing sold abroad, without returning physically back to the original country. Cross-border export of goods for outward processing in this case must be still considered as export of goods in the NA, since a change of ownership will occur after processing and there is no other data source that would cover such sale abroad other than Intrastat, provided that imported services performed on the goods will be imputed into the value of export of goods (in order to estimate the real value of goods after processing).

23 It is not connected in Intrastat, as it is in Extrastat, with the advantage of customs procedure of processing (in such cases customs is not paid).

24 or not sent from the processors country at all but sold in the processors country to final customer – see
goods instead of processing transactions. And it may be assumed that side “after processing” is burdened more with mis-reporting than the side “before processing”. Thus the processing fees derived from the physical movements of goods across the borders may be more likely underestimated. The consequences of this possible mis-reporting (goods not declared for/after processing) are depicted in Table 4.

72. Discrepancy among surveyed processing services and insufficiently declared goods for processing due to mis-reporting may be taken into account by adjustment of goods for processing, that is based on re-classification of part of the general import and export of goods into goods after processing, so that the influence on the balance of goods and services in these justified cases may be neutral (subchapter B – see below). However, that it does not mean that the margin derived from excluded goods for/after processing from the value of import and export is equal to the processing fees, as it will be explained in following paragraphs.

Table 4 Impact of mis-reporting of export and import for/after processing

<table>
<thead>
<tr>
<th>Reported in the FTS</th>
<th>Impact of exclusion of goods from export and import according to ESA 2010</th>
<th>Impact on estimation of processing services by reported goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inward processing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>yes yes</td>
<td>OK</td>
<td>OK</td>
</tr>
<tr>
<td>yes no</td>
<td>Overestimation of export of goods.</td>
<td>Underestimation of export of processing services.</td>
</tr>
<tr>
<td>no yes</td>
<td>Overestimation of import of goods.</td>
<td>Overestimation of export of processing services.</td>
</tr>
<tr>
<td>no no</td>
<td>Overestimation of total value of export and import of goods.</td>
<td>Services can not be estimated.</td>
</tr>
<tr>
<td>Outward processing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>yes yes</td>
<td>OK</td>
<td>OK</td>
</tr>
<tr>
<td>yes no</td>
<td>Overestimation of import of goods.</td>
<td>Underestimation of import of processing services.</td>
</tr>
<tr>
<td>no yes</td>
<td>Overestimation of export of goods.</td>
<td>Overestimation of import of processing services.</td>
</tr>
<tr>
<td>no no</td>
<td>Overestimation of total value of export and import of goods.</td>
<td>Services can not be estimated.</td>
</tr>
</tbody>
</table>

Most frequent cases.

73. Apart from mis-reporting, the margin cannot be in accordance with the processing services because of cases in which export and import of services are not accompanied by physical movements of goods across the border. It must also be noted that not all goods labelled as “for or after processing” in Intrastat must be considered as goods without a real change of ownership. Some examples are as follows (for more examples see Appendix 1):

a) Inward processing – goods after processing are handed over to non-resident owner in the Czech territory and non-resident owner sells them in internal market of the Czech Republic. Thus no export after processing occurs across the borders so it is not covered in Intrastat. On the other hand, the sale of processed goods by non-resident is recorded in non-residents’ VAT declarations and is considered as import into the domestic economy. These transactions are covered by the national concept of foreign trade (see Chapter 4.1.2).

b) Inward processing – goods are imported in the Czech Republic by non-resident as general goods (or as transfer of own properties) and it is processed in the Czech Republic. Goods are subsequently exported as general goods (or as transfer of own properties) or sold in internal market of the Czech Republic. In this case there is export of services but no movements of goods for processing are reported, since the cross-border transactions reported by non-residents are not considered as export and import of the domestic economy.
In the national concept of foreign trade, contrary to the sales or purchases by non-residents which are considered as imports and export for the domestic economy (see Chapter 4.1.2).

c) **Outward processing** – goods are sent for processing abroad and after processing **they do not return back to the original country** (to the Czech Republic). Goods are sold in the country of processor or exported to a third country. Since the goods do not return, there are no goods reported at the borders after processing. In this case, the goods sent for processing must be considered as general export, although they are labelled in the FTS as export for processing, because there will be a change in ownership after processing. Obviously the value of goods before processing (recorded in the FTS) is not the same as the real trading value of the goods after processing. Thus the value of **processing fee must be imputed** into the total value of goods sent for processing that is sold abroad.

d) **Outward processing** – goods are declared as **import after processing but goods were not sent from the Czech Republic for processing but from another country**. These goods must be considered as general import, even though they are labelled as import after processing in the Intrastat, since there is in fact a change in ownership between residents and non-residents. It is declared as import of goods after processing in order to keep mirror consistency in Intrastat between countries but Czech residents purchase the goods as final product after processing and did not pay processing fees (so there is no import of services declared by residents).

e) **Outward processing** – goods that are declared as **import after processing but goods were bought and processed abroad** (so there is import of services declared by residents). The goods should be understood as general import **less processing fee** in order to eliminate double-counting of the fee which is recorded both in the value of imported services and in the value of imported goods.

74. In cases a) and b) the consequences of possible incorrect capturing are solved within the national concept of foreign trade, because it takes into account transactions of non-residents in the domestic market. In order to avoid incorrect capturing in cases c), d), e) it is necessary to identify correctly the goods sent for/after processing that should be excluded from import and export of goods (some Nature of Transactions labelled as “processing transactions” in Intrastat are in fact accompanied by changes in ownership and thus must be still considered as import and export). If both conditions are met (using national concept of foreign trade instead of the FTS and correct identification of goods that should be excluded from import and export) any additional adjustment is not needed.

75. Concerning outward processing, part of the value of goods after processing may be overheads, transport of goods or holding gains or losses. In case of inward processing this should not occur, because unit reporting movement of goods across the border is not the owner of goods but the processor and thus cannot gain or lose from the holding.

76. Table 5 depicts model examples of export and import of services in connection with goods for and after processing in the FTS and in connection with export and import of goods in balance of payment and NA.

77. Due to above mentioned reasons it is **not possible to estimate value of processing services** provided by residents (services export) or processing services bought by residents (import of services) **from the total values of goods for processing that cross the border and that are therefore excluded from general merchandise**. The processing services are therefore surveyed in statistical survey on import and export of services in the Czech Republic (see Chapter 4.2).
Table 5 Processing services and movements of goods across the borders

<table>
<thead>
<tr>
<th>Inward processing (export of processing services)</th>
<th>Goods recorded in FTS</th>
<th>Goods recorded in BoP and NA (change in ownership principle)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Import</td>
<td>Export</td>
</tr>
<tr>
<td>1. Goods sent for processing to processor's economy and exported after processing (back or to 3rd country)</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>2. Goods bought in processor's economy and exported after processing</td>
<td>No</td>
<td>Yes(^1)</td>
</tr>
<tr>
<td>3. Goods bought in processor's economy and sold after processing in processor's economy</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>4. Goods sent for processing in processor's economy and sold after processing in processor's economy</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Outward processing (import of processing services)</th>
<th>Goods recorded in FTS</th>
<th>Goods recorded in BoP and NA (change in ownership principle)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Export</td>
<td>Import</td>
</tr>
<tr>
<td>5. Goods sent for processing abroad and imported back after processing</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>6. Goods sent for processing abroad and sold abroad after processing (change in ownership occurs after processing)</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>7. Goods purchased abroad, processed abroad and sold abroad after processing (change in ownership occurs before processing)</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>8. Goods bought abroad, processed abroad and after processing imported in economy (change in ownership occurs before processing)</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

\(^1\) goods have not to be reported in FTS as goods after processing

Estimation of goods for processing to be excluded from residents' cross-border transactions

Original data source:

78. Primary data source is the FTS (Intrastat and Extrastat). Since 2014 new controls of Nature of Transaction after processing are introduced into the control procedures in Intrastat by the FTS department (especially on the “after-processing-side” since the mis-reporting is more likely on this side with more serious impacts).

Methodical adjustments of original data:

79. Goods sent for processing, that are not included into export and import of goods in the NA and BoP are defined by the Nature of Transaction (NoT) which are presented in Table 6. As it was explained above, not all NoT labelled in the FTS as “processing” are considered as goods without any change of ownership.

80. Goods after processing may be burdened by a certain level of mis-reporting in Intrastat. That is why an adjustment of goods after processing in accordance with surveyed data was developed (see Paragraph 83 to 90). However, as the processing fee has been surveyed since 2013 a longer time series are needed for an assessment whether the adjustment should be (or is needed to be) installed into a standard compilation procedure.
81. Excluded goods for/after processing is monitored separately by the NA departments – especially for control purposes and for surveying of detailed commodity structures and NACE-activity connected to providing processing services.

Responsibility of the computation of goods for processing (source of adjusted data for NA):

82. Goods for/after processing are estimated within the standard compilation of foreign trade (dept. 4401).

Table 6 Nature of transactions defining goods sent for processing (to be excluded from export and import of goods in NA – movements without change of ownership)

<table>
<thead>
<tr>
<th>Intrastrat Nature of Transaction (2-digits)</th>
<th>Extragstat Nature of Transaction (1-digit)</th>
<th>Inward/Outward processing</th>
<th>Movement before/after processing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>51 Export after inward processing - w/ th return to original country</td>
<td>5 Export after inward processing - w/ th return to original country</td>
<td>IP</td>
<td>AFTER</td>
</tr>
<tr>
<td>52 Export after inward processing - in 3rd country</td>
<td>-</td>
<td>-</td>
<td>IP AFTER</td>
</tr>
<tr>
<td>41 Export for outward processing - w/ th return back to the Czech Republic</td>
<td>4 Export for outward processing - w/ th return back to the Czech Republic</td>
<td>OP</td>
<td>BEFORE</td>
</tr>
<tr>
<td>49 Export of goods received for inward processing but processing was not performed</td>
<td>-</td>
<td>-</td>
<td>X BEFORE</td>
</tr>
<tr>
<td>Import</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>41 Import for inward processing - w/ th return to original country</td>
<td>4 Import for inward processing - w/ th return to original country</td>
<td>IP</td>
<td>BEFORE</td>
</tr>
<tr>
<td>42 Import for inward processing - w/ th return to other country or hanging over in the Czech Republic</td>
<td>-</td>
<td>-</td>
<td>IP BEFORE</td>
</tr>
<tr>
<td>51 Import after outward processing - w/ th return back to the Czech Republic</td>
<td>5 Import after outward processing - w/ th return back to the Czech Republic</td>
<td>OP</td>
<td>AFTER</td>
</tr>
<tr>
<td>59 Import of goods previously processed but returned due to insufficient processing services</td>
<td>-</td>
<td>-</td>
<td>X AFTER</td>
</tr>
</tbody>
</table>

Adjustment of goods after processing in accordance with surveyed processing services (for mis-reporting in Intrastrat) – proposal

Initial data source:

83. Primary data source is the FTS (declared goods for/after processing) and survey ZO 1-04 (processing services).

Methodical adjustments of initial data:

84. Value of processing services is surveyed on the basis of ZO 1-04 (see Chapter 4.2.2). These processing services differ from margin between declared goods after and for processing due to mis-reporting (see above). In other cases the difference between processing services and margin from declared goods crossing the border can be considered as explainable and just (so it is necessary to take them into account while adjustment for mis-reporting is being estimated).

85. In order to ensure the neutral impact on the balance of trade an additional adjustment for mis-reporting in goods after processing is done. This adjustment is based on re-classification of part of general export and import in Intrastrat (according of nature of transaction) to export and import after processing. Therefore adjustment takes place only on the side of after-processing, which it can be more affected by insufficient reporting:

- Adjustment in export of goods = re-classification of export after processing which is connected with export of processing services (inward processing),
- Adjustment in import of goods = re-classification of import after processing which is connected with import of processing services (outward processing).

86. The correction is considered with time lag M-1 (goods for processing in period M-1 and goods after processing in period Q).
87. Adjustment is depicted in the model example, see Table 7.

Table 7 Adjustment of export and import of goods after processing according to declared processing services

<table>
<thead>
<tr>
<th>line</th>
<th>Nature of transaction</th>
<th>Total export of goods (FTS)</th>
<th>Data source</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>122</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Export</td>
<td>90</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Export after processing with return to original country</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Export after processing without return to original country</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Export for outward processing</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>line</th>
<th>Nature of transaction</th>
<th>Total import of goods (FTS)</th>
<th>Data source</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td></td>
<td>105</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Import</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Import for processing with return to original country</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Import for processing without return to original country</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Import after outward processing</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>line</th>
<th>Nature of transaction</th>
<th>Total export of services</th>
<th>Data source</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td></td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>60% on goods with return to original country</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>20% on goods with export to the 3rd country</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>20% on goods handed over to the owner in the Czech Republic</td>
<td>4</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>line</th>
<th>Nature of transaction</th>
<th>Total import of services</th>
<th>Data source</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td></td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>50% on goods with return back to the Czech Republic</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>50% on goods without return back to the Czech Republic</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>line</th>
<th>Nature of transaction</th>
<th>Total</th>
<th>Data source</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td></td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>3 - 8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>4 - 9*13/(13+14)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>line</th>
<th>Nature of transaction</th>
<th>Total</th>
<th>Data source</th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td></td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>10 - 5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>line</th>
<th>Nature of transaction</th>
<th>Total</th>
<th>Data source</th>
</tr>
</thead>
<tbody>
<tr>
<td>23</td>
<td></td>
<td>-9</td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>19 - 12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>20 - 13</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>line</th>
<th>Nature of transaction</th>
<th>Total</th>
<th>Data source</th>
</tr>
</thead>
<tbody>
<tr>
<td>27</td>
<td></td>
<td>-10</td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>22 - 16</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>line</th>
<th>Nature of transaction</th>
<th>Total</th>
<th>Data source</th>
</tr>
</thead>
<tbody>
<tr>
<td>29</td>
<td></td>
<td>81</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td></td>
<td>70</td>
<td></td>
</tr>
</tbody>
</table>

88. The value of adjustment is broken down by model estimate into five most frequent commodity groups, according to nature of transaction of goods after processing. The same procedure is applied in the case of territorial breakdown.

89. Thanks to the recent installation of controls of transaction after processing in Intrastat, it is possible that the importance of this adjustment will decrease.

Responsibility of the computation of the adjustment (source of adjusted data for NA):

90. Adjustment is estimated within the standard process of ZO 1-04 (dept. 4402).
91. Transition from residents’ transactions in the FTS (including processing, i.e. gross approach) to figures according to change of ownership for the national accounts (without processing, i.e. net approach) is recorded in following tables.

Table 8 Capture of transition from gross to net transactions of residents – processing transaction

<table>
<thead>
<tr>
<th>CPA/ territory/ SITC</th>
<th>Export of residents according to FTS</th>
<th>Export of residents without PR</th>
<th>PR export (Intra) with return</th>
<th>PR export (Intra) without return</th>
<th>PR export (Extra) with return</th>
<th>PR export (Extra) without return</th>
<th>Export adjustment (IP) with return</th>
<th>Export adjustment (IP) without return</th>
<th>Export adjustment (OP) with return</th>
<th>Export adjustment (OP) without return</th>
<th>Total export of goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>0 0 0 0 0 0 0 0 0 0 0 0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Import of residents - adjustment of goods for processing (PR = processing relation)

<table>
<thead>
<tr>
<th>CPA/ territory/ SITC</th>
<th>Import of residents according to FTS</th>
<th>Import of residents without PR</th>
<th>PR import (Intra) with return</th>
<th>PR import (Intra) without return</th>
<th>PR import (Extra) with return</th>
<th>PR import (Extra) without return</th>
<th>Import adjustment (OP) with return</th>
<th>Import adjustment (OP) without return</th>
<th>Total import of goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>0 0 0 0 0 0 0 0 0 0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.1.1.3. Re-export

92. **Definition of re-export:** goods, that are produced abroad and imported into the domestic territory by residents (so a change of ownership from non-resident to resident occurs) and that are subsequently without significant transformation exported abroad (so again a change of ownership from resident to non-resident occurs). Goods cross the border of the domestic territory and are therefore recorded in the FTS.

93. Re-export is mentioned as a globalisation phenomenon in ESA 2010 – paragraph 1.16 Article 8. According to change of ownership principle re-export is considered as export and import of goods in the national accounts.

94. Detailed principles of depicting or recommendations concerning this phenomenon are not introduced in ESA 2010. Closer guideline is offered by SNA 2008 (26.54, 26.47), according to which re-export is a part of imports and exports of goods, but due to the fact, that it inflates the values of export as well as import, it can be useful to show it separately from the export and import of goods produced or consumed in the domestic economy.

95. Re-export can be one of the reasons, why exports reported by residents can be higher than output of the commodity in the domestic economy.

96. **Direct identification** of these transactions is in Intrastat as well as in Extrastat impossible in the Czech Republic. This type of transactions is not separately observed. Therefore, it must be estimated indirectly by comparison of cross-border imports and exports reported by residents with domestic output during the balancing process of SUT. Or it can be estimated very roughly at the level of individual units by comparing import and export of each unit at the level of KN8. Hence, re-export can be estimated only by analysis of long-term time series at the commodity level.

97. For the quarterly national accounts, where these analyses cannot be accomplished, imports for re-export is estimated as a certain percentage of residents imports (less gods for processing) at 3-digit CPA level. Re-export as then estimated as **imports for re-exports plus margin** realized by residents on these transactions. During the balancing of SUT these preliminary estimates are adjusted according to the output in each 2- or 3-digit CPA level.

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25 Part of import may be sold in the domestic market, or more precisely part of export bought in domestic market.
4.1.2. Transactions reported by non-residents (National Concept of Foreign Trade)

4.1.2.1. Relation between the foreign trade statistics and national accounts

99. System of data collection of foreign trade (Intrastat, Extrastat) does not take into consideration the residency of reporting units. Legal obligation of reporting to Intrastat\(^{26}\) is conditioned by registration of the entity for VAT in the Czech Republic\(^{27}\), not by the entity’s residency. Therefore if the foreign entity is registered for VAT in the Czech Republic\(^{28}\) and crosses Intrastat threshold for reporting, the entity is obliged to submit reports to Intrastat in the Czech Republic. Hence, export and import declared by such non-residents are a part of export and import of goods based on physical movement across the borders (e. i. cross-border FTS).

100. In the ESA 2010 non-residents’ transactions are closely related to most phenomena described in paragraph 1.16.

101. As explained above, transactions reported by non-residents cannot be considered as an approximation of change of ownership. Thus these transactions have to be approach differently than transactions reported by residents and adjusted or exempt in order to estimate export and import of goods in ownership principle. That is why the Czech statistical office developed in 2010 national concept of foreign trade which takes into account the difference between collected data on physical movement of goods across the borders and ownership principle (published since 2011 and taken over into the Czech NA and BoP for the time-series since 2005).

102. Examples of non-residents’ transactions and the consequences for the FTS data are shown in Table 9. Some basic examples of separation of the foreign trade statistics from the change of ownership principle are shown in Appendix 3.

103. In case of non-residents’ transactions, unlike the residents’ transactions, the link between the goods crossing the borders and the change of ownership may be very weak (see Figure 7). Transactions reported by non-residents can be from this point of view divided into two main groups: Quasi-transit trade and similar operations

104. These transactions can be defined as: goods that are imported by non-residents across the border and subsequently exported by non-residents across the border from the Czech Republic (without any significant transformation in the Czech Republic). No change of ownership between residents and non-residents occurs. In fact, there is only a physical flow of goods owned by non-resident over the economic territory of the Czech Republic. The value of goods entering the economy usually differs from the value of goods leaving the territory\(^{29}\). Such goods cannot be considered as import and export according to ESA 2010 (for examples and consequences see Table 9).

105. This phenomenon (and term “quasi transit trade”) is usually limited to import of goods from territories outside the EU (captured via Extrastat) with subsequent export to other EU state (captured via Intrastat). But the essence of the phenomenon is the same also within the EU, thus the term “operations similar to quasi-transit trade” was introduced. In the Czech Republic both these phenomena are very significant because of the location in the centre of Europe, storage capacities and also because of specific VAT rules on import\(^{30}\).

106. Direct identification of quasi-transit is not possible in collected data (neither by Extrastat\(^{31}\) nor by Intrastat\(^{32}\)) in the Czech Republic. Nevertheless, thanks to a complex and special treatment of all non-

\(^{26}\) All entities have obligation to report trade with territories outside EU via so called Single Administrative Document (SAD).

\(^{27}\) Condition comes out of harmonisation of foreign trade statistics and VAT system in EU. Each economic entity can be registered for VAT in any country of EU.

\(^{28}\) Examples of occasions for registration of foreign entity for VAT in the Czech Republic are presented in Appendix 2.

\(^{29}\) It can be explained by revaluation of goods from in-house prices to market prices.

\(^{30}\) Legislation of VAT in the Czech Republic enables by import of goods from EU countries so called self-assessment of VAT. It is then thanks to it for importer easier to become a VAT payer in the Czech Republic, i.e. report the general import to the Czech Republic.
residents’ transactions in the national concept of foreign trade, it is ensured that quasi-transit trade is not included into imports and exports (see below).

**Goods traded by non-residents in the internal market**

107. These transactions can be defined as:

- goods that are imported by non-residents across the Czech border and sold to residents in the internal market of the Czech Republic,
- goods purchased by non-residents in the internal market from residents and subsequently exported by non-residents across the border.

Only transactions in the internal market (purchases and sales by non-residents) represent the change of ownership between resident and non-resident, not the transactions reported by non-residents at the borders. Thus solely these sales and purchases can be considered as a part of export and import according to ESA 2010.

108. The value of goods reported by non-residents at the border usually significantly differ from the trading value in the internal market (by non-residents’ margin). Therefore such transactions at the borders must be revaluated to represent the value at the moment of change of ownership between resident and non-resident in the internal market (purchases and sales). This revaluation (adjustment) is a part of a transition from the cross-border FTS to national concept of foreign trade and is based on VAT declaration submitted by non-residents in the Czech Republic.

**Table 9 Fundamental types of transactions of non-resident and their consequences in the FTS**

<table>
<thead>
<tr>
<th>Transactions of non-resident</th>
<th>Commentary</th>
<th>Consequence</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st step</td>
<td>2nd step</td>
<td></td>
</tr>
<tr>
<td>import of goods into the Czech territory</td>
<td>sale of goods in the Czech Republic</td>
<td>Czech entity buys goods for a higher price than declared at the border by non-resident</td>
</tr>
<tr>
<td>purchase of goods in the Czech Republic</td>
<td>export of goods from the Czech territory</td>
<td>Czech entity sells goods for a lower price than declared at the border by non-resident</td>
</tr>
<tr>
<td>import of goods into the Czech territory</td>
<td>export of goods from the Czech territory</td>
<td>Czech entity is not involved in these transactions at all (so called quasi-transit or similar transactions)</td>
</tr>
<tr>
<td>purchase of goods in the Czech Republic</td>
<td>sale of goods in the Czech Republic</td>
<td>Czech entity buys goods from non-resident for a higher price than for which the producer of goods sold it originally to non-resident (so called negative merchanting)</td>
</tr>
</tbody>
</table>

(Extrastat) and subsequently export to other EU country (Intrastat), in contrast to more common procedure in other member states, i.e. reporting of import with final consumption in other member state (Extrastat). 3 Thanks to harmonised system of VAT in EU is transfer of goods among territories of EU tax neutral, therefore for owner by import of goods is not important form VAT tax payment point of view, whether he assigns the imported goods as dedicated for domestic market of particular territory or whether the goods is later exported to other member state. Respondents even need not necessarily know at the time of import, if the goods is finally sold in domestic market or exported. Therefore the goods are reported as general import and after that as general export from the Czech Republic.
109. Different types of cross-border transactions reported into the FTS by residents and non-residents and their relation to the change of ownership concept are showed on Figure 7.

Figure 7 Transactions of residents and non-residents when the goods cross the border and change the ownership

Transactions reported by residents in the FTS (Intrastat, Extrastat)

Transactions reported by non-residents in the FTS (Intrastat, Extrastat)

Transactions with change in ownership among resident and non-resident

Transaction recorded in foreign trade statistics

Transactions recorded in VAT declarations (in domestic market between resident and non-resident)

Re-export (residents) / Quasi-transit (non-residents)

Transactions reported by non-residents (more details)

110. Nowadays, vast variety of commodities is affected by non-residents trading. Nevertheless, non-residents transactions are concentrated mostly to computers, electronic devices and equipment, motor vehicles, chemicals and toys. Commodity breakdown of non-residents’ transactions on the side of import and export is not symmetric.

111. From the FTS point of view (cross-border statistics) non-residential transactions represent about 23% of export from the Czech Republic and 16% of import to the Czech Republic (cross-border movements). Non-residents transactions affect greatly the FTS balance of trade in the Czech Republic, in surplus trend (i.e. overestimates the balance). Moreover, the balance of residents’ direct
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trade has been since 2005 rather negative or slightly positive. So the high surplus of foreign trade indicated by the FTS is constituted mainly by transactions reported by non-residents (i.e. by transactions that do not represent import and export performance of the Czech economy).

112. It has to be noted, that non-residents registered for VAT in the Czech Republic cannot be considered in any kind as a subsidiary of non-residents. Single market in the EU enables any business unit to participate in trade in any member state of the EU. These merchants are only required to register for VAT in any country where they carry out their trade. In fact, any business entity (even those seated outside EU) can be registered in all member states for VAT and has no physical presence in any of these countries (and it cannot be said that their economic interest is limited to one particular country).

Identification of non-residents

113. As the data collection system (Intrastat and Extrastat) does not primarily take into consideration residency of reporting units, it is necessary to define residents and non-residents indirectly in order to estimate the foreign trade in ownership principle (national concept of foreign trade).

<table>
<thead>
<tr>
<th>VAT number (Intrastat and VAT database)</th>
<th>begins with “CZ68”, 11-digit incl. “CZ”, does not have assigned business ID number in the Czech Republic, does not pay income tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>EORI number (Extrastat)</td>
<td>begins with “CZ68”, 11-digit incl. “CZ”, does not have assigned business ID number in the Czech Republic</td>
</tr>
<tr>
<td></td>
<td>does not begin with “CZ”</td>
</tr>
<tr>
<td></td>
<td>begins with “CZ000”, 13-digit incl. “CZ”, not one-time EORI number</td>
</tr>
</tbody>
</table>

115. Additionally, non-residents who do not participate on cross-border movements across the Czech borders but participate in trade within the Czech Republic territory (i.e. they sell on the Czech Republic territory only goods bought in the Czech Republic) are identified in VAT database as well. Such transactions are considered as export and import of goods as well, because the ownership changes between residents and non-residents, but according to their nature they are closely related to merchanting transactions, even though in reciprocal way. From this reason these transactions are monitored separately as so called negative merchanting, see chapter 4.1.5.

4.1.2.2. Method of non-residents’ transactions adjustment

116. For the Czech national accounts the main initial data source for foreign trade is national concept of foreign trade, routinely processed and published by Foreign trade department. So the transition from the cross-border FTS into national concept of foreign trade is processed outside the compilation of Czech NA. Nonetheless, this adjustment of traditional cross-border concept of foreign trade represents so considerable amount that it should be covered in details in this Guideline. Besides, the development of national concept of foreign trade in the Czech Republic was initiated by the need of the Czech NA and thus originally the NA Departments provided the fundamental methodological support.

Original data source (for national concept of foreign trade):

117. Original data source are data collected by Intrastat and Extrastat (i.e. the cross-border FTS). The adjustment is carried out only within transactions reported by non-residents (according to definition – see 4.1.2.1) on the basis of VAT declarations submitted by non-residents. Transactions reported by residents remain unchanged.

---

32 Direct export by residents minus direct import by residents.
118. Basically, the adjustment (transition) is constituted of substitution of transactions reported at the borders (by non-residents) by real trade between residents and non-residents, which is conducted within the borders (in the domestic internal market of the Czech Republic). In other words, the adjustment can be considered as a revaluation of the value reported at the borders by purchases or sales within the domestic market. Then

- Purchases by non-residents from Czech residents are considered as exports for the domestic economy (realised taxable supplies).
- Sales by non-residents to Czech residents are considered as imports for the domestic economy (received taxable supplies).
- Difference between purchases and sales of non-residents in the internal market of the Czech Republic is considered as the balance of trade between residents and non-residents in the internal market.

119. Unfortunately, purchases and sales declared by non-residents in their VAT declarations are not only their transactions with residents. They also cover purchases and sales among non-residents within the Czech territory. These re-sales may partly complicate the estimation of the total value of export and import performance of the domestic economy (non-residents’ purchases from/sales to residents\(^{33}\)). However, re-sales do not influence the estimate of the balance of trade between residents and non-residents as re-sales inflate both sales and purchases in the same extent. Besides, the complex approach of the national concept procedures ensures that these re-sales are exempt from export and import along the course of adjustment.

120. It should be also noted, that due to the substitution of all transactions reported by non-residents at the borders by their real transactions with residents it is ensured that quasi-transit trade and similar operations are entirely eliminated from the estimation of import and export of goods (since the value of purchases or sales related to quasi-transit trade are equal to zero in the internal market).

**Methodical adjustments of initial data (national concept of foreign trade):**

121. In practice, the adjustment of non-residents’ transactions are based on a specific approach to each commodity group in order to ensure correct commodity estimates. Different commodities are affected in a different size and for different reasons (see 4.1.2.1). Naturally, in practice each commodity is not affected only by one kind of non-residents transactions (quasi-transit and similar operations or trade in the internal market) nor each non-resident trading can be limited to one kind of the transactions. That is why the approach to each commodity must be based on long-time series analysis.

122. The main methodical objective of the procedure of the adjustment (revaluation) is to

- eliminate the non-residents’ margin in each commodity group in order to estimate export,
- include the non-residents’ margin in each commodity group in order to estimate import,
- eliminate quasi-transit trade and similar operations in each commodity group in order to estimate both export and import

while taking into account the total non-residents’ purchases and sales in the internal market.

123. Transactions reported by non-residents into Intrastat and Extrastat are divided into three main commodity groups at 3-digit CPA level groups according to the adjustment approach:

- **Individual commodities** – are adjusted by coefficients that are determined individually for each commodity, coefficients are based on specifics of given commodities (e.g. toys, tobacco, cars…),

\(^{33}\) Total value of purchases and sales between residents and non-residents is estimated implicitly (see below).
- **Average commodities** – are adjusted by average coefficient when the impact of non-residents’ trading is less significant or/and also when it is not possible to individualise the coefficient due to lack of additional data,

- **Derived commodities** – are commodities significantly influenced by the quasi-transit trade and similar operations. Therefore the connection between the transactions in the internal market (real trade between resident and non-resident) and the value of goods reported by non-residents at the borders is very weak (e.g. computers). That is why the adjustment must be derived from the production performance of the Czech economy. Thus the estimate of export is based on the production\(^{34}\) of given commodity and import is estimated implicitly.

The adjustment of derived commodities is a crucial phase of the whole procedure because it ensures that the balance of trade complies with the real trade between residents and non-residents in the domestic market (total sales/purchases taken over from VAT returns submitted by non-residents).

### Table 10 Adjustment of non-residents’ transactions according to commodity groups

<table>
<thead>
<tr>
<th>Commodity group</th>
<th>Example of commodities</th>
<th>Export adjustment</th>
<th>Import adjustment</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual commodities</td>
<td>toys, tobacco, personal vehicles</td>
<td>by individual coefficients determined for each commodity on the basis of past production and export and other information</td>
<td>by individual coefficients determined for each commodity on the basis of supply and use tables balancing</td>
<td>usually commodities affected by a trade between resident producer and foreign parent/related company</td>
</tr>
<tr>
<td>Average commodities</td>
<td>most of commodities (more sub-groups may exist within this group)</td>
<td>by average coefficients</td>
<td>by average coefficients (more sub-groups may exist within this group)</td>
<td>commodities that are less affected by non-residents’ trading and for which not enough information for individual coefficients determination is available</td>
</tr>
<tr>
<td>Derived commodities</td>
<td>computers (CZ-CPA 26)</td>
<td>on the basis of production for export via non-residents (Prům 1-12)</td>
<td>implicitly* on the basis of total value of adjusted export, adjusted import of other commodity groups, total purchases and sales of non-residents from VAT declarations and total balanced non-residents in domestic market</td>
<td>usually commodities affected by quasi transit trade and similar operations, so the link between cross border movements of goods reported by non-residents and their trade with residents in the domestic market is weak</td>
</tr>
</tbody>
</table>

* adjusted import of derived commodities = sale of derived commodities = (total value of re-sales - adjusted import of individual and average commodities) - (total value of purchases of non-residents - adjusted export)

124. Commodities are divided into above mentioned groups according to, for example

- Ratio of export across the borders to output,
- Share of non-residents’ transactions across the borders in each commodity group.

Categorization of each group into the three categories cannot be considered as ultimate. It can be changed when additional information is available or change in behaviour of non-residents occurs.

125. Revision policy for coefficients: coefficients are annually revised, in connection with the balancing of preliminary version of supply and use tables. In exceptional cases they can be revised during a year as well but always based on data comparability in time series.

**Responsibility of the adjustment (compilation of national concept of foreign trade – initial data source for Czech NA):**

126. The compilation of national concept of foreign trade is processed routinely by the Foreign trade statistics department (dept. 4401). The national concept is basically constituted as gross in a matter of goods sent for processing (i.e. the total exports and imports are equal to residents’ transactions – including goods for processing - plus adjusted non-residents’ transactions).

---

\(^{34}\) The data source is industrial statistics, based on surveys Prům 1-12 and Prům 2-01.
Figure 8 Scheme of relations among commodity groups, data from non-residents’ VAT declarations and industrial statistics when estimating transactions of non-residents in internal market

4.1.3. Algorithm of adjustment of non-resident transactions (national concept of foreign trade)

127. The estimation of export and import by non-residents is carried out in several steps. Firstly, export and import of individual and average commodities are estimated by applying coefficients on cross-border non-residents’ transactions. Then export of derived commodities is estimated according to the production of derived commodities. Thus the total value of export of goods by non-residents is estimated.

128. Then via export-side re-sales are exempt from purchases (re-sales are estimated as a difference between total value of purchases declared by non-residents in their VAT declarations and the total sum of adjusted export). Thus total value of non-residents’ sales can also be adjusted for re-sales. Afterwards, it is possible to estimate import of derived commodities and total import via non-residents.
The whole procedure is depicted on the following scheme and individual steps of estimation are in detail described in the following text.

**Figure 9 Procedure of estimation of export and import by non-residents**

1. **Calculation of individual commodities (export, import)**

130. Export of these commodities is estimated by application of individual coefficient for each commodity group on export and import reported at the borders by non-residents. Example of the commodity groups are:

- Tobacco products (CZ-CPA 120)
- Chemical products, soap and detergents (CZ-CPA 204)
- Motor vehicles and trailers (CZ-CPA 29x)
- Games and toys (CZ-CPA 324)
- Electrical equipment and machinery equipment (CZ-CPA 27x and CZ-CPA 28x)

\[
\text{Export}_{NA_i} = \sum k_i^V \times \text{Export}_{FTS_{ii}} \quad (1) \\
\text{Import}_{NA_i} = \sum k_i^P \times \text{Import}_{FTS_{ii}} \quad (2)
\]

where \( k_i^V \) and \( k_i^P \) are individual coefficients for each individual \( i \)-commodity group; \( \text{Export}_{FTS_{ii}} \) and \( \text{Import}_{FTS_{ii}} \) are export and import reported by non-residents into foreign trade statistics at the borders. Generally, \( k_i^V < 1 \) and \( k_i^P > 1 \).
2. Calculation of average commodities (export, import)

131. Calculation is similar to calculation in step 1: export and import reported by non-residents according to the FTS are adjusted by one identical average coefficient for all commodity groups.

\[ Export_{NA_P} = k_v^y \times Export_{FTS_P} \] (3)
\[ Import_{NA_P} = k_v^y \times Import_{FTS_P} \] (4)

where \( k_v^y \) and \( k_v^y \) are coefficients identical to all commodities classified as average commodities and \( Export_{FTS_P} \) and \( Import_{FTS_P} \) are export and import reported by non-residents to foreign trade statistics in these commodities. Generally \( k_v^y < 1 \) and \( k_v^y > 1 \).

3. Calculation of derived commodities (export)

132. Export reported by non-resident in the FTS is in case of derived commodities replaced by adjusted production of given commodities (\( PROD_{export} \)) of selected producers according to industrial statistics (Prům 1-12). Among such commodities belong CZ-CPA 261-5 (computers, electronic products and components). Calculation is done according to the following formula:

\[ Export_{NA_P} = PROD_{export} = \Sigma h_{Vi} \times Production \] (5)

where \( h_{Vi} \) stands for share of production of commodity \( i \) on export via non-residents of selected producers, and is estimated on the basis of Prům 2-01 (i.e. takes into account production to export via non-residents as well as commodity structure of selected producers); \( Production \) stands for output by selected producers of these commodities. Producers selected for this estimation are those whose production is in high share exported via non-residents (and not via direct export).

133. Allocation of such production into territorial structure and simultaneously into more detailed commodity breakdown is provided by application of implicit coefficients \( k_v^y \) on cross-border exports reported by non-residents into the FTS (\( Export_{FTS_{vi}} \)). In fact, this is merely a formal step in order to keep the whole procedure fundamentally the same as in all other commodity groups – as an adjustment of initial data source (i.e. the cross-border FTS data reported by non-residents):

\[ Export_{NA_{V}} = \Sigma k_v^y \times Export_{FTS_{Vi}} \] (6)

where

\[ k_v^y = \frac{PROD_{export_v}}{Export_{FTS_{Vi}}} \] (7)

4. Total export via non-residents

134. Total value of export via non-residents equals the sum of export in groups of individual, average and derived commodities (see formula 1, 3, 5).

\[ Export_{NA} = Export_{NA_I} + Export_{NA_P} + Export_{NA_{V}} \] (8)

5. Estimation of re-sales in purchases and sales (from VAT returns)

135. Estimation of re-sales is based on the difference between the total value of non-residents’ purchases in the internal market (\( PURCHASE_{NONRESIDENT} \)) and adjusted export via non-residents (see formula 8):

\[ RESALES_{VAT} = PURCHASE_{NONRESIDENT} - Export_{NA} \] (9)

where \( PURCHASE_{NONRESIDENT} \) stands for received taxable supplies by non-residents, who participate in foreign trade in the Czech Republic (from VAT returns submitted by these non-residents).
136. Re-sales inflate equally also sales by non-residents (SALES_NONRESIDENT), so it leads to:

\[ \text{RESALES}_{\text{VAT}} = \text{SALES}_{\text{NONRESIDENT}} - \text{Import}_{\text{NA}} \] (10)

where SALES_NONRESIDENT stands for realized taxable supplies of non-residents, who participate in foreign trade in the Czech Republic (from VAT returns submitted by these non-residents). Import_{NA} stands for the total imports via non-residents (in other words, all sales to residents by non-residents that participate in cross-border transactions and trade in the internal domestic market – see formula 14).

6. Estimate procedure of derived commodities (import)

137. Estimate of import of derived commodities is conducted implicitly as a difference between sales of non-residents from VAT declarations (less re-sales) and adjusted imports of individual and average commodity via non-residents (see formula 2, 4). Then it holds:

\[ \text{Import}_{\text{NA}_{V}} = (\text{SALES}_{\text{NONRESIDENT}} - \text{RESALES}_{\text{VAT}}) - \text{Import}_{\text{NA}_{I}} - \text{Import}_{\text{NA}_{P}} \] (11)

138. Allocation of such import into territorial structure and more detailed commodity breakdown is done by implicit coefficients \( k_{V}^{\text{P}} \) applied on the import reported by non-residents at the borders (Import_{FTS}_{V}). In fact, this is merely a formal step in order to keep the whole procedure fundamentally the same as in all other commodity groups – as an adjustment of initial data source (i.e. the cross-border FTS data reported by non-residents):

\[ \text{Import}_{\text{NA}_{V}} = k_{V}^{\text{P}} \ast \text{Import}_{\text{FTS}_{V}} \] (12)

where

\[ k_{V}^{\text{P}} = \frac{\text{Import}_{\text{NA}_{V}}}{\text{Import}_{\text{FTS}_{V}}} \] (13).

7. Total import via non-residents

139. Total value of import via non-residents equals the sum of import of individual, average and derived commodities (see formula 2, 4, 11).

\[ \text{Import}_{\text{NA}} = \text{Import}_{\text{NA}_{I}} + \text{Import}_{\text{NA}_{P}} + \text{Import}_{\text{NA}_{V}} \] (14)

8. Total export and import of goods in national concept of foreign trade

140. The total value of export and import of goods in national concept of foreign trade (Import_{NC}, Export_{NC}) are estimated as export/import via non-residents plus direct trade by residents (transactions reported into Intrastat and Extrastat directly by residents which remain unchanged - Import_{RES}, Export_{RES}).

\[ \text{Import}_{\text{NC}} = \text{Import}_{\text{NA}} + \text{Import}_{\text{RES}} \]

\[ \text{Export}_{\text{NC}} = \text{Export}_{\text{NA}} + \text{Export}_{\text{RES}} \]

These figures (national concept of foreign trade) are initial data source for the compilation of import and export of goods in Czech national accounts.

9. Transfer of commodities among commodity groups

141. Categorization of commodities into given groups is a subject to continuous analysis and in case of significant change in influence of trade by non-residents on any commodity, it can be re-categorized.
4.1.4. Merchanting

142. **Definition of merchanting:** purchases and sales of goods without goods entering the economic territory of the merchants’ country.

143. If the producer and final customer are from different countries, the purchases of goods should be recorded as export of the producers’ economy and sales as imports in the economy of final customer. The margin is recorded as an export of goods in the Czech economy\(^{35}\). As the goods moves across the borders, it will be recorded in the FTS of both producers’ and final customers’ countries.

144. If the producer and final customers are from the same economy, the margin will be defined as a negative merchanting in this economy. In the Czech economy, the margin is still recorded as an export of goods. In this case the Czech merchant (non-resident in the economy of producers and final customer) has to be registered for VAT in the country as it is required by the EU common VAT system.

145. In ESA 1995 merchanting belonged to the exceptions from the general rule of change of ownership. Such transactions, also in net value (sales minus purchases), were recorded as export of services\(^ {36}\).

146. Estimate of these transactions is based on the statistical survey of import and export of services (ZO 1-04) done by CZSO, in which the value of purchased and sold goods abroad is surveyed. However, the commodity breakdown is not available. Thus it must be estimated by a model according to CZ-NACE of reporting units and commodities that they can possibly trade.

4.1.5. Negative merchanting

147. **Definition of negative merchanting:** purchase and sale of goods by non-residents without goods leaving the domestic economic territory\(^ {37}\).

148. Such cases are related mostly to the EU Single market. There are foreign merchants (non-residents) registered for VAT in the Czech Republic that are buying and selling goods within the country without any transaction of goods going across the borders. By these transactions on the internal market non-residents create a margin, which is not recorded by any other statistical data source than VAT declarations, and as such causes a balance difference between supply and use side of any commodity traded within the country by non-residents.

149. For example, assume that a non-resident purchases oil from a Czech producer (resident A) for 100 and sell it to another Czech producer (resident B) for 120. Non-resident’s margin is 20 (120-100). The resident A reports in a statistical survey its production of oil for 100 (supply side) and the resident B declares intermediate consumption of oil for 120 (use side). The difference between supply and use side in commodity of oil (100-120) is equal to the non-resident’s margin (20). Table 11 illustrates the imbalance between resources and uses in supply and use tables if negative merchanting is not recorded. Table 2 illustrates the supply and use tables, if negative merchanting is recorded as import of goods.

**Table 11 Supply and use tables – negative merchanting not recorded**

<table>
<thead>
<tr>
<th>CPA commodity</th>
<th>Output (P.1)</th>
<th>...</th>
<th>Import (P.7)</th>
<th>incl. goods</th>
<th>services</th>
<th>Reources</th>
<th>Interm. Consumption (P.2)</th>
<th>...</th>
<th>Export (P.6)</th>
<th>incl. goods</th>
<th>services</th>
<th>Uses</th>
<th>Im-balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>oil</td>
<td>100</td>
<td>0</td>
<td>100</td>
<td>120</td>
<td>0</td>
<td>120</td>
<td></td>
<td></td>
<td>120</td>
<td>-20</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>0</td>
<td>100</td>
<td>120</td>
<td>0</td>
<td>0</td>
<td>120</td>
<td></td>
<td>120</td>
<td>-20</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^{35}\) ESA 2010 9.48e, SNA 14.73

\(^{36}\) Change compared to ESA 1995, see ESA 2010 paragraph 1.51f

\(^{37}\) These transactions are not explicitly mentioned in methodical manuals. They were firstly declared in national accounts in the Czech Republic during revision of national accounts in 2011 (time series since 2005).
Table 12 Supply and use tables – negative merchanting recorded as import

<table>
<thead>
<tr>
<th>CPA commodity</th>
<th>Output (P.1)</th>
<th>...</th>
<th>Import (P.7) incl. goods/services</th>
<th>Re-source (P.2)</th>
<th>Interm. Consumption (P.2)</th>
<th>...</th>
<th>Export (P.6) incl. goods/services</th>
<th>Uses</th>
<th>Im-balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>oil</td>
<td>100</td>
<td>20</td>
<td>20</td>
<td>120</td>
<td>120</td>
<td>0</td>
<td>120</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>20</td>
<td>20</td>
<td>0</td>
<td>120</td>
<td>0</td>
<td>0</td>
<td>120</td>
<td>0</td>
</tr>
</tbody>
</table>

150. Negative merchanting is estimated on the basis of VAT declarations submitted in the Czech Republic by non-residents, who participate very little or not at all in cross-border transactions\(^\text{38}\). As these transactions are in their nature reciprocal to the definition of classical merchanting (see 4.1.4), the transactions are recorded in the net value as a negative import of goods (i.e. sales of non-residents minus their purchases\(^\text{38}\)).

151. The commodity breakdown of the transactions in the internal market is not available and thus must be estimated by a model (based on additional information on non-residents that enter this item). Territorial breakdown is estimated according to non-residents’ seat.

152. The Figure 10 shows the estimation of negative merchanting in relation to the compilation national concept of foreign trade since both issues are based on similar data sources.

**Figure 10 Scheme of negative merchanting estimate in relation to national concept of foreign trade**

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\(^\text{38}\) Purchases and sales by non-resident entities that participate in cross-border transactions are covered in national concept of foreign trade. Currently, it is impossible to distinguish within each unit between sales of goods that are originally from domestic purchases or that are originally transferred across the borders into the Czech territory. It is not possible to divide purchases of goods by non-resident that are to be sold in the Czech domestic market from purchases of goods that are to be sent out of the Czech territory. That is why, for practical reasons all purchases and sales in the internal market realizes by units which participate in cross-border transactions are implicitly covered by national concept of foreign trade. And only purchases and sales realized by units without any cross-border transactions are covered by item “negative merchanting”. This division (simplification) has no impact on the balance of trade, since both national concept of foreign trade and negative merchanting are recorded in the Czech NA.

\(^\text{38}\) See ESA 3.164 (d). The paragraph also states that on import side the compilation is analogous (that is why negative merchanting is recorded as import of goods.
4.1.6. Methodical adjustments and further adjustments on exhaustiveness

4.1.6.1. Goods bought on airport, borders

153. Goods (fuel and other goods) bought on airports, ports and elsewhere abroad are surveyed in ZO 1-04\textsuperscript{40}. This item covers goods that are purchased abroad, usually supplied for the operation of vehicles and other means of transport or for the crew of a vessel.

154. These transactions are captured both on import- and export-side (with imports more significant).

4.1.6.2. Supplies below a threshold value in Extrastat

155. Small supplies imported from outside the EU are taken over from the Czech national Bank, which takes information from the Czech Post. The value of these supplies is below a threshold that is set for proper customs procedures.

156. Most of these supplies are imported from the USA and usually contain computers and related equipment, books, perfumes and clothes.

4.1.6.3. Illegal activities (drugs, tobacco, fuels, property rights)

157. In order to cover import and export of goods exhaustively, also illegal trade is captured. The commodities in questions are as follows:
   - Drugs – both on import- and export-side,
   - Tobacco – both on import- and export-side,
   - Fuels – only on import-side,
   - Property rights – only on import-side.

158. The items are estimated within complex procedures of estimation of illegal activities in the Czech national accounts, which are based on supply and use equation and balancing process.

4.1.6.4. Operative leasing and other transactions with no change of ownership

159. Apart from above mentioned non-resident transactions, Intrastat and Extrastat collect also data on other physical movements of goods with no change of ownership that would precedes or follows the movements, such as loan for use or operative lease. According to the ESA 2010 these transactions are not considered as import and export of goods. Therefore these transactions are excluded from foreign trade.

160. Cross-border import and export of goods due to temporary loan for use usually without any payment is collected in Intrastat if the term of loan is longer than 24 months. Data collection in Intrastat enables the identification of these transactions by NoT 97.

161. Cross-border import and export of goods due to operative lease is collected in Intrastat if the term of lease is longer than 24 months, with exception of aircraft and ships for which there is no time limitation. Operative lease can be in Intrastat identified by NoT 96 (if reported correctly).

However, in case of aircraft, which represent majority of import/export value for operative lease, Extrastat is usually the main data collector. And since NoT is only an auxiliary item in Extrastat there is no reliable identification of these transactions in Extrastat.

Therefore since 2013 an additional control and survey procedures exclusively for aircrafts were installed in the system of data controls in the department of the Foreign trade statistics.

\textsuperscript{40} Codes in survey 192A-C (EBOPS items 233-235).
4.1.6.5. Adjustment for double-counting or omission of imported processing fee in import of goods

162. As it was explained in Paragraph 73, there are processing fees related to outward processing that should be either excluded or imputed into the import of goods. These two cases are as follows:

- **Double-counting**: the value of imported goods which was purchased abroad and processed abroad contains a processing fee\(^{41}\). But the processing fee has also been recorded as import of services. Thus without additional adjustment of goods, the processing fee would be included twice. The value of import of goods should represent in this case only the real value of purchased goods (i.e. without processing services).

- **Omission**: goods are sent abroad for processing and after the processing are sold abroad. The value of exported goods at the borders does not cover the processing fee which is a part of the price when finally sold abroad to non-resident. Therefore processing fee (for imported processing services) must be imputed into the final value of the exported goods.

---

\(^{41}\) The value of import at the borders = original value of goods purchased abroad + the value of processing services carried out on the goods.
4.2. Export and import of services

163. The basic methodology of export and import is introduced in ESA 2010 in paragraphs 3.171-3.179.

4.2.1. Transport services

164. Transport and related services (i.e. insurance) have relation to movement of goods. Valuation of export and import is in line with ESA 2010 paragraphs 3.171-3.179 and tables 3.3 and 3.4. It means that export is valued at f.o.b. prices both in sector accounts and supply and use tables and import is valued at FOB prices in sector accounts and CIF prices in supply and use tables. The valuation scheme was taken over from Eurostat Input-Output Manual 2008, pg. 113, chapter 4.4.2.

165. There are two types of data sources for export and import of transport services. The first comes from quarterly survey on export and import of services (ZO 1-04). The second data source is derived from the coding of FTS export and import (the key FTS value for export is FOB and for import is CIF). There are sets of coefficients applied on value of exported/imported goods specifically by type of transport, distance and other conditions to obtain CIF value for export and FOB value for import. Subsequently, the FTS is providing following information:

- Difference between CIF and FOB values (DTC)
- Cost of transport on the domestic territory from/to border\(^{42}\) (QDTC1)
- Cost of transport on the foreign territory (QDTC2)

166. Information on transport services has to be divided into following cases (see Table 13 and Table 14).

Table 13 Transport services connected with import of goods

<table>
<thead>
<tr>
<th>QDTC0</th>
<th>DTCA1</th>
<th>QDTC2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic territory</td>
<td>Between countries</td>
<td>Territory of exporting country</td>
</tr>
<tr>
<td>A.20 Resident carrier</td>
<td>A.21 Resident carrier</td>
<td>A.22 Resident carrier</td>
</tr>
<tr>
<td>A.10 Non-resident carrier</td>
<td>A.11 Non-resident carrier</td>
<td>A.12 Non-resident carrier</td>
</tr>
</tbody>
</table>

Table 14 Transport services connected with export of goods

<table>
<thead>
<tr>
<th>QDTCB0</th>
<th>DTCB1</th>
<th>QDTCB2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic territory</td>
<td>Between countries</td>
<td>Territory of exporting country</td>
</tr>
<tr>
<td>B.20 Resident carrier</td>
<td>B.21 Resident carrier</td>
<td>B.22 Resident carrier</td>
</tr>
<tr>
<td>B.10 Non-resident carrier</td>
<td>B.11 Non-resident carrier</td>
<td>B.12 Non-resident carrier</td>
</tr>
</tbody>
</table>

These estimates are quite complicated and have to be followed by additional adjustments

167. Data on transport services have to be supplemented by directly invoiced services not connected with export and import of goods (from survey ZO 1-04).

168. Data on estimated transport services connected with export/import of goods have to be adjusted for double counting. It means that a significant part of transport services can be invoiced directly to the customer and it is not a part of the value of exported/imported goods.

169. Correct recording of export and import of transport services used in sector accounts (valued both at FOB prices) is presented in Table 15. Correct recording of export and import of transport services for the purposes of supply and use tables (export valued at FOB prices, import at CIF prices) is presented in Table 16. It should be noted that for supply and use tables small simplification is used because export is valued at FOB instead of basic prices.

\(^{42}\) Quasi direct trade costs.
Table 15 Export and import of transport services in sector accounts (valuation in goods FOB/FOB)

<table>
<thead>
<tr>
<th>Export of transport services</th>
<th>C2 (Direct export of transport services)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B21</td>
</tr>
<tr>
<td></td>
<td>B22</td>
</tr>
<tr>
<td></td>
<td>A22</td>
</tr>
<tr>
<td>Total export = C2 + B21 + B22 + A22</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Import of transport services</th>
<th>C1 (Direct import of transport services)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A11</td>
</tr>
<tr>
<td></td>
<td>A10</td>
</tr>
<tr>
<td></td>
<td>B10</td>
</tr>
<tr>
<td>Total import C1 + A11 + A10 + B10</td>
<td></td>
</tr>
</tbody>
</table>

Table 16 Export and import of transport services in Supply-Use Tables (valuation in goods CIF/FOB)

<table>
<thead>
<tr>
<th>Export of transport services</th>
<th>C2 (Direct export of transport services)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B21</td>
</tr>
<tr>
<td></td>
<td>B22</td>
</tr>
<tr>
<td></td>
<td>A21</td>
</tr>
<tr>
<td></td>
<td>A22</td>
</tr>
<tr>
<td>Total export = C2 + B21 + B22 + A21 + A22</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Import of transport services</th>
<th>C1 (Direct import of transport services)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B10</td>
</tr>
<tr>
<td></td>
<td>A10</td>
</tr>
<tr>
<td>Total import C1 + B10 + A10</td>
<td></td>
</tr>
</tbody>
</table>

170. To be able to fill Table 15 and Table 16, shares are regularly revised on the basis of quarterly survey ZO 1-04. The purpose is to find out the breakdown of sales in % of respondents. The final breakdown of sales is estimated after weighting the structures by total sales broken down by respondents.

Table 17 Breakdown of sales (results from voluntary survey), 2008, v %

<table>
<thead>
<tr>
<th>Inland</th>
<th>International Export</th>
<th>International Import</th>
<th>Cabotage</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Costs paid by Czech subject (resident)</td>
<td>24.7</td>
<td>13.1</td>
<td>11.0</td>
<td>0.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Costs paid by foreign subject (non-resident)</td>
<td>2.7</td>
<td>14.3</td>
<td>10.6</td>
<td>0.7</td>
<td>21.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27.4</strong></td>
<td><strong>27.4</strong></td>
<td><strong>21.5</strong></td>
<td><strong>0.8</strong></td>
<td><strong>22.9</strong></td>
</tr>
</tbody>
</table>

| Number of respondents | 44 | 100.00% |
| - response            | 27 | 61.36%  |
| - non-response         | 17 | 38.64%  |

43 First time, shares were surveyed in a voluntary survey conducted in 2008 – results are shown in Table 17.
4.2.2. Processing services

171. Movements of goods across the borders due to the processing services (manufacturing services on physical inputs owned by others) cannot be considered as exports and imports of goods in the ESA 2010. On the other hand provided or received services have to be recorded as exports and imports of services. The goods for processing are, however, included into exports and imports in the FTS (are collected and included into foreign trade in goods). For more details see Chapter 4.1.1.2 and also Appendix 1.

172. Processing services can be defined as a production of new or significantly changed product by means of operations as assembly, creation, renovation etc., not just packaging, classification, control, testing and certification of goods and similar operations (while the material and final product is owned by order party, namely by non-resident). Unfortunately, there is no one common definition of processing across different statistics (industrial statistics, the foreign trade statistics, the NA and BoP).

Definitions:

173. Export of services (inward processing) – services provided by Czech resident on tangible goods that is in non-resident’s ownership, generally connected firstly with the movement of goods into the Czech Republic and subsequently from the CR.

174. Import of services (outward processing) – services provided by non-resident on tangible goods that is in resident’s ownership, generally connected firstly with movements of goods from the Czech Republic and subsequently to the CR.

175. The Table 3 illustrates the link between the movements of goods and the provision of services.

176. Processing services are surveyed quarterly in the statistical survey on import and export of services (ZO 1-04) in 14 CZ-CPA commodities.

177. In order to estimate the adjustment of goods after processing (and keep the link between processing services and goods for processing) a voluntary additional survey is carried out. This survey is aimed at the breakdown of provided or received services according to the movements of goods related to these services, especially on goods

- Sent back to the original country after processing (export of services),
- Handed over to the non-resident owner in the Czech Republic (export of services),
- Sent to different country after processing (export of services),
- Sold after processing abroad (import of services),
- Purchased abroad and after processing imported into the Czech Republic (import of services).

178. Export of processing services is also available annually from the industrial statistical survey (Prům 2-01) in PRODCOM commodity breakdown. This data source provides detailed commodity breakdown and is used either for the further commodity breakdown of quarterly surveyed data or as a basis for the exhaustiveness of the quarterly survey ZO 1-04.

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44 Processing services were not surveyed before 2013 in ZO 1-04. Since these services were a part of the value of goods, they were purposely exempt from the survey (except for on-side services that are by their character also processing services).

45 However, as it was explained in details in Chapter 4.1.1.2, the value of provided/received services cannot be the same as the difference between goods sent across the borders for and after processing (recorded in Intrastat).
4.2.3. Insurance and financial services

4.2.3.1. FISIM and other financial services

179. Czech National Bank conducts a set of surveys focused on financial sector (financial institutions). The Czech Statistical Office takes over the information on export and import of export of FISIM and other financial services that are measured directly by these surveys (and incorporated into the Balance of Payment). A part of import of financial services is also surveyed by the CZSO in ZO 1-04.

4.2.3.2. Reinsurance

180. The starting point for deriving the exported and imported components is the value of premiums and claims which are observable.

181. The export of insurance services is calculated as part of Insurance and Reinsurance Schemes ESA 2010. In overview, the total value of insurance is derived as the margin between the amounts accruing to the companies (premiums and premium supplements) and the amounts accruing to the policyholders (claims incurred). The export of insurance services can be estimated from total insurance output. The output of nonlife insurance services is multiplied by the ratio of gross premiums earned from nonresidents to total gross premiums earned for all nonlife insurance operations. The same prorating technique can be used for life insurance. The main data sources are Balance Sheets and Income Statements of insurance companies.

182. For imports of nonlife and life insurance services, the only available information are premiums payable abroad and claims receivable from abroad. The available information is less complete than that for exports; premium supplements are not observable. The main data source is statement ZO 1-04.

4.2.3.3. Insurance services

183. The export of reinsurance services is calculated as part of Insurance and Reinsurance Schemes ESA 2010. The total value of reinsurance output is derived as the margin between the amounts accruing to the reinsurance companies (premiums and premium supplements) and the amounts accruing to the policyholders (claims incurred). The only policyholders are insurance companies. The export of reinsurance services can be estimated from total reinsurance output by multiplying the total amount of reinsurance output by the ratio of the gross premiums earned from nonresidents to total gross premiums earned for reinsurance operations. The main data sources are Balance Sheets and Income Statements of reinsurance companies.

184. The import of reinsurance services is calculated as part of Insurance and Reinsurance Schemes ESA 2010. The import of reinsurance services is estimated from Passive Reinsurance of insurance companies. The total Passive Reinsurance is derived as the margin between Premiums and claims incurred. The import of reinsurance services can be estimated by multiplying the total Passive Reinsurance by the ratio of the gross premiums paid to nonresidents to total gross premiums paid for reinsurance operations. The main data sources are Balance Sheets and Income Statements of insurance companies.
4.2.4. Business and personal travel

4.2.4.1. Seasonal and cross-border workers

185. The statistics of migration is important for complex compilation of national accounts and for the transition from GDP to GNI, which is done through the data on primary income between residents on the one hand and non-residents (S.2) on the other hand. It is important to capture the foreigners living in the Czech Republic as well as Czech citizens living abroad. Foreign residents in the Czech Republic affect export of goods and services and Czech residents abroad affect import of goods and services. Data on the number of foreigners in the Czech Republic and Czechs abroad are default to capture the behavior (income and expenses) of such persons in national accounts and balance of payments (CZSO data are taken over CNB, in agreement).

186. The number of foreigners in the Czech Republic is estimated through a combination of three independent administrative sources - The Ministry of the Interior (the Alien Police inspectorate records the total number of foreigners according to length of stay), The Ministry of Labor and Social Affairs (the Labor Offices record of the work permits issued) and The Ministry of Industry and Trade (records of trade licenses). A further source is the information on the numbers of students studying in the Czech Republic, which are obtained from the statistics of the Institute for Information on Education. The basis for the calculation of consumption expenditures (P.31), savings (B.8) and remittances (D.75) is the net wage. The gross wage of employees is estimated with the aid of statistical investigations carried out for the CZSO by the private company Trexima. This company provides data on the average wages of the most common state nationalities in the Czech Republic. The consumption expenditures are estimated according to the structure of the expenditure of Czech households (COICOP classification) and subsequently expertly adjusted for each group. The amount of remittances (as a percentage of net wage) is estimated according to the research project the Institute of Sociology of the Academy of Sciences of the Czech Republic; which was carried out in 2010 and was supported financially by the CZSO and where it determined financial and consumption habits of some groups of foreigners.

187. The number of Czech residents abroad (Czech working abroad for less than one year or cross-border workers – known as “shuttlers”, seasonal workers, students studying abroad and Czechs working in foreign representative offices in the Czech Republic) is estimated through data from the LFS. Wages are estimated through the data from OECD on average wage in each country. The consumption expenditures are also estimated according to the structure of the expenditure of Czech households (COICOP classification) and subsequently expertly adjusted for each country. The level of the remittances of Czech residents is equal to their total savings; all the remaining means earned, left to residents after deducting their consumption expenditures within abroad, go back to the Czech Republic.

4.2.4.2. Other business trips

188. Data on expenses due to business trips other than seasonal and cross-border work are taken over from the Czech National Bank. They are estimated by information on card-payments.

4.2.4.3. Private trips (incl. prostitution and alcohol)

189. Private trips consist of three main parts:
- Health-related expenditures (spa, hospitals, etc.),
- Education expenditures (foreign students - may exceed one year period of stay),
- Other expenditures (individual and organized holiday visits),
Foreign Trade in the Czech National Accounts

- Prostitution – it is estimated as a percentage of the total value of private trips (the estimate comply with the total framework of estimation of illegal activities).

190. Apart from education expenditures, the total value of private trips expenditures is estimated by the Czech National Bank.

4.2.5. Other services (ZO 1-04)

191. Services that are surveyed by Import and export of services survey – ZO 1-04 (see Chapter 2.2.1), other than processing services that are also surveyed in the survey but described separately in Chapter 4.2.2.

192. Item “Other services” represents majority of imported/exported services.

193. It covers also transport services related to import and export of goods, estimated according to invoice value of imported/exported goods, but imputed into other transport services surveyed by ZO 1-04 46.

4.2.6. Other methodical adjustments and adjustments on exhaustiveness

194. These adjustments are minor with rather small impact on export of services. These adjustments (imputations) are:

- 25% of customs duty collected in the Czech Republic, as an recompense and reimbursement for administrative costs of the customs agenda,
- 25% of financial duty imposed on produced sugar which are collected in the Czech Republic, as an recompense and reimbursement for administrative costs of the agenda,
- services of permanent establishments of non-residents that are considered as residents, they are equal to value added by these establishments.

4.2.7. Notional units – Housing services

195. According to ESA the non-residential owners of land and buildings should be recorded in national accounts as notional resident units. Hence the whole sequence of sector national accounts for those units is compiled 47.

196. The output for own use (imputed rental) of these units is than considered as export of services. The imputed rental is estimated by the number of dwellings and land in different regions (i.e. stock of dwellings and land) and average rental. We assume that 50% of dwellings are rented and 50% are used for their own use. For rented housing, we estimate payment rentals. Dwellings for their own use are again divided into 2 halves: one is inhabited (so imputed rental is estimated), second is uninhabited (no rental computed).

46 Only transport services not-related to import and export of services are surveyed directly by ZO 1-04.
47 The estimate is based on two main data sources: (1) State Land Register: number of dwellings and area of land owned by private persons living abroad and (2) CNB: mortgage loans granted by Czech banks to foreigners. The estimate is elaborated as a complete adjustment covering all relevant items in the whole set of accounts for two institutional sectors: S.11003 (notional resident units) and counterpart S.2 (non-residential owners).
5. Cooperation with Czech National Bank on monthly estimates of foreign trade of goods according to ESA 2010

197. Monthly estimates of national concept of foreign trade are key business-cycle indicators of foreign trade performance of the Czech economy (and external demand). Monthly data are required also by the Czech National Bank that compiles Balance of Payment monthly. That is why national concept of foreign trade cannot be provided only quarterly (which is required by the QNA).

198. The fundamental framework of monthly data estimates of national concept is basically the same as of quarterly data (from estimate in T+90 days) but due to unavailability of administrative data from VAT returns the monthly practical procedure are based in greater extent on model estimates.

199. First data on non-residents’ transactions in the internal market (purchases and sales) are for a given month available approx. 50 days after the end of a month, so it is not available for the first monthly estimate on 35th day after the end of month.

200. Moreover, the first VAT data entry (T+50 days) covers about 80% of the value of transactions by non-residents and about 30% of units. The completeness of coverage rises with each additional data entry. With the third VAT data entry for a given period it is already around 99.9%.

201. Therefore until the T+90 days the estimate of national concept of foreign trade is in decreasing extent based on the grossing-up:

- T+35 days estimate – the grossing-up of purchases and sales by non-residents in the internal market is accomplished for the whole non-resident population (see Figure 12),
- after the VAT data are received for a given month grossing-up on exhaustiveness is carried out.

Figure 11 Scheme of monthly revision and compilation of foreign trade, balance of payment and national accounts

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VAT declarations are submitted until 25th day after the end of month (see Figure 4), first VAT data entry is presented by CFTD approximately in T+48 days (around 18th day of each month).

In addition, some non-residents, although negligible, are quarterly VAT payers.
Figure 12 Procedure of the 1st monthly estimate of exports and imports via non-residents

Non-resident cross-border exports

- Individual commodities
- Average commodities
- Prům 1-12
- Production exported via non-residents

Exports via non-residents (national concept)

Non-resident cross-border imports

- Individual commodities
- Average commodities

Imports via non-residents (national concept)

- Sales by non-residents (data from VAT declarations)
- Re-sales between non-residents

- Purchases by non-residents (data from VAT declarations)
- Re-sales between non-residents

* individual coefficients
* average coefficient

Data available for the 1st monthly estimates of foreign trade (national concept)

Need of estimate for the 1st monthly estimates of foreign trade (national concept)
6. Appendix 1 – Processing transactions – CASE STUDIES – Intrastat

### Inward processing - case studies

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>IP1</td>
<td>IP - goods RETURNING BACK to the original country after processing (resident reporting export and import)</td>
</tr>
<tr>
<td>IP2</td>
<td>IP - goods RETURNING BACK to the original country after processing (non-resident reporting export and import)</td>
</tr>
<tr>
<td>IP3</td>
<td>IP - goods SENT TO THE 3rd COUNTRY after processing (resident reporting export and import)</td>
</tr>
<tr>
<td>IP4</td>
<td>IP - goods SENT TO THE 3rd COUNTRY after processing (non-resident reporting export and import)</td>
</tr>
<tr>
<td>IP5</td>
<td>IP - goods HANDED OVER after processing in the CR (resident reporting import, non-resident reporting export)</td>
</tr>
<tr>
<td>IP6a</td>
<td>IP - goods HANDED OVER after processing in the CR and SOLD in the internal market (resident reporting import)</td>
</tr>
<tr>
<td>IP6b</td>
<td>IP - goods HANDED OVER after processing in the CR - SOLD in the internal market (non-resident reporting import)</td>
</tr>
<tr>
<td>IP7a</td>
<td>IP - goods PURCHASED in the CR for processing and EXPORTED after processing by non-resident</td>
</tr>
<tr>
<td>IP7b</td>
<td>IP - goods PURCHASED in the CR for processing and SOLD in the internal market by non-resident</td>
</tr>
<tr>
<td>IP8f</td>
<td>IP - MIS-REPORTING in export after processing (should be reported by resident)</td>
</tr>
</tbody>
</table>

### Outward processing - case studies

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>OP1a</td>
<td>OP - goods RETURNING BACK to the original country (resident reporting export and import)</td>
</tr>
<tr>
<td>OP1b</td>
<td>OP - goods RETURNING BACK (resident reporting with VAT number in DE)</td>
</tr>
<tr>
<td>OP2</td>
<td>OP - goods RETURNING BACK (non-resident reporting)</td>
</tr>
<tr>
<td>OP3a</td>
<td>OP - goods NOT RETURNING BACK (resident reporting)</td>
</tr>
<tr>
<td>OP3b</td>
<td>OP - goods NOT RETURNING BACK (resident reporting with VAT number in DE)</td>
</tr>
<tr>
<td>OP4</td>
<td>OP - goods NOT RETURNING BACK (non-resident reporting)</td>
</tr>
<tr>
<td>OP5</td>
<td>OP - goods PURCHASED abroad and SOLD abroad by resident</td>
</tr>
<tr>
<td>OP6</td>
<td>OP - goods PURCHASED abroad and IMPORTED by resident</td>
</tr>
<tr>
<td>OP7</td>
<td>OP - goods IMPORTED, that had NOT been previously EXPORTED</td>
</tr>
</tbody>
</table>
Nature of transactions (NoT) used in the case studies

Processing NoT (reported only by processors in case of inward processing and owners in case of outward processing)

- 41 Import/Export of goods for processing - returning back to the original country after processing
- 42 Import/Export of goods for processing - not returning back to the original country after processing
- 51 Export/Import of goods after processing - returning back to the original country after processing
- 52 Export/Import of goods after processing - not returning back to the original country after processing
- 92 Export/Import of goods across borders usually without change in ownership (e.g. transfer of own goods - the company reports export of goods under its VAT number in exporting country and simultaneously reports import of the goods under its VAT number in importing country)
- 11 General trade (Export/Import) - change of ownership expected
**IP1**

**IP - goods RETURNING BACK to the original country (resident reporting)**
- NON-RESIDENT from Germany sends goods to the Czech Republic for processing
- non-resident is/is not registered for VAT in the CR
- reporting unit (to Intrastat) is resident (processor)
- goods are returning back to Germany after processing

<table>
<thead>
<tr>
<th>Germany</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td></td>
</tr>
<tr>
<td>Ex 41</td>
<td></td>
</tr>
<tr>
<td>Im 41</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ex 41</th>
<th>Im 41</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>50</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>60</th>
</tr>
</thead>
<tbody>
<tr>
<td>NoT Im 51</td>
</tr>
<tr>
<td>NoT Ex 51</td>
</tr>
</tbody>
</table>

Processing fee 10

**ESA95**

<table>
<thead>
<tr>
<th>Ex - goods</th>
<th>Im - goods</th>
<th>Ex - serv.</th>
<th>Im - serv.</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>60</td>
<td>50</td>
<td>0</td>
<td>0</td>
<td>10</td>
</tr>
</tbody>
</table>

**ESA2010**

<table>
<thead>
<tr>
<th>Ex - goods</th>
<th>Im - goods</th>
<th>Ex - serv.</th>
<th>Im - serv.</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>10</td>
<td>0</td>
<td>10</td>
</tr>
</tbody>
</table>

**Changes due to ESA 2010**
- exclusion of Import 41 and Export 51
- inclusion of processing fee surveyed in ZO 1-04

**Problems**
- none

* NoT = code of Nature of Transaction under which transactions are reported to Intrastat
** ownership principle with the exception of processing (national concept of foreign trade in the CR)

**Data sources**
- Survey ZO1-04 for import and export of services
- Intrastat
- VAT data
- not available
IP - goods RETURNING BACK to the original country (non-resident reporting)

- NON-RESIDENT from Germany sends goods to the Czech Republic for processing
- non-resident is registered for VAT in the CR
- reporting unit (to Intrastat) is non-resident (owner of goods) - transfer of own goods
- goods are returning back to Germany after processing

**Changes due to ESA 2010**
- no change is needed because transactions reported by non-residents across borders have already been excluded from exports and imports in NA according to national concept of foreign trade (i.e. only non-residents' purchases and sales in the internal market are exports and imports for the domestic economy)
- inclusion of processing fee surveyed in ZO 1-04
- due to this case there is difference between margin from excluded goods crossing borders for/after processing and processing sees surveyed in ZO 1-04
- if national concept is not applied and transactions by non-resident are recorded as export/import, balance of trade would be overestimated

**Problems**
- none

* NoT = code of Nature of Transaction under which transactions are reported to Intrastat
** ownership principle with the exception of processing (national concept of foreign trade in the CR)

**Data sources**
Survey ZO1-04 for import and export of services
Intrastat
VAT data
not available

**Notes**
- non-resident is not allowed to report processing transactions (NoT 41/42/51/52) but could report transfer of own goods (NoT 92)
- NoT 92 includes not only transfer of own goods
- sometimes NoT92 should be reported but NoT 11 is reported instead
**IP3**

**IP - goods SENT TO THE 3rd COUNTRY after processing (resident reporting)**
- NON-RESIDENT from Germany sends goods to the Czech Republic for processing
- non-resident is/is not registered for VAT in the CR
- reporting unit (to Intrastat) is resident (processor)
- goods after processing are not returning to Germany and dispatched to Poland instead

<table>
<thead>
<tr>
<th>Germany</th>
<th>CR</th>
<th>Poland</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Ex 42</td>
<td></td>
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</tr>
<tr>
<td>Im 42</td>
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<td>NoT</td>
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</table>

**Processing fee**

| 10 |
|    |

<table>
<thead>
<tr>
<th>Balance</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10</td>
</tr>
</tbody>
</table>

| 60      | 60 |
| Ex 52   | Im 52 |
| NoT     | NoT  |

**Changes due to ESA 2010**
- exclusion of Import NoT 42 and export NoT 52
- inclusion of processing fee surveyed in ZO 1-04

**Problems**
- none

---

* NoT = code of Nature of Transaction under which transactions are reported to Intrastat
** ownership principle with the exception of processing (national concept of foreign trade in the CR)

**Data sources**
- Survey ZO1-04 for import and export of services
- Intrastat
- VAT data
  - not available

**Notes**
- processing (definition of NoT is “not returning back to the original country”, so it also contains goods handed over within the CR - see case IP5 and IP6a, IP6b)
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**IP4**

**IP - goods SENT TO THE 3rd COUNTRY after processing (non-resident reporting)**
- NON-RESIDENT from Germany sends goods to the Czech Republic for processing
- non-resident is registered for VAT in the CR
- reporting unit (to Intrastat) is non-resident (owner of goods) - transfer of own goods
- goods are not returning to Germany and dispatched to Poland instead after processing

<table>
<thead>
<tr>
<th>Germany</th>
<th>CR</th>
<th>Poland</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>50</td>
<td>60</td>
</tr>
</tbody>
</table>

Changes due to ESA 2010
- no change is needed because transactions reported by non-residents across borders have already been excluded from exports and imports in NA according to national concept of foreign trade (i.e. only non-residents’ purchases and sales in the internal market are exports and imports for the domestic economy)
- inclusion of processing fee surveyed in ZO 1-04
- due to this case there is difference between margin from excluded goods crossing borders for/after processing and processing fees surveyed in ZO 1-04
- if national concept is not applied and transactions by non-resident are recorded as export/import, balance of trade would be overestimated

Problems
- none

Notes
- non-resident is not allowed to report processing transactions (NoT 41/42/51/52) but could report transfer of own goods (NoT 92) or general goods (11)
- NoT 92 includes not only transfer of own goods
- sometimes NoT92 should be reported but NoT 11 is reported instead
- in ESA 95 processing fee was supposed to be surveyed as a services provided on site, newly included into processing fees

* NoT = code of Nature of Transaction under which transactions are reported to Intrastat
** ownership principle with the exception of processing (national concept of foreign trade in the CR)

Data sources
- Survey Z01-04 for import and export of services
- Intrastat
- VAT data
  - not available
IP5

IP - goods HANDED OVER in the CR (non-resident reporting after processing)

- NON-RESIDENT from Germany sends goods to the Czech Republic for processing
- non-resident is obliged to register for VAT in the CR due to the exports
- reporting unit (to Intrastat when goods imported) is resident (processor)
- goods are handed over to non-resident in the CR after processing, non-resident may export them (reporting to the Intrastat)

<table>
<thead>
<tr>
<th></th>
<th>Germany</th>
<th>CR</th>
<th>Poland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Im - goods</td>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Ex - goods</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Balance</td>
<td>-50</td>
<td>10</td>
<td>-40</td>
</tr>
</tbody>
</table>

ESA95**

<table>
<thead>
<tr>
<th></th>
<th>Im - goods</th>
<th>Ex - goods</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Im - goods</td>
<td>50</td>
<td>0</td>
<td>-50</td>
</tr>
<tr>
<td>Ex - goods</td>
<td>0</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

ESA2010

<table>
<thead>
<tr>
<th></th>
<th>Im - goods</th>
<th>Ex - goods</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Im - goods</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Ex - goods</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

Changes due to ESA 2010

- by exclusion of import NoT 42 correct recording is ensured
- no change is needed because transactions reported by non-residents across borders have already been excluded from exports and imports in NA according to national concept of foreign trade (i.e. only non-residents' purchases and sales in the internal market are exports and imports for the domestic economy)
- inclusion of processing fee surveyed in ZO 1-04
- due to this case there is difference between margin from excluded goods crossing borders for/after processing and processing fees surveyed in ZO 1-04
- if national concept is not applied and export by non-resident is recorded as export from domestic economy, balance of trade would be overestimated

Problems

- none

Data sources

Survey ZO1-04 for import and export of services
Intrastat
VAT data
not available

Notes

- in ESA 95 processing fee was supposed to be surveyed as a services provided on site, newly included into processing fees
**IP6a**

**IP - goods HANDED OVER after processing in the CR and SOLD in the internal market (resident reporting)**

- NON-RESIDENT from Germany sends goods to the Czech Republic for processing
- non-resident is obliged to register for VAT in the CR due to sales
- reporting unit (to Intrastat when goods imported) is resident (processor)
- goods are handed over to non-resident in the CR after processing, non-resident sells them in the internal market

<table>
<thead>
<tr>
<th>Germany</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>50</td>
</tr>
</tbody>
</table>

- **NoT** = code of Nature of Transaction under which transactions are reported to Intrastat
- **ESA95** = ESA95
- **ESA2010** = ESA2010

### Changes due to ESA 2010

- by exclusion of import NoT 42 correct recording is ensured as only sales by non-resident can be understood as import for the domestic economy
- inclusion of processing fee surveyed in ZO 1-04
- due to this case there is difference between margin from excluded goods crossing borders for/after processing and processing sees surveyed in ZO 1-04

### Problems

- commodity breakdown of sales is not available

---

<table>
<thead>
<tr>
<th></th>
<th>ESA95**</th>
<th>ESA2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Im - goods</strong></td>
<td>110</td>
<td>60</td>
</tr>
<tr>
<td><strong>Im - serv.</strong></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Ex - goods</strong></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Ex - serv.</strong></td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td><strong>Balance</strong></td>
<td>-110</td>
<td>-60</td>
</tr>
</tbody>
</table>

**Data sources**

- Survey ZO1-04 for import and export of services
- Intrastat
- VAT data
- not available
**IP6b**

**IP - goods HANDED OVER after processing in the CR - SOLD in the internal market**

- NON-RESIDENT from Germany sends goods to the Czech Republic for processing
- non-resident is obliged to register for VAT in the CR due to the sales
- reporting unit (to Intrastat) is non-resident (owner of goods) - transfer of own goods
- goods handed over to non-resident owner after processing and sold in the internal market

---

**Changes due to ESA 2010**

- inclusion of processing fee surveyed in ZO 1-04
- no change is needed because transactions reported by non-residents across borders have already been excluded from exports and imports in NA according to national concept of foreign trade (i.e. only non-residents' purchases and sales in the internal market are exports and imports for the domestic economy)
- due to this case there is difference between margin from excluded goods crossing borders for/after processing and processing sees surveyed in ZO 1-04

**Problems**

- commodity breakdown of sales is not available

---

**Data sources**

- Survey ZO1-04 for import and export of services
- Intrastat
- VAT data
- not available

---

**Notes**

- non-resident is not allowed to report processing transactions (NoT 41/42/51/52) but could report transfer of own goods (NoT 92)
- NoT 92 includes not only transfer of own goods
- sometimes NoT92 should be reported but NoT 11 is reported instead
IP7a

**IP - goods PURCHASED for processing in the CR and EXPORTED by non-resident**

- NON-RESIDENT purchased goods in the internal market in the CR
- non-resident is registered for VAT in the CR
- reporting unit (to Intrastat) is non-resident (owner of goods) - transfer of own goods
- goods are exported by non-resident after processing

<table>
<thead>
<tr>
<th>Germany</th>
<th>CR</th>
<th>ESA95**</th>
<th>ESA2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase</td>
<td>50</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>processing fee</td>
<td>10</td>
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<td>10</td>
</tr>
<tr>
<td>Balance</td>
<td>60</td>
<td>50</td>
<td>60</td>
</tr>
</tbody>
</table>

Changes due to ESA 2010
- inclusion of processing fee surveyed in ZO 1-04
- no change is needed because transactions reported by non-residents across borders have already been excluded from exports and imports in NA according to national concept of foreign trade (i.e. only non-residents' purchases and sales in the internal market are exports and imports for the domestic economy)
- due to this case there is difference between margin from excluded goods crossing borders for/after processing and processing sees surveyed in ZO 1-04

Problems
- commodity breakdown of purchases is not available

* NoT = code of Nature of Transaction under which transactions are reported to Intrastat

** ownership principle with the exception of processing (national concept of foreign trade in the CR)

Data sources
- Survey ZO1-04 for import and export of services
- Intrastat
- VAT data

Notes
- in ESA 95 processing fee was not surveyed
- purchases by non-residents are exports of the domestic economy in ESA 95 as well as in ESA 2010
**IP7b**

**IP - goods PURCHASED in the CR and SOLD in the internal market by non-resident**

- NON-RESIDENT purchased goods in the internal market in the CR
- non-resident is obliged to register for VAT in the CR due to the sales
- goods handed over to non-resident owner, who sells them in the internal market

<table>
<thead>
<tr>
<th></th>
<th>CR</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase</td>
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<td></td>
</tr>
<tr>
<td>processing fee</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Sale</td>
<td>60</td>
<td></td>
</tr>
</tbody>
</table>

### Changes due to ESA 2010

- inclusion of processing fee surveyed in ZO 1-04
- negative merchanting is recorded as export of goods
- due to this case there is difference between margin from excluded goods crossing borders for/after processing and processing sees surveyed in ZO 1-04

### Problems

- commodity breakdown of purchases and sales is not available

---

* NoT = code of Nature of Transaction under which transactions are reported to Intrastat

** ownership principle with the exception of processing (national concept of foreign trade in the CR)

### Data sources

- Survey ZO1-04 for import and export of services
- Intrastat
- VAT data

### Notes

- in ESA 95 the margin between sales and purchases is recorded as negative merchanting in export of services (with negative sign)
- in ESA 95 processing fee is not recorded or recorded as services on site
IP - MIS-REPORTING in export after processing (should be reported by resident)

- NON-RESIDENT from Germany sends goods to the Czech Republic for processing
- non-resident is/is not registered for VAT in the CR
- reporting unit (to Intrastat) is resident (processor)
- goods after processing are not reported by resident correctly as goods after processing

<table>
<thead>
<tr>
<th>Germany</th>
<th>CR</th>
<th>Poland</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>- NoT</td>
<td>- NoT</td>
<td>- NoT</td>
</tr>
<tr>
<td>Ex 41/42</td>
<td>Ex 41/42</td>
<td>Ex 41/42</td>
</tr>
</tbody>
</table>

Processing fee: 10

<table>
<thead>
<tr>
<th>Germany</th>
<th>CR</th>
<th>Poland</th>
</tr>
</thead>
<tbody>
<tr>
<td>60</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>- NoT</td>
<td>- NoT</td>
<td>- NoT</td>
</tr>
<tr>
<td>Im 11</td>
<td>Ex 11</td>
<td>Im 11</td>
</tr>
<tr>
<td>Ex 11</td>
<td>Ex 11</td>
<td>Ex 11</td>
</tr>
</tbody>
</table>

Changes due to ESA 2010
- exclusion of Import 41/42
- inclusion of processing fee surveyed in ZO 1-04

Problems
- correct reporting of Nature of transaction. If transactions after processing are not reported under NoT 51 or 52, balance of trade is overestimated
- in that case additional adjustment in goods after processing is needed

* NoT = code of Nature of Transaction under which transactions are reported to Intrastat
** ownership principle with the exception of processing (national concept of foreign trade in the CR)

Data sources
- Survey ZO1-04 for import and export of services
- Intrastat
- VAT data
- not available
OP - goods RETURNING BACK to the original country (resident reporting)
- RESIDENT sent goods for processing from the CR to Germany
- resident is not registered for VAT in Germany
- reporting unit (to Intrastat) is resident (owner)
- goods are returning back to the CR after processing

<table>
<thead>
<tr>
<th>CR</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>NoT*</td>
<td>NoT</td>
</tr>
<tr>
<td>Ex 41</td>
<td>Im 41</td>
</tr>
<tr>
<td>Ex 51</td>
<td>Im 51</td>
</tr>
<tr>
<td>60</td>
<td>60</td>
</tr>
</tbody>
</table>

Processing fee 10

\[ \text{Balance} = \text{Ex} - \text{Im} = -10 \]

Changes due to ESA 2010
- exclusion of Export 41 and Import 51
- inclusion of processing fee surveyed in ZO 1-04

Problems
- none

* NoT = code of Nature of Transaction under which transactions are reported to Intrastat
** ownership principle with the exception of processing (national concept of foreign trade in the CR)

Data sources
- Survey ZO1-04 for import and export of services
- Intrastat
- VAT data not available
OP1b

**OP - goods RETURNING BACK (resident reporting with VAT number in DE)**

- RESIDENT sent goods for processing from the CR to Germany
- resident is registered for VAT in Germany - transfers own goods to Germany
- reporting unit (to Intrastat) is resident (owner)
- goods are returning back to the CR after processing

<table>
<thead>
<tr>
<th>CR</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>Ex 92 NoT*</td>
</tr>
<tr>
<td>60</td>
<td>Im 92 NoT</td>
</tr>
</tbody>
</table>

| processing fee | 10 |

### ESA95**

<table>
<thead>
<tr>
<th></th>
<th>CR</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>Im - goods</td>
<td>60</td>
<td>Im - serv.</td>
</tr>
<tr>
<td>Ex - goods</td>
<td>50</td>
<td>Ex - serv.</td>
</tr>
<tr>
<td>Balance</td>
<td>-10</td>
<td>0</td>
</tr>
</tbody>
</table>

### ESA2010

<table>
<thead>
<tr>
<th></th>
<th>CR</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>Im - goods</td>
<td>60</td>
<td>Im - serv.</td>
</tr>
<tr>
<td>Ex - goods</td>
<td>50</td>
<td>Ex - serv.</td>
</tr>
<tr>
<td>Balance</td>
<td>-10</td>
<td>-10</td>
</tr>
</tbody>
</table>

**Changes due to ESA 2010**

- NoT 92 cannot be excluded from exports and imports as there are also other kinds of transactions reported under NoT 92
- processing services recently taken over from ZO 1-04

**Problems**

- double-counting of processing fee (once in services and once in goods)
- very rarely happening (no reason to report this way), so this will be omitted

* NoT = code of Nature of Transaction under which transactions are reported to Intrastat
** ownership principle with the exception of processing (national concept of foreign trade in the CR)

**Data sources**

Survey ZO1-04 for import and export of services
Intrastat
VAT data
not available

**Notes**

- resident can report transfer of own goods (NoT92)
- NoT 92 includes not only transfer of own goods
- sometimes NoT92 should be reported but NoT 11 is reported instead
**OP2**

**OP - goods RETURNING BACK (non-resident reporting)**
- NON-RESIDENT sent goods for processing from the CR to Germany
- non-resident is registered for VAT in the CR
- reporting unit (to Intrastat) is non-resident (owner)
- goods are returning back to the CR after processing

**Changes due to ESA 2010**
- no change is needed (non-residents’ transactions are not significant for the domestic economy)
- there are only transactions between non-residents
- same as in OP4 and OP6

**Problems**
- none

* NoT = code of Nature of Transaction under which transactions are reported to Intrastat
** ownership principle with the exception of processing (national concept of foreign trade in the CR)

**Data sources**
- Survey ZO1-04 for import and export of services
- Intrastat
- VAT data
- not available
OP3a

OP - goods NOT RETURNING BACK (resident reporting)
- RESIDENT sent goods for processing from the CR to Germany
- resident is not registered for VAT in Germany
- reporting unit (to Intrastat) is resident (owner)
- goods are not returning back to the CR after processing (can be sold in the country of processing or exported to other country - eitherway, it is sold abroad)

CR

Germany

NoT* Ex 42

50

NoT Im 42

50

processing fee

10

Sale

60

Changes due to ESA 2010
- Export NoT 42 is considered to be export (is not excluded even though it is export for processing because there will be change in ownership abroad after processing)
- imported services on goods not returning back (processing fee) is imputed to the value of export NoT 42 in order to get value of sold goods abroad

Problems
- estimation of processing fee in this case (additional survey of breakdown services is needed)

* NoT = code of Nature of Transaction under which transactions are reported to Intrastat
** ownership principle with the exception of processing (national concept of foreign trade in the CR)

Data sources
- Survey ZO1-04 for import and export of services
- Intrastat
- VAT data not available

OP - goods NOT RETURNING BACK (resident reporting)
OP3b

**OP - goods NOT RETURNING BACK (resident reporting with VAT number in DE)**

- RESIDENT sent goods for processing from the CR to Germany
- resident is registered for VAT in Germany
- reporting unit (to Intrastat) is resident (owner)
- goods are not returning back to the CR after processing (can be sold in the country of processing or exported to other country - either way, it is sold abroad)

<table>
<thead>
<tr>
<th>CR</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>NoT 92/11</td>
<td>Im 92/11</td>
</tr>
<tr>
<td>Ex 92/11</td>
<td>Ex 92/11</td>
</tr>
<tr>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td><strong>processing fee</strong></td>
<td>10</td>
</tr>
</tbody>
</table>

**Changes due to ESA 2010**

- Export NoT 92/11 is considered as export as it is in case of NoT 42 (see OP3a and OP5a)
- imported services on goods not returning back (processing fee) is imputed to the value of export NoT 42 in order to get value of sold goods abroad

**Problems**

- estimation of processing fee in this case (additional survey of breakdown services is needed)

* NoT = code of Nature of Transaction under which transactions are reported to Intrastat
** ownership principle with the exception of processing (national concept of foreign trade in the CR)

**Data sources**

Survey ZO1-04 for import and export of services
Intrastat
VAT data
not available

**Notes**

- resident can report transfer of own goods (NoT92)
- NoT 92 includes not only transfer of own goods
- sometimes NoT92 should be reported but NoT 11 is reported instead
OP4

**OP - goods NOT RETURNING BACK (non-resident reporting)**
- NON-RESIDENT sent goods for processing from the CR to Germany
- non-resident is registered for VAT in the CR
- reporting unit (to Intrastat) is non-resident (owner)
- goods are not returning back to the CR after processing

<table>
<thead>
<tr>
<th>CR</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>50</td>
</tr>
</tbody>
</table>

*NoT*  
V42  
D42  

processing fee  
10  

Sale  
60  

**Changes due to ESA 2010**
- no change is needed (non-residents' transactions are not significant for the domestic economy)
- there are only transactions between non-residents
- same as in OP2

**Problems**
- none

* NoT = code of Nature of Transaction under which transactions are reported to Intrastat  
** ownership principle with the exception of processing (national concept of foreign trade in the CR)

**Data sources**
- Survey ZO1-04 for import and export of services
- Intrastat
- VAT data
- not available
### OP5

**OP - goods PURCHASED abroad and SOLD abroad by resident**

- RESIDENT purchased goods for processing abroad
- resident is registered for VAT in Germany
- reporting unit is resident (owner)
- goods stay abroad and are sold there after processing

#### ESA95**

<table>
<thead>
<tr>
<th>CR</th>
<th>Germany</th>
<th>Im - goods</th>
<th>Im - serv.</th>
<th>Ex - goods</th>
<th>Ex - serv.</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td>0</td>
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<td>0</td>
<td>-10</td>
</tr>
</tbody>
</table>

#### ESA2010

<table>
<thead>
<tr>
<th>CR</th>
<th>Germany</th>
<th>Im - goods</th>
<th>Im - serv.</th>
<th>Ex - goods</th>
<th>Ex - serv.</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

#### Changes due to ESA 2010

- processing fee included in import of services ensures correct recording
- can be a part of merchanting which was recorded as export of services in ESA 95, under ESA 2010 is considered as goods
- merchanting is recorded in net value (i.e. sales are exports and purchased are considered as negative exports)

#### Problems

- commodity breakdown of purchases and sales is not available

---

* NoT = code of Nature of Transaction under which transactions are reported to Intrastat
** ownership principle with the exception of processing (national concept of foreign trade in the CR)

---

### Data sources

- Survey ZO1-04 for import and export of services
- Intrastat
- VAT data
- not available

### Notes

- merchanting in ESA 95 is considered as export of services
- processing fee was not surveyed under ESA 95
OP6

**OP - goods PURCHASED abroad and IMPORTED by resident**
- RESIDENT purchased goods for processing abroad
- resident is registered for VAT in Germany
- reporting unit is resident (owner)
- goods are imported after processing

<table>
<thead>
<tr>
<th>CR</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>50</td>
<td></td>
</tr>
</tbody>
</table>

**Changes due to ESA 2010**
- Import NoT 92 cannot be excluded
- imported services on goods purchased abroad and imported after processing (processing fee) is excluded from the value of export in order to eliminate double-counting of services (once as services and once in goods)

**Problems**
- estimation of processing fee in this case (additional survey of breakdown services is needed)

* NoT = code of Nature of Transaction under which transactions are reported to Intrastat
** ownership principle with the exception of processing (national concept of foreign trade in the CR)

**Data sources**
- Survey ZO1-04 for import and export of services
- Intrastat
- VAT data
- not available

**Notes**
- resident can report transfer of own goods (NoT92)
- NoT 92 includes not only transfer of own goods
- sometimes NoT92 should be reported but NoT 11 is reported instead
**OP7**

**OP - goods IMPORTED, that had NOT been previously EXPORTED**
- RESIDENT imports goods that were previously processed abroad but had not been sent abroad from the CR (but from different country)
- reporting unit (to Intrastat) is resident (owner)

```
<table>
<thead>
<tr>
<th>CR</th>
<th>Germany</th>
<th>Poland</th>
</tr>
</thead>
<tbody>
<tr>
<td>NoT*</td>
<td>Im 42</td>
<td>NoT</td>
</tr>
<tr>
<td>60</td>
<td>50</td>
<td>50</td>
</tr>
</tbody>
</table>
```

Processing fee:
- Import NoT 52 is considered to be import (is not excluded even though it is import after processing because there is a change in ownership), imported goods under NoT had not been exported from the CR

**Changes due to ESA 2010**
- Import NoT 52 is considered to be import (is not excluded even though it is import after processing because there is a change in ownership), imported goods under NoT had not been exported from the CR

**Problems**
- none

**Data sources**
- Survey ZO1-04 for import and export of services
- Intrastat
- VAT data not available

* NoT = code of Nature of Transaction under which transactions are reported to Intrastat
** ownership principle with the exception of processing (national concept of foreign trade in the CR)
7. Appendix 2 – Examples of why non-residents are registered for VAT in the CR

202. Foreign merchants registered for VAT in the Czech Republic cannot be considered as a subsidiary of non-resident entity\textsuperscript{50}. Single market in the EU enables any business unit to participate in trade in any member state of the EU. These merchants are only required to register for VAT in any country where they carry out their trade.

203. In fact, any business entity (even those seated outside the EU) can be registered in all member states for VAT and physical presence in any of these countries is not necessary. It usually also cannot be said that the economic interests are limited to one particular country. Registration for VAT cannot be considered as a foundation of subsidiary in the country.

204. Registration for VAT represents additional administrative burden and costs. However, it is required by tax law in most business transactions. These requirements leading to registration for VAT mostly arises from the common VAT system in the EU so they are similar in all EU member states. Examples of transactions that lead to the obligation to register for VAT in the Czech Republic are as follows:

- Purchase of goods and subsequent dispatch to other EU member state,
- Purchase of goods and subsequent sale in the internal market,
- Sale of imported goods in the internal market,
- Transfer of own goods into/from the Czech territory, e.g. to/from distributional warehouses.

205. Here are some reasons and motivations for transactions that lead to the obligation to register for VAT in the Czech Republic:

- One of the main reasons why non-residents are trading in the internal market, apart from seeking advantage in trading in the single market, is trading between related companies. In case of the Czech Republic, it is often non-resident parent company and resident subsidiary. The resident company is a producer in the Czech Republic and sells all the production (or its significant part) directly to the parent company or to any other related non-resident merchant that is responsible for distribution in the multinational corporation. The parent company is not physically present\textsuperscript{51} in the Czech Republic but in order to do business in the internal market it is obliged to register for VAT in the Czech Republic. Prices that are set for these transactions between related companies are often controlled and regulated within the corporation. The business model is analogous also for the inputs into the production process (parent company sells goods to the subsidiary). The motivation for this business arrangement is tax optimization or cost efficiency.

- Selling the whole production to a single customer (e.g. a foreign merchant) need not to be carried out only among related companies. For a producer it can be profitable to have guaranteed sales (or does not have to organize further distribution). For a non-resident merchant it can be profitable to control the market with a specific commodity in the internal market and abroad\textsuperscript{52}.

\textsuperscript{50} Naturally, subsidiaries of non-residents can be (and usually are) registered for VAT in the Czech Republic but in that case the subsidiaries are usually also in the Czech business register (and have business ID).

\textsuperscript{51} As a non-resident unit is not seated in the Czech Republic, its profit is not a subject for income tax in the Czech Republic. However, any foreign company is trying to minimize its physical presence in the Czech Republic in order to avoid a formation of so called ‘permanent establishment’ from the tax point of view. If a permanent establishment is considered to exist by a tax authority, a part of its business gains can be subjected to income tax under the bilateral international treaty about avoiding double taxation. However, for a merchandizing physical presence is not necessary.

\textsuperscript{52} It is common business practice, especially in a commodity which is not unique (e.g. grain), that the producer does not know the final customer, and vice-versa. The knowledge of both sides is the know-how of the merchant and for him the country of either business partner is not important in the single EU market.
• Other reason for a non-resident company to register for VAT in the Czech Republic is the pursuit of entering the Czech market. If a foreign company does not have any distributor for the Czech market the solution can be to supply the retailers directly.

• For a non-resident, that imports goods from outside EU into the EU territory, it is useful, even profitable, to be registered for VAT in the Czech Republic and import goods through the Czech Republic. The reason for this is so-called “self-assessment of VAT” that enables the importer not to pay the VAT at the customs control but subsequently submit a VAT declaration with assessment of the tax and simultaneously claim the deduction of the tax in the same VAT declaration. This arrangement is very encouraging for importers as it does not influence the cash-flow of the importer.

And as the goods are cleared for free circulation in the EU, the importer is free to move the goods to other EU states or to sell it in the internal market in the Czech Republic53.

• For a company that buys goods directly in the Czech Republic (e.g. fuel to its trucks) it can be profitable to be registered for VAT in the Czech Republic and claim the deduction of VAT regularly in their VAT declarations instead of claiming the refund of VAT from abroad.

• In case of providing some services non-resident has to be registered for VAT in the Czech Republic – construction (and other services related to real estate), education, catering.

53 The importer does not have to apply for a special customs procedure (4200) that suspends the VAT payment (from the customs control) to the member state of final customer.
8. Appendix 3 – Examples of transactions causing separation of the foreign trade statistics from the ownership principle in the European Single market

206. Non-resident (seated in country B) registered for VAT in country A purchased goods in country A from resident in country A. The goods are subsequently dispatched by non-resident into other EU country (Intrastat). The value of goods at the borders is different from the trading value in the internal market (at which non-resident purchased the goods from resident). The margin is created by non-resident merchant and thus cannot be a part of the export from domestic economy of country A.

207. Non-resident (seated in country B) registered for VAT in country A imports goods into country A (Intrastat, Extrastat). The goods are subsequently sold by the non-resident to residents in the internal market of country A. The trading value of goods in the internal market is different from the value reported by non-resident at the borders. The margin is created by non-resident merchant and thus must be a part of the import into the domestic economy of country A.

208. Non-resident (seated in country B) registered for VAT in country A imports goods into country A (Intrastat, Extrastat) and the goods are subsequently exported by non-resident into other EU country (Intrastat). There was no change of ownership between residents and non-residents so the goods cannot be considered as import and export of the domestic economy of country A. The value of goods reported when crossing the borders into the territory of the country A can be different from the value of goods reported when leaving the territory of country A.

209. Non-resident (seated in country B) is not registered for VAT in country A and declares at the customs control in country A exports of goods (Extrastat). The goods do not originate from the economy of country A but were physically transported across the borders from other EU country into the territory of country A. However, as the non-resident is not registered for VAT in the country A, he had not declared the import of goods from other EU country into the country A (Intrastat). Thus there is reported export of goods in the FTS (Extrastat) that were neither produced nor declared as imported into country A (Intrastat).