

Notice

Merchanting including forward commodities transactions

Payments relating to external transactions

Summary of the most important changes

- No distinction now between direct merchanting and warehouse transactions. Indirect merchanting is to be reported according to the rules for other goods transactions.
- Incidental costs are to be reported as service transactions using the appropriate codes.
- Gold trading is generally to be reported according to the rules for other goods transactions.

I General information

In accordance with the Foreign Trade and Payments Regulation (*Aussenwirtschaftsverordnung*), transactions are classified as merchanting when residents purchase goods located abroad from foreign sellers, and then sell these goods on to foreign buyers without the goods having entered Germany. This also generally includes physical delivery on forward commodities contracts.

Transactions in which goods are introduced into Germany by **foreign sellers** without import clearance and placed in a **bonded warehouse, free warehouse or free zone**, prior to the goods being sold, are **not** classified as merchanting. These transactions are to be reported as trade in goods using code 997 on Annex Z4.

If the goods are introduced into Germany by a **domestic party** without import clearance and placed in a **bonded warehouse, free warehouse or free zone**, and then sold on to a foreign party, these transactions are not to be reported as merchanting transactions. For the purposes of the balance of payments statistics, these transactions are treated as the import and export of goods, and are recorded in the foreign trade statistics.

Merchanting transactions are to be reported in accordance with sections 67, 68 and 71 to 72 of the Foreign Trade and Payments Regulation.

II Reporting of merchanting transactions

Annex **Z4 (merchanting transactions)** to the Foreign Trade and Payments Regulation is to be used for reporting.

Merchanting reports must always contain the following information:

- **code 003,**
- **purpose of the payment,**
- **designation of goods,**
- **two-digit chapter number** from the list of goods for the foreign trade statistics
- **country of purchase** and/or **country of buyer.**

The following points should be considered when specifying countries.

- The country of purchase is the country in which the foreign seller of the goods is resident.
- The country of the buyer is the country in which the foreign buyer of the goods is resident.

Example 1: Direct merchanting

A domestic party purchases goods from a foreign party and immediately sells the goods on to a foreign party without the goods entering Germany.

The **domestic merchant** must report the purchase price paid as an outgoing payment and the sales proceeds received as an incoming payment using code **003** on Annex Z4 to the Foreign Trade and Payments Regulation.

Example 2: Warehouse transactions

A domestic party has goods produced abroad and warehouses them outside Germany. In the course of time, the goods are sold to non-residents.

The **domestic merchant** reports the purchase price paid as an outgoing payment using code **003** on Annex Z4 to the Foreign Trade and Payments Regulation, with the note "*Kauf auf Lager Ausland*" ("purchase for warehouse abroad").

Upon subsequent onward sale to non-residents, the sales proceeds received must be reported as an incoming payment using code **003** on Annex Z4 to the Foreign Trade and Payments Regulation, with the note "*Verkauf aus Lager Ausland*" ("sale ex-warehouse abroad").

If import clearance is obtained for the goods in storage and they are thus introduced into Germany, a "Cancellation in merchanting" report pursuant to section 68 (2) of the Foreign Trade and Payments Regulation must be submitted (see section IV below).

The costs for storage are to be reported on Annex Z4 to the Foreign Trade and Payments Regulation using code 594.

Example 3: Indirect merchandising

A domestic party purchases goods from a foreign party and sells them on to a domestic party before the latter sells the goods on to a foreign party, without the goods entering Germany.

Indirect merchandising does **not** constitute **merchandising** in the actual sense and therefore needs to be reported according to the rules for other trade in goods . The **domestic merchant** reports the purchase price paid as an outgoing payment using code **997** on Annex Z4 to the Foreign Trade and Payments Regulation. Further information may be found on the notice on "Other trade in goods".

Example 4: Gold trading

A domestic party purchases gold from a foreign party and sells it on to a foreign party without the goods entering Germany.

Gold trading does **not** generally constitute **merchandising**, but is to be reported according to the rules for "other goods transactions". The **domestic merchant** must report the purchase price paid as an outgoing payment and the sales proceeds received as an incoming payment using code **989** on Annex Z4 to the Foreign Trade and Payments Regulation.

III Cancellation in merchandising

The report must contain the following information in addition to the note "Cancellation in merchandising":

- month of payment,
- designation of goods and two-digit chapter number from the list of goods for the foreign trade statistics,
- country of purchase,
- amount reported preceded by a minus sign (in the case of a partial reclassification, only the amount accounted for by the part of the goods being imported).

IV Further information

If an original intention to import goods, for which no report is required, becomes a merchandising transaction, the corresponding transaction type must be entered under the current transaction month on Annex Z4. If a merchandising transaction involves the purchase and resale of different types of goods, the partial amounts to be assigned to each chapter number must be specified in the reports. If a precise breakdown is not possible, partial amounts may be estimated.

Whilst the goods are in the possession of the domestic party, minor changes may be made. Minor changes do not result in a change in the chapter number in foreign trade. If more major changes are made which result in a change in the chapter number in foreign trade, then contract production is involved. For further information, please see the information sheet on **contract production**.

VI Reporting of forward commodities transactions as financial derivatives (no physical delivery)

Payments for exchange-traded commodity futures and options and for OTC commodity derivatives, such as premiums, cash settlements and variation margins, are to be reported as financial derivatives transactions. Therefore, forward commodities contracts where goods are not delivered upon maturity or exercise of the contract must always be reported under the relevant codes for financial derivatives.

| Forward commodities transactions – no reporting in merchating | | |
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| General information on forward commodities transactions | | Annex Z10 to the Foreign Trade and Payments Regulation is to be used to report derivatives transactions. Detailed information on country allocation and how to determine the payments to be reported can be found in the <i>Notes on the Coding List for the Balance of Payments Statistics</i> – section III. Financial derivatives. |
| Commodity futures and forwards | | |
| | Code | |
| Types of contract | 882 | Exchange-traded commodity futures on foreign futures and options exchanges The payments subject to reporting requirements are either the respective variation margins or the final price gains or losses upon close-out of the position. |
| | 842 | Exchange-traded commodity futures on domestic futures and options exchanges The payments subject to reporting requirements are either the respective variation margins or the final price gains or losses upon close-out of the position. |
| | 883 | OTC forward commodities transactions For cash settlements for OTC commodity forwards, code 883 and the country of the foreign counterparty are to be specified. |
| | | <u>Margin payments on forward commodity purchases and sales</u> which are provided as collateral and become freely available again upon close-out of the positions should be regarded as payments as part of short-term capital transactions and are <u>not</u> subject to reporting requirements pursuant to the exemption in section 67 (2) 3 of the Foreign Trade and Payments Regulation. |
| Commodity options | | |
| | Code | |
| Types of contract | 821 | Option contracts on foreign futures and options exchanges Premium and cash settlement payments between German and foreign counterparties resulting from options settled by a foreign clearing house (CCP) of a futures and options exchange. |

| Commodity options | | |
|---|-------------|---|
| | Code | |
| Types of contract | 831 | Option contracts on domestic futures and options exchanges Premium and cash settlement payments between German and foreign counterparties resulting from options settled by the domestic clearing house of a futures and options exchange. |
| | 820 | OTC commodity options, foreign option writer Option premium or cash settlement payments made and received must be reported and the country of domicile of the foreign seller specified. |
| | 830 | OTC commodity options, domestic option writer Option premium or cash settlement payments made and received in connection with OTC transactions between domestic sellers and non-residents must be reported and the country of domicile of the foreign counterparty specified. |
| Wash-out and circle transactions | | |
| <p>These are special forward commodities transactions where reciprocal claims between two or more parties arising from matured forward contracts for commodities of the same type and quantity are completely offset against each other without goods actually being delivered. With such transactions, the market price differentials which have to be settled must be reported as commodity futures and forwards or commodity options depending on the type of underlying contract.</p> | | |

VII Reporting of forward commodities transactions involving physical delivery as merchancing transactions

Where physical delivery (settlement) of forward commodities transactions takes place, the following should be noted.

Payments on deliveries the contractual terms of which require goods to be introduced into another country, should be considered export revenue. They are not subject to reporting requirements (section 67 (2) 2 of the Foreign Trade and Payments Regulation). This also applies to payments (charges for imported goods) in connection with which the goods delivered are introduced from abroad into Germany.

Payments for deliveries, the contractual terms of which require goods located abroad to be delivered or received, must be reported as merchancing purchases or sales.

| Forward commodities transactions – reporting in merchanting in the case of delivery | |
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| Definition of merchanting transactions | Transactions in which residents purchase goods from non-residents (eg on a foreign or domestic exchange) for forward delivery or sell goods to non-residents for forward delivery and in which, upon maturity of the contracts, goods located abroad are delivered or received. |
| Forward commodities transactions – reporting in merchanting in the case of delivery | |
| Definition of merchanting transactions | Depending on whether, in connection with forward <u>purchases</u> , the goods are then sold to non-residents or initially sold to residents or stored abroad, the transactions should be treated as merchanting transactions when the contracts mature. The same applies to forward <u>sales</u> in which goods are purchased by non-residents or residents or taken out of storage abroad. The notes on pages 1 to 3 of this notice apply to these transactions. |
| String or series transactions | |
| <p>These are a special category of commodity forward purchases and sales where goods are bought for forward delivery and then sold on through a series of subsequent buyers. Since goods are actually delivered when the contracts mature, these transactions are to be reported as <u>merchanting transactions</u> if the transactions are related to goods located abroad that will remain there. String or series transactions are characterised by the fact that, when the contracts mature, it is not the agreed purchase and selling prices which have to be paid out between the individual buyers and sellers of the goods but residual balances which arise from the multilateral offsetting of the claims of the parties to the series transactions. Under section 67 of the Foreign Trade and Payments Regulation, each domestic party to a string or series transaction that has purchased the goods from a foreign party or sold them to a foreign party must report as incoming and outgoing payments in merchanting the buying and selling prices originally agreed rather than the differential amounts paid out. To avoid double counting, it is important to note that the differential amounts to be paid out are not to be reported.</p> | |

VIII Special cases

The external transactions in goods described below differ from the usual merchanting transactions in that the goods purchased abroad are not the subject of a specific resale contract between the merchant and the foreign buyer.

This is the case *inter alia* when they

- a) are delivered together with other goods (export goods) or services (construction and assembly work),
- b) are not sold (eg deliveries in connection with damages or warranties),
- c) are contributed to a foreign business enterprise for the purpose of capital investment (non-cash capital contribution).

Transactions of this type are to be reported as follows.

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| Reporting in merchanting | 003 | <p>Deliveries of goods purchased from abroad to export goods</p> <p>These transactions are to be treated as <u>merchanting transactions</u>, ie the incoming payment to be reported – at the same time as the outgoing payment – is the value of the delivery charged to the foreign buyer or, if this cannot yet be ascertained, the amount paid to the foreign supplier.</p> |
| No reporting in merchanting | <p>569/579 (building sites more than 1 year)</p> <p>570/580 (building sites less than 1 year)</p> | <p>Deliveries from non-residents (machinery, materials and the like) in connection with construction, assembly and repair work by domestic firms abroad</p> <p>Payments for this fall under the codes 579/580 (costs incurred by domestic firms for machinery, materials and labour remuneration for construction, assembly and repair work abroad). The value of these deliveries is to be reported under receipts from construction and assembly work using code 569/570.</p> |
| | 600 | <p>Purchase of replacement parts and the like in connection with warranties on export goods</p> <p>Since these constitute “incidental payments in merchandise transactions”, the payments for them have to be classified under code 600 (warranties on exports).</p> |
| Ancillary services in goods and services transactions | | |
| Financial transactions | | <p>Purchase of capital goods to be contributed to foreign subsidiaries, branches and permanent establishments</p> <p>The codes for capital transactions may be found in the <i>Notes on the Coding List for the Balance of Payments Statistics</i> – section I. Investments of residents in foreign economic territories.</p> |

Information on the foreign trade and payments reporting system

Hotline: 0800 1234 111 (freephone – only available if call is made from a German landline)
 Internet: www.bundesbank.de under Service/Reporting systems/External sector statistics
 Newsletter (in German): www.bundesbank.de under Service/Newsletter (category: Meldewesen Aussenwirtschaft)
 E-mail: presse-information@bundesbank.de