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**International Merchandise Trade Statistics: Concepts and Definitions,
Revision 2 (IMTS, Rev.2)**

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**INTERNATIONAL MERCHANDISE
TRADE STATISTICS:
CONCEPTS AND DEFINITIONS**

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INTRODUCTION

A. GENERAL

1. The present revised *International Merchandise Trade Statistics: Concepts and Definitions* (IMTS, Rev.2) have been prepared in response to a request made by the Statistical Commission at its twenty-eighth session, in 1995. The Commission recognized a need for further improvement in the area of the methodology of international merchandise trade statistics in view of new developments in international merchandise trade and the methodology recommended in other areas of economic statistics.¹

2. In particular, the Commission:

(a) Recommended extensive involvement of countries, including in the production of the first draft;

(b) Considered that the following issues should be taken well into account: harmonization with the *System of National Accounts, 1993* (1993 SNA)² and the *Balance of Payments Manual*, fifth edition (BPM5),³ the need for continuity of long-term time-series of international trade, the practical issues of data collection, the identification of partner countries and the work on rules of origin being conducted at the World Trade Organization (WTO) and World Customs Organization (WCO), and the utilization of existing regional machinery for the development and implementation of the concepts and definitions.⁴

¹ IMTS, Rev.2 deals only with international trade in goods; international trade in services is not covered. The original version was issued in 1970 (United Nations publication, Sales No. E.70.XVII.16) and the first revised version in 1982 (United Nations publication, Sales No. E.82.XVII.14).

² Commission of the European Communities, International Monetary Fund, Organisation for Economic Cooperation and Development, United Nations and World Bank (United Nations Publication, Sales No. E.94.XVII.4).

³ Washington, D.C., International Monetary Fund, 1993.

⁴ *Official Records of the Economic and Social Council, 1995, Supplement No. 8* (E/1995/28), para. 19 (c) (ii) and (iii).

3. The process for developing IMTS, Rev.2 included having the input of the Task Force on International Trade Statistics created by the Statistical Commission;⁵ the services of a Consultant;⁶ preparation of initial drafts of specific sections by the United Nations Statistics Division, the International Monetary Fund (IMF) and WTO; preparation of the integrated draft by the United Nations Statistics Division; review of the initial outline and drafts by individual organizations and countries;⁷ and an expert group meeting held in New York from 20 to 24 May 1996, which included both country and organizational representation.⁸ After considering the draft at its twenty-ninth session, in 1997, the Statistical Commission:

(a) Adopted the draft revised concepts and definitions for international

⁵ The Task Force includes representatives of the following: Department of Economic and Social Affairs of the United Nations Secretariat (Statistics Division, Macroeconomics Division), Economic Commission for Europe, Economic and Social Commission for Asia and the Pacific, Economic Commission for Latin America and the Caribbean, Economic Commission for Africa, Economic and Social Commission for Western Asia, United Nations Conference on Trade and Development, Food and Agriculture Organization of the United Nations, World Bank, International Monetary Fund, World Trade Organization, International Trade Center, Inter-American Development Bank, Organisation for Economic Cooperation and Development, Statistical Office of the European Communities and World Customs Organization.

⁶ Mr. C. Patel, former Director, Real Sector Division, Statistics Department, International Monetary Fund.

⁷ Thirty-four countries (Australia, Azerbaijan, Bolivia, Brazil, Canada, China, Czech Republic, Egypt, Ethiopia, France, Germany, Greece, Hungary, Italy, Japan, Kuwait, Latvia, Lithuania, Mexico, Norway, Pakistan, Poland, Republic of Korea, Russian Federation, Singapore, Slovenia, Suriname, Switzerland, Turkey, United Kingdom of Great Britain and Northern Ireland, United States of America, Viet Nam, Yugoslavia and Zimbabwe) and seven international organizations (United Nations (Department of Economic and Social Affairs), Food and Agriculture Organization of the United Nations, International Monetary Fund, World Trade Organization, Organisation for Economic Cooperation and Development, Statistical Office of the European Communities and World Customs Organization).

⁸ The expert group was comprised of 23 national experts, nine experts from international organizations, and one Consultant. It was chaired by J. Ryten of Statistics Canada. The list of participants was as follows: Australia (M. Flint), Brazil (P. Pavão), Canada (D. Dodds, J. Ryten, A. Torrance), China (Y. Li), Egypt (N. El-Bakary), Ethiopia (K. Semu), France (J. Lhéritier), Germany (H. Mai), Hungary (K. Kelecsényi, P. Pukli), Norway (A. Dahle), Pakistan (S. Aminuddin), Republic of Korea (Y.S. Kim), Russian Federation (V. Orlov), Singapore (C. Long), Turkey (A. Bodur, H. Kasnakoglu), United Kingdom (S. Brown), United States (D. Oberg, B. Walter), Zimbabwe (C. Gurumani), Department of Economic and Social Affairs of the United Nations Secretariat (Statistics Division: A. Civitello, V. Markhonko, R. Roberts; Macroeconomics Division: F. Campano), International Monetary Fund (E. Weisman), World Trade Organization (W. Tislenkoff), Organisation for Economic Cooperation and Development (D. Blades), Statistical Office of the European Communities (J. Heimann, J. Thomasen), and C. Patel (Consultant).

merchandise trade statistics, subject to the Secretariat's incorporating amendments that would clarify the draft text while maintaining its structural integrity;

(b) Requested the Secretariat to publish and distribute the revised concepts and definitions;

(c) Also requested the Secretariat to work towards further harmonization of the concepts and definitions for international merchandise trade statistics with the 1993 SNA and BPM5⁹

The United Nations Statistics Division finalized the text of IMTS, Rev.2, which is contained in the present publication.

4. The purpose of IMTS, Rev.2 is to provide revised concepts and definitions for the compilation of international merchandise trade statistics that meet the needs of various users (see para. 7 below) as far as possible, either directly or with adjustments, taking account of the normally available data sources and data-collection procedures. The implementation of these concepts and definitions should result in data that are nationally useful and internationally comparable.

At the same time, the guidelines should not lead to unjustified administrative costs for Governments or the business community.

5. The existing concepts and definitions have been brought up to date and clarified, and in some instances modified. No radical changes have been introduced because of the expected continued reliance on the normally available data sources and data-collection procedures, which are largely based on customs records of the movement of goods across borders. However, some changes have been made in the direction of harmonization with the 1993 SNA and BPM5, the conceptual frameworks of which are accepted as a longer-term objective for international merchandise trade statistics (see para. 3 (c) above). There exists a possibility, within the recommendations, for countries to engage now in data collection that would achieve greater harmonization with the 1993 SNA and BPM5, thereby increasing the comparability of the international merchandise trade statistics with other statistics compiled in the framework of the 1993 SNA and BPM5.

⁹ *Official Records of the Economic and Social Council, 1997, Supplement No. 4 (E/1997/24), para. 39 (e), (f) and (g).*

B. SUMMARY OF THE RECOMMENDATIONS

6. The following is a summary of the recommendations for the collection, compilation and dissemination of international merchandise trade statistics contained in the present publication (in order of their appearance in Chapters I to VII below):

IMTS, Rev.2 recommendations

Relationship with 1982 concepts and definitions

Coverage and time of recording (chap. I)

1. Use additional sources where customs administration sources are not available (paras. 11 and 12)

Updated recommendation

2. Record all goods which add to or subtract from the stock of material resources of a country by entering (imports) or leaving (exports) its economic territory (para. 14)

Updated recommendation

3. Goods are to be included at the time when they enter or leave the economic territory of a country; in the case of customs-based data collection systems, the time of recording should be the date of lodgement of the customs declaration (para. 15)

Updated recommendation

4. Specific goods are to be included, others are to be included and separately recorded, and others are to be excluded (paras. 18 - 54)

Updated, with some specific changes and new recommendations

5. Specific goods are to be excluded from detailed international merchandise trade statistics but recorded separately so that the detailed data may be adjusted to derive totals of international merchandise trade for national accounts and balance of payments purposes (paras. 18 and 55 - 63)

New recommendation

Trade system (chap. II)

6. In the compilation of international merchandise trade statistics, use the definitions of procedures and other basic customs terms which are crucial in the determination of trade systems, and are contained in the annexes to the International Convention on the simplification and

New recommendation

^a In May 1973, the International Convention on the simplification and harmonization of Customs procedures (Kyoto Convention) was signed at Kyoto. See Customs Co-operation Council, *International Convention on the simplification and harmonization of Customs procedures* (Kyoto, 18 May 1973). The Kyoto Convention attempted to achieve universal harmonization of customs procedures, other than classification and valuation. The Convention has been ratified by 59 parties to date, as well as by international organizations and the international trading community. The Convention is presently under review by the World Customs Organization.

IMTS, Rev.2 recommendations

**Relationship with 1982 concepts
and definitions**

harmonization of Customs procedures ^a (para. 69)

7. Use the general trade system of data recording, and where the special system of trade is used, compile statistics on goods imported into and exported from premises for customs warehousing, premises for inward processing, industrial free zones or commercial free zones, as appropriate, to allow estimation of data on a general trade system basis (paras. 89 and 90)

New recommendation

Commodity classifications (chap. III)

8. Use the Harmonized System (HS) ^b as the primary commodity classification for the collection, compilation and dissemination of international merchandise trade statistics (para. 100)

New recommendation

Valuation (chap. IV)

9. Adopt the WTO Agreement on Valuation ^c as the basis for valuing international merchandise trade for statistical purposes (para. 114)

Updated recommendation

10. Use a cost, insurance and freight (CIF-type) valuation for imports (border of importing country) and a free on board (FOB-type) valuation for exports (border of exporting country) (para. 116)

Updated recommendation

11. Countries which use CIF-type values of imports to collect separately data for freight and insurance, at the most detailed partner/ commodity level possible, to derive FOB-type values (para. 121)

Updated recommendation

12. Specific goods to be valued in specified ways but consistent with the WTO agreement (paras. 123 - 125)

Updated recommendation

13. Where conversion of currency is necessary, use the rate of exchange duly published by the competent national authorities of the country, reflecting the current value of such currency in commercial transactions in terms of the currency of the reporting country, and which is in effect at the time of importation or exportation (para. 127)

Updated recommendation

14. If a rate is not available for the time of

New recommendation

^b World Customs Organization, *Harmonized Commodity Description and Coding System*, second edition (Brussels, 1996).

^c See World Trade Organization, *The Results of the Uruguay Round of Multilateral Trade Negotiations: The Legal Texts* (Geneva, 1995), Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994, Part I, "Rules on customs valuation", which is reproduced in annex C below.

IMTS, Rev.2 recommendations

**Relationship with 1982 concepts
and definitions**

exportation or importation, use the average rate for the shortest period applicable (para. 128)

15. Where multiple official exchange rates are in effect, use the actual rate applicable to specific transactions (para. 129)

New recommendation

Quantity measurement (chap. V)

16. Use the standard units of quantity recommended by WCO; ^d also provide weight in cases where the standard unit is other than weight; the weight figures should be on a net weight basis; where non-standard units are used, provide conversion factors to the standard units (para. 133)

New recommendation

Partner country (chap. VI)

17. Follow the relevant provisions of the Kyoto Convention for determining country of origin of goods (para. 139)

New recommendation

18. For attribution of partner country: adopt country of origin for imports (country of consignment as additional information), and country of last known destination for exports (para. 150)

Unchanged

19. The statistical territory of each country, as defined by the country itself, should constitute the territory for which the trading partners of each country compile their statistics of trade by countries (para. 151)

Unchanged

Reporting and dissemination (chap. VII)

20. For dissemination of international merchandise trade statistics to follow specified practices relating to sources and methods, release schedules, regular reporting of data to the user community, revising data when additional information is available, reference period, kinds of data published and reported internationally, confidentiality, bilateral and multilateral reconciliations and data exchanges, and index numbers (paras. 154 -160)

Updated and new recommendations

7. There are many users of international merchandise trade statistics, including Governments, commercial enterprises, national and international organizations,

^d See World Customs Organization, *Explanatory Notes to the Harmonized Commodity Description and Coding System*, second edition (Brussels, 1996), annex II.

researchers and the public at large. The different users need different data, ranging from data sets of varying detail by country and commodity to aggregated figures. The principal uses, listed in no particular order, are:

- (a) Establishing general economic policy, including fiscal, monetary, structural and sectoral issues;
- (b) Development of trade policy, including trade negotiations, monitoring trade agreements and settling trade disputes;
- (c) Market analysis by importers and exporters to find supply sources or foreign markets;
- (d) Establishing supply balances to monitor markets in such areas as agriculture and energy;
- (e) Infrastructure planning (harbours, airports, roads etc.);
- (f) Compilation of transportation statistics;
- (g) Compilation of the import component of the various price indexes (e.g., cost-of-living indexes);
- (h) Input into and forecasting in the framework of the system of national accounts and balance of payments statistics.

8. The recommended concepts and definitions for international merchandise trade statistics are described under the following headings, each of which is the subject of a chapter in the present publication:

- I. Coverage and time of recording**
- II. Trade system**
- III. Commodity classifications**
- IV. Valuation**
- V. Quantity measurement**
- VI. Partner country**
- VII. Reporting and dissemination**

I. COVERAGE AND TIME OF RECORDING

9. International merchandise trade statistics are economic statistics which serve a variety of needs (see para. 7 above). These statistics, together with other basic statistics, such as industrial statistics, construction statistics and financial statistics, provide an input to national accounts and balance of payments statistics. The definitions adopted in the 1993 SNA and BPM5 that are used in or are relevant to international merchandise trade statistics include goods, services, economic territory, rest of the world, institutional unit, centre of economic interest, resident unit and change of ownership. Those definitions are provided in annex A below.

10. There are a variety of sources that can be used to compile international merchandise trade statistics, including customs records, enterprise surveys, administrative records associated with value added taxes, and currency exchange records. Customs records are the most prevalent source, and the present publication devotes significant attention to customs-based data collection.

11. The collection of data on international merchandise trade through customs administrations has a long history, although the primary purpose of customs activity has not been for statistical collection. Therefore, the collection of trade statistics through customs records does not conform strictly with the concepts and definitions outlined in the 1993 SNA and BPM5. Nevertheless, **it is recommended** that statisticians take advantage of this source and that customs data be supplemented with information obtained from other sources, as necessary, to provide full coverage of international merchandise trade statistics and to help produce the data required for national accounts and balance of payments purposes.

12. In a growing number of cases, full coverage of international merchandise trade statistics cannot be achieved by use of customs records only, either because the relevant transactions are no longer subject to customs controls or customs surveillance, or because the record keeping may not be adequate from the statistical point of view. **It is recommended** that in such cases, other sources be used. For instance, the member States of the European Union have developed, for the purposes of intra-Union merchandise trade statistics, a data collection system relying on monthly reporting by enterprises. Additional information is supplied via the fiscal authorities through the value-added tax collection system. Many countries utilize enterprise surveys as a means to collect data on transactions which may not be captured by customs authorities (e.g., trade in electricity, water, gas, petroleum and goods for military use). The international merchandise trade statistics of some other countries are based on the records of monetary authorities, and in the case of imports and exports of gold, most countries use data supplied by such authorities.

13. General and specific guidelines are provided below on categories of goods to be:

- (a) Included in the detailed international merchandise trade statistics;
- (b) Excluded from the detailed international merchandise trade statistics;
- (c) Excluded from the detailed international merchandise trade statistics but recorded separately so that the detailed data may be adjusted to derive the totals of international merchandise trade for national accounts and balance of payments purposes.

A. GENERAL GUIDELINES

14. *Coverage.* As a general guideline, **it is recommended** that international merchandise trade statistics record all goods which add to or subtract from the stock of material resources of a country by entering (imports) or leaving (exports) its economic territory. Goods simply being transported through a country (goods in transit) or temporarily admitted or withdrawn (except for goods for inward or outward processing; see para. 28 below) do not add to or subtract from the stock of material resources of a country and are not included in the international merchandise trade statistics. In many cases, a country's economic territory largely coincides with its customs territory, which is the territory in which the customs law of a country applies in full (for details, see chaps. II and VI below).

15. *Time of recording.* The time at which an import or export transaction should be recorded needs to be clearly defined. Coherence with the 1993 SNA (para. 3.97) and BPM5 requires that transactions be recorded at the time when the change of ownership takes place. Data-collection systems, however, are usually set up to record transactions associated with the movement of goods across borders, and they lack the necessary recording mechanisms to determine when change of ownership occurs. But since most traded commodities are part of a normal buying and selling operation between an importer and an exporter, the change of ownership is largely approximated by the cross-border movement of goods. Consequently, as a general guideline **it is recommended** that goods be included at the time when they enter or leave the economic territory of a country. In the case of customs-based data-collection systems, which provide the compiler with a choice of dates at which transactions may be recorded, consistency strongly suggests that a single date be adopted for all transactions. **It is recommended** that the time of recording be the date of lodgement of the customs declaration since that would provide an approximation of the time of crossing the border of the economic territory of a country.

B. SPECIFIC GUIDELINES

16. The above general guidelines serve as a basis for formulating a set of specific recommendations on the inclusion or exclusion of certain categories of goods, which are listed below.

17. In principle, all goods which satisfy the definition of coverage (see para. 14 above) should be included in the international merchandise trade statistics under the appropriate headings of the commodity classification and in the aggregates.

However, in certain instances the general guidelines are not sufficient to provide a clear answer on the issue of inclusion or exclusion of particular types of goods, due either to the peculiarity of such goods or the complexity of the transaction.

It is also recognized that practical considerations of data collection limit the application of the general guidelines. There are several types of goods which may not be adequately captured under normal customs procedures; such goods should be recorded by using other sources of data.

18. For some goods and certain types of transactions which are recommended for inclusion in international merchandise trade statistics and which are of special

interest for users, **it is recommended** that they not only be included under the appropriate headings of the commodity classification and in the aggregates but also be separately recorded, that is, made identifiable in the database according to the type of transaction and presented as memorandum items in publications (see, for example, para. 30 below on returned goods). For some goods that are recommended to be excluded from the detailed international merchandise trade statistics, **it is recommended** that trade in them also be recorded separately so that the detailed data may be adjusted to derive totals of international merchandise trade for national accounts and balance of payments purposes (see paras. 55 - 63 below).

1. GOODS TO BE INCLUDED IN THE DETAILED INTERNATIONAL MERCHANDISE TRADE STATISTICS ^{10, 11}

19. *Non-monetary gold.* Non-monetary gold includes, for example, gold powder and gold in other unwrought or semi-manufactured forms, gold coins and bars. Such gold might be for industrial use, such as in the manufacturing of jewellery or for use in dental work, or as a store of value, and it includes all gold which is not defined as monetary (see para. 42 below). Monetary gold is excluded from international merchandise trade statistics.

20. *Unissued banknotes and securities, and coins not in circulation.* ¹² These items are regarded as commodities rather than as financial items, and should be included in imports or exports of products of the printing industry, and coin (see para. 123 below for recommendation on valuation). Issued banknotes and securities and coins in circulation are regarded as financial items and should be excluded (see para. 43 below).

¹⁰ Except where otherwise stated, these goods should be included under the appropriate headings of the commodity classification, by partner country, and in totals of international merchandise trade statistics.

¹¹ The valuation of all goods should be in accordance with the WTO Agreement on Valuation (see annex C below) and recommendations on the statistical value of goods contained in the present publication. Valuation of transactions is the subject of chapter IV below, and recommendations on valuation have been included in that chapter for the goods mentioned in this list of inclusions where specific valuation questions exist (see para. 123 below).

¹² HS: part of heading 4907.00, and heading 7118.90.

21. *Goods traded in accordance with barter agreements* are to be included (see para. 124 below for recommendation on valuation).

22. *Goods traded on government account*. This category includes goods for both civilian and military use which cross borders as a result of, for instance, regular commercial transactions of Governments, goods under government foreign aid programmes (whether or not the goods constitute a grant, a loan, a barter or a transfer to an international organization) and war reparations and restitutions.

23. *Food and other humanitarian aid*. Articles of food, clothing, medicaments and other goods entering or leaving a country under aid programmes or as emergency assistance, whether provided by Governments (see also para. 22 above), international organizations or non-governmental organizations, should be recorded as imports (exports) of the countries involved (see para. 124 below for recommendation on valuation).

24. *Goods for military use* are to be included (see also para. 22 above and para. 46 below).

25. *Goods acquired by all categories of travellers, including non-resident workers, to a significant scale as defined by national law* are to be included (see also para. 48 below).

26. *Goods on consignment* are to be included (see para. 124 below for recommendation on valuation).

27. *Goods used as carriers of information and software*.¹³ This category includes, for example, (a) packaged sets containing diskettes or CD-ROMs with stored computer software and/or data developed for general or commercial use (not to order), with or without a users' manual, and (b) audio- and videotapes recorded for general or commercial purposes (see para. 123 below for recommendation on valuation). However, (i) diskettes or CD-ROMs with stored computer software and/or data, developed to order, (ii) audio- and videotapes containing original recordings, and (iii) customized blueprints etc. are to be excluded from international merchandise trade statistics (see para. 48 below).

28. *Goods for processing*. These are goods sent abroad or brought into a country for processing, including processing under contract. Examples are oil refining, metal processing, vehicle assembly and clothing manufacture. These goods and goods resulting from such processing should be recorded as imports and exports of the respective countries (see para. 123 below for recommendation on valuation).

29. *Goods which cross borders as a result of transactions between parent corporations and their direct investment enterprises (affiliates/branches)* are to be included.

30. *Returned goods*. If an exported good is subsequently returned, it should be included as an import at the time when it is returned. Similarly, goods imported and subsequently returned should be included as exports, also at the time they are returned. Returned exports and imports should also be recorded separately (see para. 18 above).

¹³ HS heading 85.24.

31. *Electricity, gas and water.*¹⁴ International sales and purchases of electricity, gas and water, although not always recorded by the customs authorities of some countries, constitute international transactions in goods and should be included in international merchandise trade statistics. Countries are encouraged to establish appropriate procedures for yielding reasonably accurate records of this trade. It is also important that trading partners in such transactions record these flows using the same method.

32. *Goods dispatched through postal or courier services.* Recording full commodity detail for such trade may represent disproportionate effort, and if so, inclusion as a single total is appropriate.¹⁵ However, if this trade consists of some important commodities (frequently of light weight and high value, such as diamonds and other precious gems), those commodities should be recorded in international merchandise trade statistics in full commodity detail under the appropriate headings of the commodity classification, while the remainder of the postal or courier trade - unclassified by commodity - should be recorded as a single total, as indicated above. Goods are to be recorded if in excess of any minimum value established by national law.

33. *Migrants' effects.* The recording and inclusion of the physical movements of migrants' effects is important for countries where migration is taking place on a significant scale and migrants take their personal property with them. Some countries include only the dutiable portion of these goods, while others apply value or quantity limits as criteria for their inclusion. Where migrants' effects are economically important, all goods in this category should be included (see para. 124 below for recommendation on valuation).

34. *Goods transferred from or to a buffer stock organization.* A buffer stock organization is one that maintains a stock of certain commodities and sells or buys them in order to influence supply and demand on the world market. Goods that are shipped from a compiling country to a buffer stock organization located in the economic territory of another country or are received from a buffer stock organization should be included in merchandise trade statistics of the compiling country as exports to and imports from the country where the organization is located. If the buffer stock is held in a third country, this third country should be recorded as the partner.

35. *Goods under financial lease.* There are two kinds of leases in common usage: financial and operational. Goods are considered to be under financial lease if the lessee assumes the rights, risks, rewards and responsibilities in relation to the goods, and from an economic point of view can be considered as the de facto owner. Goods under financial lease should be included in international merchandise trade statistics. An operational lease is any lease which does not have the above characteristics. Goods under operational lease should be excluded from international merchandise trade statistics (see para. 51 below). In some cases,

¹⁴ HS headings 27.16 (electricity) and 27.11 (gas), and subheading 2201.90 (water).

¹⁵ Chapters 98 or 99 of the HS may be used to record this.

the duration of the lease can be used as an indication of whether the lease is financial (one year or more) or operational (less than one year).

36. *Ships, aircraft and other mobile equipment.* International transactions in these goods are to be included in international merchandise trade statistics.

Frequently, such transactions are not the subject of customs documents. In the absence of customs documents, they should be recorded using non-customs data sources, such as registry additions and deletions or enterprise surveys.

37. *Goods delivered to or dispatched from offshore installations located in the economic territory of a compiling country* (from or to the economic territory of another country) are to be included in international merchandise trade statistics. They should be recorded using available sources of data, including data obtained by enterprise surveys.

38. *Fish catch, minerals from the seabed and salvage landed from foreign vessels in national ports or acquired by national vessels on the high seas from foreign vessels* are to be included in import statistics (for treatment in export statistics, see para. 57 below).¹⁶

39. *Bunkers, stores, ballast and dunnage that are:*¹⁶

(a) Acquired by national vessels or aircraft from foreign vessels or aircraft in the economic territory of a country, or are landed in national ports from foreign vessels or aircraft, are to be included in imports (for treatment in exports, see para. 59 (b) below);

(b) Supplied to foreign vessels or aircraft in the economic territory of a country are to be included in exports (for treatment in imports, see para. 59 (a) below).

40. *Empty bottles.* Empty bottles which represent a traded commodity, such as empty bottles under commercial recycling arrangements, are to be included (for exclusions, see para. 53 below).

41. *Waste and scrap.* Waste and scrap, including products which are dangerous to the environment, should be recorded and classified under the appropriate commodity heading if their value is positive (for exclusions, see para. 54 below).

2. GOODS TO BE EXCLUDED FROM THE DETAILED INTERNATIONAL MERCHANDISE TRADE STATISTICS

42. *Monetary gold.*¹⁷ The definition of monetary gold adopted for the purposes of international merchandise trade statistics is provided in the *Explanatory Notes to the Harmonized Commodity Description and Coding System*.¹⁸ According to this definition, monetary gold is gold that is exchanged between national or

¹⁶ A vessel is considered foreign if it is operated by a non-resident enterprise.

¹⁷ HS, subheading 7108.20.

¹⁸ Brussels, World Customs Organization, 1996; see heading 7108.20.

international monetary authorities or authorized banks.¹⁸ Since monetary gold is treated as a financial asset rather than a good, transactions pertaining to it should be excluded from the international merchandise trade statistics.

43. *Issued banknotes and securities and coins in circulation*¹⁹ represent evidence of financial claims, and are excluded from international merchandise trade statistics.

44. *Goods temporarily admitted or dispatched*. Certain goods are sometimes brought into a country or dispatched from it with a reasonable expectation of subsequent withdrawal or return within a limited time without any change (except normal depreciation due to the use made of the goods). These are to be excluded from international merchandise trade statistics. Some of these goods are listed in the Kyoto Convention; others may be separately covered in national customs legislation. Some examples from the Kyoto Convention are: display equipment for trade fairs and exhibitions; art exhibits, commercial samples and pedagogic material; animals for breeding, show or racing; packaging, means of transport, containers and equipment connected with transport; and equipment for the working of lands adjacent to the border by persons resident abroad. In cases where movements of goods are not covered by a specific customs procedure, the statistical authorities should establish criteria for determining whether the goods movement should be considered temporary (such as temporary storage, which may include minor processing that does not change the nature of the goods). The compiler in the exporting (importing) country sometimes may not know that the dispatched (incoming) goods are expected to be brought (sent) back within a limited time period. In this case, they would be treated as exports (imports) and imports (exports) when returned, in the normal way.

45. *Goods in transit*. Goods entering and leaving a country with the exclusive purpose of reaching a third country are excluded, since they do not add to or subtract from the stock of material resources of the country through which they pass. Goods leaving a country to return after crossing another country are also excluded from both countries' imports and exports.

¹⁹ HS: part of subheading 4907.00, and heading 7118.90.

46. *Goods consigned to and from territorial enclaves.* The economic territory of a country includes any territorial enclaves (embassies, foreign military and other installations) that are physically located within the geographic boundaries of another country, and excludes the enclaves of other countries and international organizations located within its own geographic boundaries (see annex A, para. 3 below for the definition of economic territory). Therefore, the movement of merchandise between a country and its enclaves abroad is considered as an internal flow, and should be excluded from the imports and exports of the country. Such flows are also excluded from the merchandise trade statistics of the host countries, since these enclaves are not part of the host countries' economic territory.²⁰

Similarly, goods received or sent abroad by international organizations are excluded from the merchandise trade statistics of the host countries (see also para. 23 above). Subsequent transfers of goods from enclaves to the host country should be recorded, at the time of the transfer, as imports of the host country and as exports of the country to which these enclaves belong; in the case of international organizations, such transfers need not be recorded as exports of the country that originally exported them to the international organization since they would have previously been recorded as exports by that country at the time of the original export to the international organization.

47. *Non-financial assets, ownership of which has been transferred from residents to non-residents, without crossing borders.* These assets include land, structures, equipment and inventories. Such a transfer of ownership of non-financial assets is considered to be a financial operation, and is therefore excluded from international merchandise trade statistics.

48. *Goods treated as part of trade in services.* This category comprises:

(a) Goods acquired by all categories of travellers, including non-resident workers, for their own use and carried across the border in amounts or values not exceeding those established by national law (although if amounts or values of such goods exceed these legal requirements, they should be included in international merchandise trade statistics; see para. 25 above);

(b) Newspapers and periodicals sent under direct subscription (see, for example, BPM5, paras. 212 and 213);

(c) Goods purchased by foreign Governments through their embassies or their foreign military or other installations located in the economic territory of a host country, from the host country, for their own use.

In addition, this category includes (i) diskettes or CD-ROMs with stored computer software and/or data, developed to order, (ii) audio- and videotapes containing original recordings, and (iii) customized blueprints etc. (see para. 27 above).

49. *Fish caught on the high seas by national vessels of a country and landed in its economic territory* are to be excluded (see also para. 38 above and para. 57 below).

50. *Goods which are acquired and relinquished within the compiling country, by non-residents, within the same recording period, and which do not cross the*

²⁰ The term "host country" refers to a country that contains territorial enclaves of other countries or international organizations within its geographic boundaries.

frontiers of this country. These are excluded from international merchandise trade statistics. Any difference between the value of the goods when acquired and the value when relinquished is recorded as merchanting under other business services in the national accounts and the balance of payments.

51. *Goods under operational lease.* This category comprises goods shipped under operational - that is, non-financial - leasing arrangements (see para. 35 above).

52. *Goods lost or destroyed after leaving the economic territory of the exporting country but before entering the economic territory of the intended importing country are to be excluded from imports of the intended importing country* (although they are included as exports of the exporting country). If, however, the ownership of such goods has already been acquired by the importer, their value should be separately recorded by the intended importing country so that the detailed data may be adjusted to derive totals of merchandise imports for national accounts and balance of payments purposes (see para. 63 below).

53. *Empty bottles.* Empty bottles which are returned to be refilled are considered as "means of transport", and are accordingly excluded (see para. 40 above).

54. *Waste and scrap.* Waste and scrap having no positive value are to be excluded but should be separately recorded, using appropriate quantity units (see para. 41 above).

3. GOODS RECOMMENDED TO BE EXCLUDED FROM THE DETAILED INTERNATIONAL MERCHANDISE TRADE STATISTICS BUT RECORDED SEPARATELY SO THAT THE DETAILED DATA MAY BE ADJUSTED TO DERIVE TOTALS OF INTERNATIONAL MERCHANDISE TRADE FOR NATIONAL ACCOUNTS AND BALANCE OF PAYMENTS PURPOSES

55. A recording of some goods is required for inclusion in the totals of international merchandise trade according to the 1993 SNA and BPM5 recommendations. However, it is not considered practical to include these same goods in detailed international merchandise trade statistics.

56. Countries are encouraged to undertake efforts to collect the relevant data or to make estimates of trade in these goods to assist national accounts and balance of payments compilers in making the necessary adjustments. Cooperation of several agencies might be required to obtain such data or estimates.

57. *Mobile equipment that changes ownership while outside the country of residence of its original owner.* This refers to equipment which is initially sent for temporary use and for a specific purpose - such as for construction work, fire-fighting, offshore drilling or disaster relief - from one country to another, but which changes ownership as a result of, for example, the subsequent gift or sale to a resident of that country.

58. *Fish catch, minerals from the seabed and salvage sold from national vessels in foreign ports or from national vessels on the high seas to foreign vessels* are to be excluded from export statistics but recorded separately (for treatment in import statistics, see para. 38 above).¹⁶

59. *Bunkers, stores, ballast and dunnage* that are:

(a) Acquired by national vessels or aircraft outside the economic territory of a country are to be excluded but recorded separately (for treatment in exports, see para. 39 (b) above);

(b) Supplied by national vessels or aircraft to foreign vessels or aircraft outside the economic territory of a country or landed in foreign ports from national vessels or aircraft are to be excluded but recorded separately (for treatment in imports, see para. 39 (a) above).¹⁶

60. *Goods purchased by international organizations located in the economic territory of a host country, from the host country, for their own use.* These goods should be recorded as exports of the host country (for adjustment purposes only).²¹

61. *Goods for repair.* This category comprises goods temporarily crossing borders for repair abroad, i.e., activity that reinstates the impaired quality of the

²¹ Since in this case there is no importing country, no import record exists (see also para. 46 above).

existing goods and does not result in the creation of a new product (see para. 123 below for recommendation on valuation). This category excludes construction repairs, computer repairs, and maintenance performed in ports and airports on transportation equipment. These three activities are recorded in BPM5 as services.

62. *Goods entering or leaving the economic territory of a country illegally.* This includes, for example, smuggling, trade in stolen vehicles and shipments of narcotic substances, the use or possession of which is illegal in one or both of the compiling countries.

63. *Goods lost or destroyed after ownership has been acquired by the importer.* These are excluded from the detailed import statistics of the intended importing country but recorded for adjustment purposes. They are included in the detailed export statistics of the exporting country (see para. 52 above).

II. TRADE SYSTEM

A. GENERAL

64. *Statistical territory.* In international merchandise trade statistics, the objective is to record goods entering and leaving the economic territory of a country. In practice, what is recorded is goods that enter or leave the statistical territory, which is the territory with respect to which data are being collected.

The statistical territory may coincide with the economic territory of a country or with some part of it. It follows that when the statistical territory of a country and its economic territory differ, international merchandise trade statistics do not provide a complete record of inward and outward flows of goods.

65. *The trade systems.*²² There are two trade systems in common use by which international merchandise trade statistics are compiled: the general trade system and the special trade system. Two definitions of the special trade system are considered below: the strict definition and the relaxed definition.

66. *The general trade system* is in use when the statistical territory of a country coincides with its economic territory. Consequently, under the general trade system, imports include all goods entering the economic territory of a compiling country and exports include all goods leaving the economic territory of a compiling country.²³

²² The terms used to define trade systems and other related definitions are set out in annex B below.

²³ The concept of "all goods" is modified/defined by the definition of coverage (see para. 14 above).

67. *The special trade system* is in use when the statistical territory comprises only a particular part of the economic territory. *The special trade system (strict definition)* is in use when the statistical territory comprises only the free circulation area, that is, the part within which goods "may be disposed of without customs restriction" (see annex B, para. 2 below). Consequently, in such a case, imports include all goods entering the free circulation area of a compiling country, which means cleared through customs for home use (see annex B, para. 4 below), and exports include all goods leaving the free circulation area of a compiling country.²³ However, under the strict definition, goods imported for inward processing (see annex B, para. 6 below) and goods which enter or leave an industrial free zone (see annex B, para. 13 below) would not be recorded since they would not have been cleared through customs for home use. The compensating products after inward processing (see annex B, para. 6 below) also would not be included in exports. Examples of these are when crude petroleum is brought into a country for refining under the inward processing procedure or when non-ferrous base metals are imported and smelted under the same procedure, and the resulting products are exported. From an economic standpoint, however, this kind of industrial activity does not differ from similar activities elsewhere in the economy. For this reason, the International Convention Relating to Economic Statistics adopted by the League of Nations in 1928 recommended the inclusion of such activity in the record of special trade statistics.²⁴ When this recommendation is applied, a "relaxed" definition of the special trade system is in use; i.e., *the special trade system (relaxed definition)* is in use when (a) goods that enter a country for or leave it after inward processing and (b) goods that enter or leave an industrial free zone are also recorded and included in international merchandise trade statistics.

68. *Approaches to data collection.* In the majority of countries, data collection is based on customs procedures, and many of these countries adopt their customs boundary as their statistical boundary. In this case, the statistical territory coincides with the customs territory (see annex B, para. 1 below). However, there is a growing number of international commodity flows which are not captured by customs or are captured inadequately (e.g., flows between member States of customs unions, imports and exports of ships, and shipments of goods into and out of customs free zones (see annex B, para. 13 below)). Therefore, in many cases, compilers of data have to use non-customs sources (e.g., sample surveys and tax-based collections) to approximate the trade transactions related to an economic territory. Customs-based approaches to trade remain, nevertheless, the best available approach for most countries.

BASIC TERMS FOR USE IN A CUSTOMS-BASED APPROACH TO TRADE STATISTICS

69. Goods entering a customs territory (which may cover all or most of the statistical territory) may be declared for different customs procedures (regimes). Definitions of these procedures and other basic customs terms, which are crucial in the determination of trade systems (see annex B below), are contained in the annexes to the Kyoto Convention, which is particularly important to the subject of the present chapter. **It is recommended** that these definitions be used in the compilation of international merchandise trade statistics.

²⁴ See chap. II, article 2.IV(2) of the Convention, in United Nations, *Treaty Series*, vol.73, pp. 39ff.

70. The systems of trade can be described by the various categories of goods and their flows recorded under those systems. The main categories of goods are listed below.

71. *Domestic and foreign goods.* *Domestic goods* are goods originating in the economic territory of a country. In general, goods are considered as originating in the country if they have been wholly obtained in it or were substantially transformed by processing in it, so that the processing confers domestic origin (criteria for determination of origin of goods are discussed in more detail in chap. VI below). Goods may originate in such parts of an economic territory as the free circulation area, industrial free zones or premises for inward processing.

It is assumed that goods do not originate in commercial free zones (see annex B, para. 13 below), which are also parts of an economic territory, since operations normally permitted in these zones do not constitute production or substantial transformation of goods. *Foreign goods* are goods which originate from the rest of the world (see annex A, para. 4 below), i.e., from any territory not included in the economic territory of a country.

72. In more detail, domestic goods consist of:

(a) Goods originating in the free circulation area of a country; these are goods which have been wholly obtained or substantially transformed within the country's free circulation area;

(b) Goods originating in industrial free zones; these are goods which, similarly to goods originating in the free circulation area, have been wholly obtained within the industrial free zones of a country or have undergone a substantial transformation there;

(c) Compensating products obtained under the inward processing procedure when such processing confers domestic origin (see para. 67 above).²⁵

73. Also, in more detail, *foreign goods* consist of

(a) Goods originating in the rest of the world, i.e., not included in the economic territory of a country (other than the compensating products described in para. 73 (b) below);

(b) Compensating products obtained under the outward processing procedure (see annex B, para. 7 below), when such processing confers foreign origin.

B. GENERAL TRADE SYSTEM

74. *Imports.* In the case of the general trade system, import flows come from the rest of the world or from customs transit (see annex B, para. 14 below), i.e., goods redirected from customs transit to remain in the economic territory. There

²⁵ Goods imported for inward processing and the resulting compensating products are not considered to be in the free circulation area of the country of importation unless there was a change in the customs procedure applied to them (see annex B, para. 6 below).

are three types of imports:

(a) Foreign goods (other than compensating products after outward processing);

(b) Foreign goods comprised of compensating products after outward processing;

(c) Domestic goods in the same state as previously exported (see annex B, para. 9 below).²⁶

General imports are brought into:

(d) The free circulation area, premises for inward processing or industrial free zones;

(e) Premises for customs warehousing (see annex B, para. 11 below) or commercial free zones.

It follows that general imports consist of six different flows, two of which are referred to as reimports, as described below.

75. *General imports* consist of:

(a) Imports of foreign goods (other than compensating products after outward processing) into the free circulation area, premises for inward processing or industrial free zones, from the rest of the world or from customs transit;

(b) Imports of foreign goods (other than compensating products after outward processing) into premises for customs warehousing or commercial free zones, from the rest of the world or from customs transit;

(c) Imports of foreign goods comprised of compensating products after outward processing into the free circulation area, premises for inward processing or industrial free zones, from the rest of the world or from customs transit;

(d) Imports of foreign goods comprised of compensating products after outward processing into premises for customs warehousing or commercial free zones, from the rest of the world or from customs transit;

(e) Reimports of domestic goods in the same state as previously exported, into the free circulation area, premises for inward processing or industrial free zones, from the rest of the world or from customs transit;

(f) Reimports of domestic goods in the same state as exported, into premises for customs warehousing or commercial free zones, from the rest of the world or

²⁶ Including goods which have undergone minor processing that leaves them essentially unchanged and consequently does not change their origin.

from customs transit.

76. Reimports are to be included in the country imports. They are also recommended to be recorded separately for analytical purposes, which may require the use of supplementary sources of information in order to determine the origin of reimports, i.e., to determine that the goods in question are indeed reimports rather than the import of goods that have acquired foreign origin through processing.

77. *Exports.* In the case of the general trade system, export flows come from:

(a) The free circulation area, premises for inward processing or industrial free zones;

(b) Premises for customs warehousing or commercial free zones.

There are three types of exports:

(c) Domestic goods originating in the free circulation area or in industrial free zones;

(d) Domestic goods comprised of compensating products after inward processing;

(e) Foreign goods in the same state as previously imported.

There is just one destination for exports, namely, the rest of the world. It follows that general exports consist of six different flows, two of which are referred to as re-exports, as described below.

78. *General exports* consist of:

(a) Exports of domestic goods originating in the free circulation area or industrial free zones, directly to the rest of the world;

(b) Exports of domestic goods originating in the free circulation area or industrial free zones but exported from premises for customs warehousing or commercial free zones to the rest of the world;²⁷

(c) Exports of domestic goods comprised of compensating products after inward processing, directly to the rest of the world;

(d) Exports of domestic goods comprised of compensating products after inward processing but exported from premises for customs warehousing or commercial free zones to the rest of the world;²⁸

(e) Re-exports of foreign goods, in the same state as previously imported,

²⁷ This category refers to domestic goods that are initially brought into premises for customs warehousing or commercial free zones from the free circulation area or industrial free zones and are subsequently exported.

²⁸ This category refers to compensating products that are initially brought into premises for customs warehousing or commercial free zones from premises for inward processing and are subsequently exported.

from the free circulation area, premises for inward processing or industrial free zones, directly to the rest of the world;

(f) Re-exports of foreign goods, in the same state as previously imported, from premises for customs warehousing or commercial free zones, to the rest of the world.

79. Re-exports are to be included in the country exports. They are also recommended to be recorded separately for analytical purposes, which may require the use of supplementary sources of information in order to determine the origin of re-exports, i.e., to determine that the goods in question are indeed re-exports rather than the export of goods that have acquired domestic origin through processing.

C. SPECIAL TRADE SYSTEM

80. *Imports.* In the case of the special trade system, under the relaxed definition (see para. 67 above),²⁹ the import flows come from:

- (a) The rest of the world or from customs transit;
- (b) Premises for customs warehousing or commercial free zones.³⁰

There are three types of imports:

- (c) Foreign goods (other than compensating products after outward processing);
- (d) Foreign goods comprised of compensating products after outward processing;
- (e) Domestic goods in the same state as previously exported.

There is just one destination for imports, namely, the free circulation area, premises for inward processing or industrial free zones. It follows that special imports consist of six different flows, two of which are referred to as reimports, as described below.

81. *Special imports* consist of:

- (a) Imports of foreign goods (other than compensating products after outward processing) into the free circulation area, premises for inward processing or into industrial free zones, from the rest of the world or from customs transit;

²⁹ The special trade system under the strict definition is not dealt with in detail because it is used infrequently.

³⁰ In the case of special trade, both inward and outward flows contain some flows which are internal with respect to the economic territory of a country (e.g., flows between commercial free zones and the free circulation area).

(b) Imports of foreign goods (other than compensating products after outward processing), into the free circulation area, premises for inward processing or into industrial free zones, from premises for customs warehousing or commercial free zones;³¹

(c) Imports of foreign goods comprised of compensating products after outward processing into the free circulation area, premises for inward processing or industrial free zones, from the rest of the world or from customs transit;

(d) Imports of foreign goods comprised of compensating products after outward processing into the free circulation area, premises for inward processing or industrial free zones, from premises for customs warehousing or commercial free zones;³²

(e) Reimports of domestic goods in the same state as previously exported, into the free circulation area, premises for inward processing or industrial free zones, from the rest of the world or from customs transit;

(f) Reimports of domestic goods in the same state as previously exported, into the free circulation area, premises for inward processing or industrial free zones, from premises for customs warehousing or commercial free zones.³³

82. Reimports are to be included in the country imports; they are also recommended to be recorded separately for analytical purposes (see also para. 76 above).

83. *Exports.* In the case of the special trade system under the relaxed definition (see para. 67 above),²⁹ the export flows come only from the free circulation area, premises for inward processing or industrial free zones. There are three types of exports:

(a) Domestic goods originating in the free circulation area or industrial free zones;

(b) Domestic goods comprised of compensating products after inward processing;

(c) Foreign goods in the same state as previously imported.

There are two possible destinations:

(d) The rest of the world;

³¹ This category refers to foreign goods (other than compensating products after outward processing) that are initially brought into premises for customs warehousing or commercial free zones and are subsequently imported.

³² This category refers to foreign goods comprised of compensating products after outward processing that are initially brought into premises for customs warehousing or commercial free zones and are subsequently imported.

³³ This category refers to domestic goods in the same state as previously exported, that are initially brought into premises for customs warehousing or commercial free zones and are subsequently imported.

- (e) Premises for customs warehousing or commercial free zones.

It follows that special exports consist of six different flows, two of which are referred to as re-exports, as described below.

84. *Special exports* consist of:

- (a) Exports of domestic goods originating in the free circulation area or industrial free zones, directly to the rest of the world;

- (b) Exports of domestic goods originating in the free circulation area or industrial free zones, into premises for customs warehousing or commercial free zones;

- (c) Exports of domestic goods comprised of compensating products after inward processing, directly to the rest of the world;

- (d) Exports of domestic goods comprised of compensating products after inward processing, into premises for customs warehousing or commercial free zones;

- (e) Re-exports of foreign goods, in the same state as previously imported, from the free circulation area, premises for inward processing or industrial free zones, directly to the rest of the world;

- (f) Re-exports of foreign goods, in the same state as previously imported, from the free circulation area, premises for inward processing or industrial free zones, into premises for customs warehousing or commercial free zones.

85. Re-exports are to be included in the country exports, and are also recommended to be recorded separately for analytical purposes (see also para. 79 above).

Table 1. Comparison of import flows in the general and special trade systems ^a

Imports	General trade	Special trade
FOREIGN GOODS (OTHER THAN COMPENSATING PRODUCTS AFTER OUTWARD PROCESSING)		
<i>From the rest of the world or from customs transit</i>		
1. Into the free circulation area, premises for inward processing or into industrial free zones	M	M
2. Into premises for customs warehousing or commercial free zones	M	
<i>From premises for customs warehousing or commercial free zones</i>		
3. Into the free circulation area, premises for inward processing or into industrial free zones		M ^b
FOREIGN GOODS (COMPENSATING PRODUCTS AFTER OUTWARD PROCESSING)		
<i>From the rest of the world or from customs transit</i>		
4. Into the free circulation area, premises for inward processing or into industrial free zones,	M	M
5. Into premises for customs warehousing or commercial free zones	M	
<i>From premises for customs warehousing or commercial free zones</i>		
6. Into the free circulation area, premises for inward processing or into industrial free zones		M ^c
DOMESTIC GOODS IN THE SAME STATE AS PREVIOUSLY EXPORTED		
<i>From the rest of the world or from customs transit</i>		
7. Into the free circulation area, premises for inward processing or into industrial free zones	RM	RM
8. Into premises for customs warehousing or commercial free zones	RM	
<i>From premises for customs warehousing or commercial free Zones</i>		
9. Into the free circulation area, premises for inward		RM ^d

^a M=Imports; RM=Reimports

^b See text, footnote 31.

^c See text, footnote 32.

^d See text, footnote 33.

processing or into industrial free zones		
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Table 2. Comparison of export flows in the general and special trade systems ^a

Exports	General trade	Special trade
DOMESTIC GOODS (OTHER THAN COMPENSATING PRODUCTS AFTER INWARD PROCESSING)		
<i>From the free circulation area or industrial free zones</i>		
1. To the rest of the world		
2. Into premises for customs warehousing or commercial free zones	X	X X
<i>Originating in the free circulation area or industrial free zones but exported from premises for customs warehousing or commercial free zones</i>		
3. To the rest of the world	X ^b	
DOMESTIC GOODS (COMPENSATING PRODUCTS AFTER INWARD PROCESSING)		
<i>From premises for inward processing</i>		
4. To the rest of the world	X	
5. Into premises for customs warehousing or commercial free zones		X X
<i>Originating in premises for inward processing but exported from premises for customs warehousing or commercial free zones</i>		
6. To the rest of the world	X ^c	
FOREIGN GOODS IN THE SAME STATE AS PREVIOUSLY IMPORTED		
<i>From the free circulation area, premises for inward processing or industrial free zones</i>		
7. To the rest of the world	RX	
8. Into premises for customs warehousing or commercial free zones		RX RX
<i>From premises for customs warehousing or commercial free zones</i>		
9. To the rest of the world	RX	

D. PRACTICAL PROBLEMS AND LIMITATIONS OF THE SPECIAL TRADE SYSTEM

86. The use of the special trade system narrows the coverage of the statistics in that not all goods are covered; in particular, imports into and exports from premises for customs warehousing or commercial free zones are not recorded. Differences among countries also arise because countries apply the underlying concepts and definitions in different ways. For instance, a number of countries base their recording of special trade on the concept of goods entering the free circulation area. Under this strict definition of special trade, goods moving in or out under inward processing should not be included in trade statistics.

^a X=Exports; RX=Re-exports

^b See text, footnote 27.

^c See text, footnote 28.

However, many countries adopt the relaxed definition and do record all these trade flows under the special system. Also, some countries consider that from an economic standpoint, industrial activities taking place in the industrial free zones are similar to those in premises for inward processing, and they record some or all of their imports into or exports from industrial free zones as special trade.

87. Further differences in coverage stem from differences in national definitions and statistical treatment of the customs free zones. Customs free zones exist, *inter alia*, in such forms as investment promotion zones, export processing zones, foreign trade zones, commercial free zones or industrial free zones. In some cases, these zones are not delineated geographically but may involve only different tax, subsidy or customs treatment. A large and growing number of customs free zones are onshore manufacturing enclaves which have been created to attract foreign direct investment, stimulate local industry and provide employment to the local labour force. The legal status of these zones ranges from extra-territoriality, whereby they are exempt from all customs laws, to varying degrees of customs control. An additional kind of difference is created by the variation in partner attribution that may be given to goods by compiling countries in cases when goods are exported from the free circulation area to, say, commercial free zones, when the partner country is not known at the time of the movement of the goods into the commercial free zone. Some countries have chosen to record the exports of goods that have entered premises for customs warehousing or commercial free zones, not at the time of entry into those premises or warehouses but at the time when the merchandise is in fact exported to a (known) partner country.

88. The lack of uniformity in the definitions of the special trade system used in various countries and differences in statistical treatment have a negative impact on data comparability, as well as on the compilation of individual countries' national accounts and balance of payments statistics.

E. RECOMMENDATIONS

89. The general trade system provides a more comprehensive recording of the external trade flows than does the special system. It also provides a better approximation of the change of ownership criterion used in the 1993 SNA and BPM5.

It is recommended, therefore, that countries use the general system for compilation of their international merchandise trade statistics and international reporting.

90. Any change from the special to the general trade system would require important administrative restructuring, which might prove impractical for some countries.

It is also recommended, therefore, that in order to allow for the adjustments necessary for the estimation of data on a general trade system basis countries that continue to apply either a strict or relaxed definition of the special trade system should compile or estimate, on at least an annual and a quarterly basis, with full geographical and commodity breakdowns, statistics on:

(a) Goods imported into and exported from premises for customs warehousing, premises for inward processing, industrial free zones or commercial free zones, when the strict definition is used;

(b) Goods imported into and exported from premises for customs warehousing or commercial free zones, when the relaxed definition is used.

III. COMMODITY CLASSIFICATIONS

91. The commodity structure of external trade flows of goods is analysed using various internationally adopted commodity classifications which have different levels of detail and are based on different classification criteria. The basic reason for applying a goods nomenclature is to be able to identify details of the commodities in order to satisfy a variety of purposes, including customs, statistical and analytical purposes, particularly for the presentation of external trade statistics with the most detailed commodity specifications.

92. The complex nature of the basic customs and statistical needs makes it necessary to have a rather detailed commodity classification. The *Harmonized Commodity Description and Coding System* (Harmonized System, or HS; see para. 6, footnote b above), or extended versions based on HS, such as the Combined Nomenclature used by the countries that are members of the European Union ³⁴ provide such details.

Classification using these nomenclatures is based on the nature of the commodity. However, for analytical purposes, such a division of products is not the most appropriate. Commodity categories more suitable for economic analysis are provided by the *Standard International Trade Classification, Revision 3* (SITC, Rev.3) ³⁵, which classifies commodities according to their stage of production. The *Classification by Broad Economic Categories Defined in Terms of SITC, Rev.3* (BEC), ³⁶ groups large economic classes of goods with reference to their end use.

Nomenclatures have also been elaborated with the primary aim of classifying productive economic activities. The *International Standard Industrial Classification, Revision 3* (ISIC, Rev.3) ³⁷ is an example of such a nomenclature:

³⁴ See *Official Journal of the European Communities* No. L256 (7 September 1987), Council Regulation No. 2658/87, annex 1; amended annually by European Commission regulations.

³⁵ United Nations publication, Sales No. E.86.XVII.12; also contains a description of the origin and development of SITC.

³⁶ United Nations publication, Sales No. E.89.XVII.4.

³⁷ United Nations publication, Sales No. E.90.XVII.11.

it classifies according to the principal industry of origin of products. The *Central Product Classification* (CPC) ³⁸ combines the main classification principle of ISIC, Rev.3 with criteria applied in HS. ³⁹ For the purposes of balance of payments statistics, trade flows are broken down into such broad categories as general merchandise, goods for processing, goods for repair, goods procured in ports by carriers and non-monetary gold (see BPM5, paras. 195 - 202).

93. The present chapter describes in further detail the HS, SITC, BEC, ISIC and CPC classifications; specifies their uses; and recommends that countries use HS for the compilation and publication of detailed international merchandise trade statistics.

³⁸ Statistical Papers, Series M, No. 77 (Version 1.0); United Nations publication, forthcoming.

³⁹ Correlation tables between these commodity-based classifications have been established and have generally been included in the publications containing the classifications themselves; diskette versions of some of the correlations are also available from the United Nations Statistics Division.

A. HARMONIZED COMMODITY DESCRIPTION AND CODING SYSTEM

94. The Harmonized System was adopted by the Customs Co-operation Council in June 1983, and the International Convention on the Harmonized System (HS Convention) entered into force on 1 January 1988 (HS88).⁴⁰

95. The Statistical Commission, at its twenty-seventh session (22 February to 3 March 1993), recommended that countries adopt HS for the compilation and dissemination of their international trade statistics.⁴¹

96. In accordance with the preamble to the HS Convention, which recognized the importance of ensuring that HS be kept up to date in the light of changes in technology or in patterns of international trade, HS is regularly reviewed and revised.⁴² The Statistical Commission, at its twenty-seventh session, recommended

⁴⁰ See Customs Co-operation Council, *The Harmonized Commodity Description and Coding System* (Brussels, 1989); see also second edition published by World Customs Organization (Brussels, 1996). As of 21 November 1997 there were 89 Contracting Parties to the Convention, and another 72 countries or territories which were not contracting parties but were using HS for customs/statistical purposes.

⁴¹ See *Official Records of the Economic and Social Council, 1993, Supplement No. 6 (E/1993/26)*, para. 162 (d).

⁴² Some minor revisions to the 1988 HS (HS88), which also resulted in the deletion of one six-digit code, were made in 1992 (HS92). A more comprehensive set of amendments was adopted in 1993, and those amendments entered into force on 1 January 1996 (HS96). They take account of technological progress and trade patterns, provide for clarification of the text to ensure uniform application of HS, provide a legal basis for decisions taken by the Harmonized System Committee, and allow for the adaptation of HS to reflect trade practice. Another revision is expected to come into force in the year 2002.

that the Customs Co-operation Council take fully into account the statistical implications of any changes proposed for HS and the statistical needs and capacities of developing countries.⁴³

97. The headings and subheadings of HS are accompanied by interpretative rules, and section, chapter and subheading notes, which form an integral part of HS and are designed to facilitate classification decisions in general and to clarify the scope of the particular headings or subheadings.

98. HS96 contains 5,113 subheadings and 1,241 headings, grouped into 97 chapters and 21 sections. As a general rule, goods are arranged in order of their degree of manufacture: raw materials, unworked products, semi-finished products and finished products. For example, live animals fall under Chapter 1, animal hides and skins under Chapter 41 and leather footwear under Chapter 64. The same order also exists within the chapters and headings.

99. The general structure of HS is as follows:

- Sections I to IV: Agricultural products
- Sections V to VII: Minerals, chemical and related products, plastics, rubber and articles thereof
- Sections VIII to X: Animal products, such as hides, skins and furskins, as well as wood, cork, pulp, paper, and articles thereof
- Sections XI and XII: Textiles, footwear and headgear
- Sections XIII to XV: Articles of stone, plaster, cement, asbestos, mica and the like, ceramic products, glass, pearls, precious or semi-precious stones, precious metals, jewellery, base metals and articles thereof
- Section XVI: Machinery, mechanical appliances and electrical equipment
- Section XVII: Vehicles, aircraft, vessels and associated transport equipment
- Section XVIII: Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus, clocks and watches, musical instruments

⁴³ See *Official Records of the Economic and Social Council, 1993, Supplement No. 6 (E/1993/26)*, para. 162 (e).

Section XIX: Arms and ammunition

Sections XX and XXI: Miscellaneous manufactured articles, such as furniture, lighting fittings, prefabricated buildings, sports requisites, works of art, collectors' pieces and antiques

100. **It is recommended** that countries use HS for the collection, compilation and dissemination of international merchandise trade statistics.

B. STANDARD INTERNATIONAL TRADE CLASSIFICATION, REVISION 3

101. The Statistical Commission, at its twenty-first session (12 - 21 January 1981), took note of the fact that a third revision of SITC would have to be made available when HS came into force.⁴⁴

102. Employing the subheadings of HS88 as building blocks, in consultation with experts from Governments and interested international organizations and with the assistance of expert groups, the United Nations Statistics Division produced SITC, Rev.3, taking account of the need for continuity with the previous versions of SITC, as well as the following considerations:⁴⁵

- (a) The nature of the merchandise and the materials used in its production;
- (b) The processing stage;
- (c) Market practices and the uses of the product;
- (d) The importance of the commodity in terms of world trade;
- (e) Technological changes.

103. SITC, Rev.3 contains 3,118 basic headings and subheadings, which are assembled in 261 groups, 67 divisions and 10 sections. The sections are:

- 0 Food and live animals
- 1 Beverages and tobacco
- 2 Crude materials, inedible, except fuels
- 3 Mineral fuels, lubricants and related materials

⁴⁴ See *Official Records of the Economic and Social Council, 1981, Supplement No. 2 (E/1981/12)*, para. 41 (a).

⁴⁵ See SITC, Rev.3, introduction (for citation see footnote 35 above). The attempt to maintain continuity with previous versions of SITC is not always successful. In some cases, because of the difficulties of conversion from SITC, Rev.3 to SITC, Rev.2, data converted to SITC, Rev.2 from SITC, Rev.3 are not comparable with data reported directly in SITC, Rev.2, to a very significant extent.

- 4 Animal and vegetable oils, fats and waxes
- 5 Chemicals and related products, not elsewhere specified
- 6 Manufactured goods classified chiefly by material
- 7 Machinery and transport equipment
- 8 Miscellaneous manufactured articles
- 9 Commodities and transactions not classified elsewhere in SITC

The coverage of the sections in all revisions of SITC is very close, so that historical series of data are largely comparable at this level of aggregation. The historical comparability is also preserved for numerous series at the more detailed levels of the classification.

104. SITC, Rev.3 was published in 1986. Following consultations by the United Nations Statistics Division with experts in other international bodies,⁴⁶ the *Commodity Indexes for the Standard International Trade Classification, Revision 3* were published in 1994.⁴⁷

105. The Statistical Commission, at its twenty-eighth session (27 February - 3 March 1995), considered changes that would be required to SITC, Rev.3 to bring it into correlation with HS96. The Commission decided that the changes required in SITC, Rev.3 to make it fully correlated with HS96 were minor in scale. The Commission therefore decided that it would not be necessary to issue a fourth revision of SITC.⁴⁸ Countries wishing to compile analytical data according to SITC, Rev.3 can do so by using the correlation tables between HS96 and SITC, Rev.3 issued by the United Nations Statistics Division.⁴⁹

C. CLASSIFICATION BY BROAD ECONOMIC CATEGORIES

106. The original version of the Classification by Broad Economic Categories⁵⁰

⁴⁶ United Nations Conference on Trade and Development, International Labour Organization, Food and Agriculture Organization of the United Nations, United Nations Educational, Scientific and Cultural Organization, United Nations Industrial Development Organization and World Customs Organization.

⁴⁷ United Nations publication, Sales No. E.94.XVII.10.

⁴⁸ See *Official Records of the Economic and Social Council, 1995, Supplement No. 8* (E/CN.3/1995/28), para. 19 (e).

⁴⁹ United Nations Statistics Division, "Correlation between the Harmonized System 1996 and the Standard International Trade Classification, Revision 3", working paper, 10 September 1996.

⁵⁰ United Nations publication, Sales No. E.71.XVII.12.

was devised mainly for use by the United Nations Statistics Division for the summarization of data on international trade by large economic classes of commodities. It was designed to serve as a means for converting trade data compiled in terms of SITC into end-use categories that were meaningful within the framework of SNA,⁵¹ namely, categories approximating the three basic classes of goods in SNA: capital goods, intermediate goods and consumption goods.⁵² BEC has 19 basic categories that can be aggregated to approximate the three basic classes of goods, thus permitting trade statistics to be considered jointly with other sets of general economic statistics - such as national accounts and industrial statistics - for national, regional or global economic analysis.

107. The Classification was also expected by the Statistical Commission to serve as a guideline for national classifications of imports according to broad economic categories.⁵³ However, at its sixteenth session (5 - 15 October 1970), the Statistical Commission recognized that countries might wish to adapt the Classification for national purposes in different ways to meet national requirements, and concluded that consequently, the Classification was not to be regarded as a "standard" classification in the same sense as, for example, SITC.⁵⁴

108. In 1989, BEC was reissued, defined in terms of SITC, Rev.3.

⁵¹ See *Official Records of the Economic and Social Council, Forty-fourth Session, Supplement No. 10 (E/4471)*, paras. 116 and 118.

⁵² See United Nations, *A System of National Accounts* (United Nations publication, Sales No. E.69.XVII.3), para. 1.50.

⁵³ *Official Records of the Economic and Social Council, Forty-fourth Session, Supplement No. 10 (E/4471)*, para. 123.

⁵⁴ *Ibid, Fiftieth Session, Supplement No. 2 (E/4938)*, para. 95.

D. INTERNATIONAL STANDARD INDUSTRIAL CLASSIFICATION OF ALL ECONOMIC ACTIVITIES

109. ISIC, Rev.3 was adopted by the Statistical Commission at its twenty-fifth session (6 - 15 February 1989)⁵⁵ and published in 1990. It provides a standard classification of productive economic activities. It has 17 sections, 60 divisions, 159 groups and 292 classes.

E. CENTRAL PRODUCT CLASSIFICATION

110. CPC, Version 1.0 was adopted by the Statistical Commission at its twenty-ninth session (11 - 14 February 1997).⁵⁶ It will be published in 1998, and will replace the Provisional CPC.⁵⁷ CPC, Version 1.0 is divided into 10 sections. Sections 0 to 4 are based on HS96, and aggregate the HS codes into product categories suitable for various types of economic analysis within the national accounts framework.

This part of the classification, like SITC, provides for the rearrangement of HS-based international merchandise trade statistics for analytical purposes. Sections 5 to 9 of CPC, Version 1.0 go beyond HS categories to provide a classification of service products.

IV. VALUATION

A. STATISTICAL VALUE OF IMPORTS AND EXPORTS

⁵⁵ *Official Records of the Economic and Social Council, 1989, Supplement No. 3 (E/1989/21), para. 95 (a).*

⁵⁶ *See Official Records of the Economic and Social Council, 1997, Supplement No. 4 (E/1997/24), para. 19 (d).*

⁵⁷ United Nations publication, Sales No. E.91.XVII.7.

111. *Statistical value* is the value assigned to goods by a compiler of international merchandise trade statistics, according to the rules adopted by the compiling country.

112. *Customs valuation and statistical value.* In the past, most countries had no specific system for the valuation of commodities for the purposes of international merchandise trade statistics.⁵⁸ However, the values placed on merchandise for customs purposes were - and are - available to the statistician. National practices of customs valuation often vary from country to country, and consequently the trade statistician needs to be aware of those practices to understand the customs values.

113. An important step towards the standardization of the customs approach to valuation was made in 1947 by the adoption of article VII of the General Agreement on Tariffs and Trade (GATT 1947).⁵⁹ The contracting parties to GATT 1947 agreed to base the customs value of imported merchandise on its actual price, and recognized the validity of that approach in respect of all products subject to duties or other charges and restrictions on importation and exportation based on value. In 1953, the Brussels Definition of Value (BDV) was developed to further standardize the customs approach to valuation.⁶⁰ In 1981, another approach was adopted within the GATT framework, known as the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1981 (1981 GATT Agreement on Valuation).⁶¹ Finally, in 1995, the Agreement on Implementation of Article VII

⁵⁸ An increasing number of countries include in their customs declarations a provision for statistical value; for example, many countries have adopted the Single Administrative Document (SAD), which contains a special entry for statistical value.

⁵⁹ See World Trade Organization, *The Results of the Uruguay Round of Multilateral Trade Negotiations: The Legal Texts* (Geneva, 1995), pp. 495 - 497.

⁶⁰ The Convention on the Valuation of Goods for Customs Purposes, more commonly known as the Brussels Definition of Value (BDV), came into force on 28 July 1953. BDV represents a "notional" concept of value, under which it is assumed that there is a single, theoretical standard of value, namely, the normal price which goods would fetch in the open market under specified conditions. It is assumed that that price can always be found by applying appropriate methods. In practice, when imported goods are the subject of a bona fide sale, the price paid or payable on that sale is generally considered as a valid indication of the normal price mentioned in the definition.

⁶¹ The 1981 GATT Agreement on Valuation came into force on 1 January 1981. It was intended to provide a fair, uniform and neutral system for the valuation of goods for customs purposes, and to be a system that conformed to commercial realities and outlawed the use of arbitrary or fictitious customs values. The Agreement noted that customs value should, to the greatest extent possible, be based on the price actually paid or payable for the goods being valued; that price, subject to certain adjustments, was called the "transaction value". The latter was to be the customs value in the great majority of importations, and constituted the primary basis for valuation under the Agreement. Where there was no transaction value or where the transaction value could not be accepted because the price had been influenced by distortions resulting from certain conditions or restrictions, the Agreement provided for other methods of determining customs value, to be applied in a prescribed order.

of the General Agreement on Tariffs and Trade 1994 (WTO Agreement on Valuation) was established; it came into effect on 1 January 1995. It is one of the multilateral agreements on trade in goods annexed to the Marrakesh Agreement Establishing the World Trade Organization, and is obligatory for all WTO members. ⁶²

The WTO Agreement on Valuation is patterned on the 1981 GATT Agreement on Valuation, adopting transaction value as the customs value of imported goods. ⁶¹

The text of the rules on customs valuation, as set out in the WTO Agreement on Valuation, is contained in annex C below.

114. **It is recommended** that countries adopt the WTO Agreement on Valuation as the basis for valuation of their international merchandise trade for statistical purposes. This valuation method applies to all goods flows.

115. The WTO Agreement on Valuation allows countries to include in or exclude from the customs value, in whole or in part, such components as:

"(a) The cost of transport of the imported goods to the port or place of importation;

(b) Loading, unloading and handling charges associated with the transport of the imported goods to the port or place of importation;

(c) The cost of insurance." ⁶³

It follows that, in principle, under the Agreement, countries can choose FOB-type or CIF-type values. FOB-type values include the transaction value of the goods and the value of services performed to deliver goods to the border of the exporting country. CIF-type values include the transaction value of the goods, the value of services performed to deliver goods to the border of the exporting country and the value of the services performed to deliver the goods from the border of the exporting country to the border of the importing country.

116. To promote the comparability of international merchandise trade statistics and taking into account the commercial and data reporting practices of the majority of countries, **it is recommended** that:

(a) *The statistical value of imported goods* be a CIF-type value;

(b) *The statistical value of exported goods* be an FOB-type value.

117. Although customs administrations generally require the FOB or CIF value to be placed on the customs forms by traders, there are occasions when the trade statistician needs to examine supporting documents either to establish the

⁶² See World Trade Organization, *op.cit.*, pp. 197 - 229.

⁶³ *Ibid.*, p. 204.

transaction value itself or to identify insurance and freight costs, or for other reasons. Such supporting documents may include the contract of sale, which would normally contain the "terms of delivery" of goods. Types of terms of delivery used in international commerce, including FOB and CIF, are described in annex D below.

118. In the case of goods dispatched from the exporting country by sea or inland waterway, FOB at point of export can be used; in the case of goods dispatched from the exporting country by other means of transport and when FOB is not applicable, "Free Carrier" (FCA) at port of export can substitute for it; if neither FOB nor FCA is applicable (e.g., exports by railroad or pipeline), "Delivered at Frontier" (DAF) of exporting country may be used. Since FCA and DAF reflect costs of delivery of goods to the border of the exporting country, they are similar to FOB. Use of FOB, FCA and DAF is referred to as FOB-type valuation. Goods imported by sea or inland waterway can be CIF (port of importation) valued; in the case of goods imported by other means of transport and when CIF is not applicable, the goods can be valued on a "Carriage and insurance paid to" (CIP) at port of importation basis. Since CIP valuation reflects costs, including freight and insurance, of goods delivery to the border of the importing country, it is referred to as a CIF-type valuation. If other kinds of terms of delivery apply in any transaction (such as Ex works, Free Alongside Ship etc.), other sources of data need to be used to establish an FOB-type or a CIF-type value for the transaction. ⁶⁴

119. Commercial practice in international merchandise trade displays a variety of detail in the terms of delivery of goods. Statisticians should carefully examine available data sources, including the terms of goods delivery standardized by the International Chamber of Commerce and known as Incoterms (see annex D below), in order to derive the recommended FOB/CIF values. In addition, they should establish a close cooperation with the primary data collectors to provide guidance on the methodology regarding the statistical value and to ensure the availability of adequate data. The customs value, when established in compliance with the WTO Agreement on Valuation, should form the basis for the statistical value. However, compilers should be aware that values placed on goods by customs authorities may not necessarily comply with statistical requirements.

120. The CIF-type values of imports and FOB-type values of exports satisfy several analytical needs, but FOB-type values of imports are also needed for some purposes. For instance, CIF-type values of imported goods are required for price comparison with other goods available on the domestic market. CIF-type values of imported goods are also required for national accounts purposes at the product group level (see 1993 SNA, para. 3.85). FOB-type values (of both exported and imported goods) provide a uniform price basis for goods (in the sense of giving a single point of valuation for exports and imports, namely, the border of the exporting country's statistical territory) and therefore serve the purposes of the compilation of national accounts and balance of payments statistics at the aggregate level (for

⁶⁴ For ease of reference, the word "type" may be omitted and the terms "CIF value" and "FOB value" used as generic names instead.

valuation, particularly uniform valuation, see 1993 SNA, para. 3.85, and BPM5, paras. 221 - 225). FOB-type values of imported goods, for instance, are needed to separate the costs of freight and insurance associated with goods transportation from the point of export to the point of import (these costs are considered as value of services and are to be excluded from the cost of the goods). FOB-type values of imported goods can also enhance the analytical use of trade statistics; for instance, imports of country A from country B on an FOB basis can be used to estimate the exports of country B to country A on an FOB basis.

121. **It is recommended** that countries which use CIF-type values of imports make efforts to collect separately data for freight and insurance, at the most detailed commodity/partner level possible, in order to derive the FOB-type values needed for national accounts and balance of payments statistics. When such data are not available directly, countries may wish to obtain them through sampling.

122. *Sources of value data and selected issues of valuation.* Most of the goods covered by international trade statistics cross borders as a result of commercial transactions (purchases/sales). The contract of sale contains, among other information, the price of the goods (contract price), which is normally reflected in the related commercial documents, such as invoices, and can serve as the starting point for determination of the transaction value. Contract prices, however, do not reflect all the costs associated with goods importation and exportation. The identification of total cost depends, as indicated above, on analysis of the terms of delivery embodied in the particular contracts.⁶⁵ The contract of sale may not be available or may not contain all the necessary information. In such cases, the data compiler should resort to other commercial documents, such as invoices, contracts of carriage and insurance contracts.

123. There are international transactions which present special difficulties or questions regarding valuation of the goods involved. Some of the difficulties are due to the complexity of the transaction or the peculiarity of the goods. In other cases, the transactions may not require goods valuation by the involved parties and are not accompanied by the movement of currency or credit. In particular, some questions of valuation arise in relation to some of the goods specified in chapter I.B.1 and I.B.3 above. The valuation of all goods should be made in accordance with the WTO Agreement on Valuation and the recommendations contained in the present publication (see paras. 116 and 121 above). In addition, **it is recommended** that:

(a) Unissued banknotes and securities and coins not in circulation be valued at the transaction value of the printed paper or stamped metal rather than at their face value (see para. 20 above);

(b) Goods used as carriers of information and software, such as packaged

⁶⁵ For international guidelines on the content of contracts of sale, see United Nations Convention on Contracts for the International Sale of Goods of 11 April 1980, in *Proceedings of the United Nations Conference on Contracts for the International Sale of Goods, Vienna, 10 March - 11 April 1980* (United Nations publication, Sales No. 81.V.5), pp. 178 - 190.

sets containing diskettes or CD-ROMs with stored computer software and/or data developed for general or commercial use (not to order), be valued at the their full transaction value (not at the value of the empty diskettes or CD-ROMs, paper or other materials (see para. 27 above));

(c) Goods for processing and the goods resulting from such processing be valued on a gross basis before and after processing (see para. 28 above);

(d) Goods for repair be valued at the value of the repair only, that is, the fees paid or received, cost of replaced parts, etc. (see para. 61 above).

124. There are cases in which an international transaction in goods may not require goods valuation by the involved parties and is not accompanied by a corresponding movement of currency or credit, such as trade and barter agreements based on quantities without stated prices (para. 21 above); food and other humanitarian aid (para. 23 above); goods on consignment (para. 26 above); goods for processing (para. 28 above); migrants' effects (para. 33 above); cross-border movements of unsold articles; gifts made by private agencies or persons;⁶⁶ and goods entering or leaving a country illegally and confiscated (see para. 62 above). In these cases, following the general recommendation, the value of the goods should be established in accordance with the WTO Agreement on Valuation (including the use of transaction value of identical or similar goods, or a computed value) and the recommendations on statistical value contained in the present publication (see paras. 116 and 121 above).

125. The appropriate valuation of goods is very important for the accuracy of international merchandise trade statistics. Consequently, the data compiling and data-collection authorities should cooperate to provide reliable valuation in all cases, especially for problem categories of goods (irrespective of whether contract prices are available).

B. CURRENCY CONVERSION

126. *The unit of account.* The value of trade transactions may be expressed initially in a variety of currencies or other standards of value (e.g., European currency units). Compilers are required to convert these values into a single (reference) unit of account in order to produce consistent and analytically meaningful national statistics suitable, *inter alia*, for measuring trade flows and the compilation of national accounts and balance of payments statistics. From the perspective of the data compiler, the national currency unit is the preferable reference unit of account. However, if the national currency is subject to significant change relative to other currencies, the analytical value of the data may be diminished. In those circumstances, it might be appropriate to use another more stable unit of account so that the values of international transactions

⁶⁶ Gifts between persons often cannot be separated from other categories of shipments, such as parcel post (which in itself gives rise to special problems); they should, in such cases, be valued by the method used for the categories of which they form a part.

expressed in that unit would not be significantly affected by appreciation or depreciation (relative to the unit of account) of the currencies in which the given transactions occur.

127. *Exchange rate for conversion.* In accordance with the WTO Agreement on Valuation **it is recommended** that:

"(a) Where the conversion of currency is necessary for the determination of the customs value, the rate of exchange to be used shall be that duly published by the competent authorities of the country of importation concerned and shall reflect as effectively as possible, in respect of the period covered by each such document of publication, the current value of such currency in commercial transactions in terms of the currency of the country of importation;

"(b) The conversion rate to be used shall be that in effect at the time of exportation or the time of importation, as provided by each Member." ⁶⁷

128. An equivalent approach to conversion should apply for both imports and exports. In cases when both buying and selling (official/market) rates are available the rate to be used is the midpoint between the two, so that any service charge (i.e., the spread between the midpoint and those rates) is excluded. If a rate is not available for the date of exportation or importation, **it is recommended** that the average rate for the shortest period applicable be used.

129. *Multiple official exchange rates.* Some countries use a regime of multiple exchange rates, under which different exchange rates are applicable to different categories of traded goods, favouring some transactions and discouraging others. **It is recommended** that trade transactions be recorded using the actual rate applicable to specific transactions, noting which official rate was used for each currency.

130. *Parallel or black market exchange rates.* Transactions that involve parallel or black market rates should be handled separately from those that involve official rates. Compilers of trade statistics should attempt to estimate the exchange rate actually used in transactions in such markets, and should use that rate for conversion.

V. QUANTITY MEASUREMENT

131. *Quantity units* refer to physical characteristics of goods, and since they are free of the valuation problems discussed in chapter IV above, in many cases they provide a more reliable indicator of international movements of goods. Use of appropriate quantity units also may result in more comparable data on these movements, because differences in quantity measurements between the importing country and the exporting country are normally less significant than in value measurements. Quantities are often used in checking the reliability of the value data. In addition, quantity units are indispensable in the construction of index

^a See World Trade Organization, op.cit., pp. 204 and 205.

numbers and for transportation statistics.

132. *The standard units of quantity recommended by the World Customs Organization.*

In 1995, WCO adopted a recommendation on the use of standard units of quantity to facilitate the collection, comparison and analysis of international statistics based on the Harmonized System.⁶⁸ The standard units of quantity are:⁶⁹

Weight ⁷⁰	kilograms (kg)
	carat (carat)
Length	metres (m)
Area	square metres (m ²)
Volume	cubic metres (m ³)
	litres (l)
Electrical power	1,000 kilowatt-hours (1,000 Kwh)
Number (units)	pieces/items (u)
	pairs (2u)
	dozens (12u)
	thousands of pieces/items (1,000u)
	packs (u(set/pack))

133. In the WCO recommendation, one of the above standard units of quantity is specified for each HS six-digit subheading.⁷¹ **It is recommended** that countries use the WCO standard units of quantity when collecting and reporting international merchandise trade on the basis of the Harmonized System. **It is also recommended** that:

⁶⁸ See HS, annex II (for HS citation, see para. 6, footnote b above).

⁶⁹ Ibid., introduction.

⁷⁰ Weight units (kilograms) can be expressed on a net or a gross basis, and can be used to meet a variety of needs. For instance, net weight units (excluding packaging) are very useful for economic analysis; gross weight units (including packing) are more appropriate for analyses of transportation.

⁷¹ The recommendation allows that other units of quantity may be retained or used in statistical nomenclatures for collecting international merchandise trade data and for other international purposes.

(a) In the case of the HS headings (subheadings) where the standard unit is other than weight, a weight also be collected and reported;

(b) Weight figures be reported on a net weight basis; ⁷²

(c) Countries that use units of quantity other than the WCO standard units provide the conversion factors to the standard units in their statistical nomenclatures.

⁷² To the extent that gross weights are also desired by a country, they should be collected directly, but given that collection of gross weight data presents difficulties in many countries, countries may wish to obtain gross weights from net weights through sampling.

VI. PARTNER COUNTRY

A. GENERAL

134. Trade statistics by partner countries, both for the total value of trade in goods and for the quantity and value of trade in individual commodities, are of significant analytical value. They are used for a number of purposes, including analysis of economic trends, national accounts, balance of payments, regional trade patterns, trade shares, market analysis and business decisions, and trade policy and negotiations, as well as for checking the accuracy and reliability of trade data. Trade-by-partner statistics are frequently used by analysts to estimate the value of imports and exports of a country that does not report (or does so only after substantial delay). Where a country's reported data are considered questionable by a user or when the user is seeking indications of any under- or overreporting of imports or exports, a country's trade data, both at the total level and by commodity, are frequently compared with the data of its partners. Countries report their trade statistics by partner countries in a number of different ways, which contributes to the non-comparability of reported international merchandise trade statistics (for further discussion of the issue of data comparability, see para. 158 below).

B. CRITERIA FOR PARTNER COUNTRY ATTRIBUTION

135. The present section describes several types of partner country attribution used in international merchandise trade statistics by various countries, provides a brief comparison of their advantages and disadvantages,⁷³ and makes recommendations.

COUNTRY OF PURCHASE/SALE

136. The country of purchase is the country where the purchaser's co-contractor (seller of the goods) resides. The country of sale is the country where the seller's co-contractor (purchaser of the goods) resides. The term "resides" should be interpreted in accordance with the 1993 SNA and BPM5 (see annex A, para. 4 below).

If both countries collect data on a purchase/sale basis, the country of purchase will record goods as exports to the country of sale, and the country of sale will record the same goods as imports from the country of purchase.

⁷³ Definitions presented in paragraphs 136 - 149 below are derived from definitions used by countries and from the text of the 1982 revision of *International Trade Statistics: Concepts and Definitions* (for citation, see footnote 1 above).

COUNTRY OF CONSIGNMENT/DESTINATION/LAST KNOWN DESTINATION/SHIPMENT

137. The country of consignment (in the case of imports) is the country from which goods were dispatched to the importing country, without any commercial transactions or other operations which change the legal status of the goods taking place in any intermediate country. If, before arriving in the importing country, goods enter a third country and are subject to such transactions or operations, that third country should be taken as the country of consignment. The country of consignment (in the case of exports; also referred to as country of destination) is the country to which goods are dispatched by the exporting country, without - as far as it is known at the time of exportation - being subject to any commercial transactions or other operations which change the legal status of the goods. The country of last known destination is the last country - as far as it is known at the time of exportation - to which goods are to be delivered, irrespective of where they have been initially dispatched to and whether or not, on their way to that last country, they are subject to any commercial transactions or other operations which change their legal status. For instance, if it is known at the time of exportation that goods are to be delivered to country A but have been initially dispatched to a third country (country B) where they are subject to commercial transactions or other operations which change their legal status, that third country (country B) is the country of destination and country A is the country of last known destination. If goods are delivered to country A without any such transactions or operations occurring, country A is both the country of destination and the country of last known destination.

138. The country of shipment (in the case of imports), is the country from which goods are shipped, irrespective of whether or not commercial transactions or any other operations which change the legal status of the goods occur after the goods are dispatched from the exporting country. If such transactions do not occur, the country of shipment is the same as the country of consignment. The country of shipment (in the case of exports), is the country to which goods are shipped, irrespective of whether or not transactions or operations mentioned above are expected before arrival of the goods in that country.

COUNTRY OF ORIGIN/CONSUMPTION

139. The country of origin of a good (for imports) is determined by rules of origin established by each country.⁷⁴ Generally, rules of origin consist of two basic criteria:

(a) The criterion of goods "wholly produced" (obtained) in a given country, where only one country enters into consideration in attributing origin;

⁷⁴ There are also a number of countries which do not have rules of origin at all.

(b) The criterion of "substantial transformation", where two or more countries have taken part in the production of the goods.

The international guidance on these criteria is currently provided by the Kyoto Convention.⁷⁵ **It is recommended** that countries follow the relevant provisions of the Kyoto Convention in international merchandise trade statistics for determining country of origin.

140. Since the WTO Agreement on Rules of Origin came into force,⁷⁶ the Technical Committee on Rules of Origin, under the auspices of the World Customs Organization (Brussels) and the Committee on Rules of Origin, under the auspices of WTO (Geneva), have been undertaking the harmonization work programme on rules of origin, under which both Committees are to:

(a) Develop definitions of wholly obtained goods and of minimal operations or processes that do not by themselves confer origin to a good;

(b) Elaborate upon substantial transformation expressed by change in HS tariff classification;

(c) Develop - in cases where the exclusive use of the HS nomenclature does not allow for the expression of substantial transformation - supplementary criteria, such as *ad valorem* percentages and/or manufacturing or processing operations.

The substantial transformation criteria are being elaborated on a product specific basis, and are to be applied to a good when more than one country is concerned in its production. These rules will provide updated international guidelines in this area, and will allow the determination of origin of each internationally traded commodity classified in the Harmonized System.

141. The *country of consumption* of a good (for exports) is parallel to the concept of country of origin for imports. The country of consumption is the country in which the goods are expected to be used for private or public consumption or as inputs in a production process.

C. COMPARISON OF ALTERNATIVE APPROACHES

COUNTRY OF PURCHASE/SALE

142. This approach is clear enough conceptually, but it leads to inconsistencies in collected data since most of the data are recorded on the basis of goods crossing borders. To illustrate these inconsistencies, let us assume that:

⁷⁵ See Kyoto Convention, annex D-1; for Convention citation, see para. 6, footnote a above.

⁷⁶ See World Trade Organization, *op.cit.*, pp. 241 - 254.

(a) Country A produces goods which are sold to a resident of country B, who in turn sells them to a resident in country C;

(b) Goods are shipped directly from country A to country C.

If all countries record goods on the basis of crossing their border and at the same time use a purchase/sale basis of partner country attribution, then the statistics of country A would record goods as exports to country B, and the statistics of country C would record the same goods as imports from country B.

However, the statistics of country B will show neither imports from country A nor exports to country C since the goods did not cross its borders. No exact comparability of trade statistics between partners can be expected if statistics are based on a combination of border crossing and purchase/sale principles. In addition, purchases/sales comprise only a part of international merchandise trade statistics.

143. The compilation of statistics on a purchase/sale basis also presents a country with the problem of how to obtain the required information when the goods are sent to a recipient in a country other than the country where the buyer is located and when the goods are received from a country other than the country where the seller is located (see the example in para. 142 above). The compilation of trade statistics on a purchase/sale basis is a relatively expensive operation, requiring substantial effort to determine the residence of the purchaser (for exports) and seller (for imports) for each external trade transaction. Surveys can contribute relevant information, especially when linked to value added tax declarations; however, in general, the compilation of international merchandise trade statistics on a purchase/sale basis cannot be recommended as the standard.

COUNTRY OF CONSIGNMENT/DESTINATION/LAST KNOWN DESTINATION/SHIPMENT

144. In general, the method of compiling data by the country of consignment/destination offers the possibility of obtaining consistent statistics and reasonable comparability since it promotes the recording of the same transactions by importing and exporting countries. In cases where commercial transactions or other operations which change the legal status of the goods during transport from dispatching country (country A) to receiving country (country B) are absent, this approach should result in symmetrical data sets since goods recorded as imports by one country are to be recorded as exports by another. However, if such transactions or operations are present while the goods are being transported via a third country or through international waters, the import and export records of the countries involved might not provide such a symmetry due to, for instance, the added value by further processing, the cost of related services and the profit mark-ups that would appear in import figures compared to export figures. Also, the entire value of a transaction is attributed to a country that may only be the location of a distribution warehouse or middleman.

Such data on a consignment basis are also inconsistent with the need for the country-of-origin data required for quota and tariff purposes. In addition, there can be a lack of knowledge about the destination of goods at the time of export, goods can be redirected while at sea or goods can be trans-shipped from the original country of destination (and hence not included in that country's imports). Finally, for certain product areas, including artwork, special circumstances may apply, such as the exclusion of goods imported for auction as temporary imports, creating a discrepancy with the counterpart exports in which they are recorded as an export

to the auctioning country. In practice, export statistics are rarely revised to reflect the actual country of destination.

145. The use of country of shipment has the advantage that for the majority of transactions, in the case of both imports and exports, the trading partner can be easily determined from shipping documents. However, shipment of goods between countries does not necessarily reflect trade transactions. The transportation of goods from the country of consignment to the country of destination may involve the use of multiple shippers and passage through several countries, so that at the time of goods importation the country of consignment and the country of shipment may or may not coincide. The country identified by the importer as the partner country will often be the country where the last shipment arrangements were made rather than the country from which the goods were originally despatched. It follows that the recording of a partner country on a shipment basis will result in a distorted picture of the international merchandise trade flows, and cannot, therefore, be recommended.

COUNTRY OF ORIGIN/CONSUMPTION

146. The recording of imports by country of origin has the advantage of showing the direct relationship between the producing country (the country in which goods originate) and the importing country. This information is regarded as indispensable for matters of trade policy and negotiations, for administering import quotas or differential tariffs and for related economic analysis. The WTO Agreement on Rules of Origin, which is obligatory for all WTO members, indicates such areas for their application as most-favoured-nation treatment, anti-dumping and countervailing duties, safeguard measures, origin marking requirements, quantitative restrictions and quotas. The Agreement specifically provides that the WTO rules of origin, after their adoption, will "include rules used for government procurement and trade statistics".⁷⁷

147. However, there are limitations to the use of data compiled on a country-of-origin basis; most notably, such an approach does not permit a symmetrical recording of the same trade transactions by the exporting country and the importing country if the goods were not directly imported from the country of production. Suppose goods were produced in country A, sold and shipped to country B, and afterwards resold and dispatched to country C. The statistics of country B will show exports to country C, but statistics of country C will not attribute its imports to country B; it will indicate that goods were imported from country A (the country of origin). This fact complicates the issue of the comparability of data, and detracts from their usefulness for some types of economic analysis, especially in compilation of balance of payment statements by partner countries or regions.

⁷⁷ See World Trade Organization, *op.cit.*, p. 242.

148. Difficulties can also arise in actually determining the country of origin since the information on origin for different transactions may not have the same quality because of variations in the requirements to produce documentary evidence.

The requirement to present a certificate of origin of goods is defined by the tariff law of the countries and does not apply to all goods entering or leaving a country.⁷⁸ In the case of customs union countries, the union's external trade statistics (extra-union trade), as far as imports are concerned, is generally based on origin; but statistics of trade between member States (intra-union trade) may record only the country of consignment (or the state of dispatch/arrival).⁷⁹

149. Export data by country of consumption is analytically useful, but collection of such data involves difficulties due to the lack of adequate sources of information. It is very difficult to record accurately the country of consumption since the future disposition of the goods is often not known at the time of export; therefore, country of consumption cannot be recommended as an international standard.

⁷⁸ According to the Kyoto Convention, "documentary evidence of origin may be required only when it is necessary for the application of preferential customs duties, of economic or trade measures adopted unilaterally or under bilateral or multilateral agreements or of measures adopted for reasons of health or public order" (Annex D.2, p. 7; for Convention citation, see para. 6, footnote a above).

⁷⁹ See *Official Journal of the European Communities*, No. L316/7 (1991), Council Regulations, No. 3330/91, article 20.

D. RECOMMENDATION

150. Although no single method of attributing partner country is ideal, attribution by origin for imports meets what is considered to be a priority application of international merchandise trade statistics, namely, matters of trade policy and related economic analysis. Consequently, **it is recommended** that in the case of imports, the country of origin be recorded;⁸⁰ that the country of consignment be collected as additional information; and that in the case of exports, the country of last known destination be recorded.

E. COUNTRY CLASSIFICATION

151. **It is recommended** that the statistical territory of each country, as defined by the country itself, constitute the basis upon which the trading partners of each country compile their statistics of trade by countries.^{81, 82}

152. Governments may wish, in national publications, to group together countries of minor importance to their trade for their own use. However, in reporting to regional and international organizations, countries should report data for each

⁸⁰ This recommendation accepts that the WTO rules of origin (upon their completion) should be used for the determination of country of origin; see para. 139 above for current application of the relevant provisions of the Kyoto Convention.

⁸¹ Based on a decision of the Statistical Commission; see *Official Records of the Economic and Social Council, Thirteenth Session, Supplement No. 5, E/1994, para. 20.*

⁸² To assist countries in knowing how other countries define their statistical territory and how statistical territory relates to customs territory, the United Nations Statistics Division has published *Customs Areas of the World*, the latest revision of which was issued in 1989. (United Nations publication, Sales No. E.89.XVII.12). As an aid to countries, the Division also compiles and makes available a publication, "Standard country or area codes for statistical use", *Statistical Papers, Series M, No. 49/Rev.3; Revision 4 is forthcoming.*

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individual trading partner. This will allow both national and international users to calculate totals for economic and geographical groupings according to various analytical requirements, and will permit those users to estimate trade data for late reporting or non-reporting countries based upon the statistics of partner countries.

VII. REPORTING AND DISSEMINATION

153. The present chapter deals with several issues arising in connection with data reporting and dissemination, and provides general guidelines in this area.

154. *Dissemination.* The usefulness of international merchandise trade statistics, like other economic statistics, is enhanced when the needs of the user community are met. These user needs include clear information on the sources and methods used to collect and compile the data, as well as timely, regular, reliable and accurate data. However, it is recognized that the objectives of timeliness, reliability and accuracy of the data may conflict. Therefore, **it is recommended** that data compilers:

- (a) Publicly disseminate documentation on their sources and methods;
- (b) Publicly announce scheduled release dates;
- (c) Provide regular monthly reporting of data to the user community through publications and/or electronic media;
- (d) Regularly revise data (when additional information is available), taking into due consideration user needs for reliable statistics.

155. *Reference period.* **It is recommended** that countries make their data available on a calendar period basis, according to the Gregorian calendar and consistent with the recommendations set out in the present publication.

156. *Data reporting.* **It is recommended** that countries make their statistics publicly available on a monthly basis for aggregate data and for data by major trading partners and commodity groups. The detailed data by commodity and partner should be made available at least on a quarterly basis. **It is recommended** that international merchandise trade statistics be reported in accordance with the recommendations contained in the present publication, in particular excluding the goods mentioned in chapter I.B.2 above (goods to be excluded) and chapter I.B.3 above (goods to be excluded but recorded separately so that the detailed data may be adjusted to derive totals of international merchandise trade for national accounts and balance of payments purposes).

157. *Confidentiality.* In many countries, the publication of statistics at the item level of HS or SITC by partner country would reveal information pertaining to individual firms and would thus be contrary to national laws concerning confidentiality. In such cases, some form of suppression of data is required, but the method chosen is of considerable importance for international comparisons. **It is recommended** that in suppressing data due to confidentiality, any information deemed confidential (suppressed) be reported in full detail at the next higher level of commodity aggregation that adequately protects confidentiality. For instance, a confidential commodity (six-digit HS) with complete or partial country breakdown that is suppressed should be reported in full detail at the lowest level of aggregation of HS that adequately protects confidentiality. Suppression of data should not be carried higher than necessary in the commodity aggregation hierarchy.

158. *Data comparability* remains an important issue. Non-comparability is caused by differences in coverage; different methods for the treatment of certain goods

(e.g., military goods, ship's stores, confidential data); value increases in intermediary countries; differences in classification of goods; time lags in reporting; differences in valuation, including CIF/FOB differences; currency conversion; methods of partner country attribution; and trade via third country intermediaries. Such non-comparability may be substantially reduced by the adoption of the concepts and definitions recommended in the present publication.

Nevertheless, because of variations in data sources, errors in data collection or in the processing and forwarding of results, the use of fraudulent documents or the inability of traders to furnish accurate information, a certain amount of non-comparability will remain. **It is recommended**, therefore, that countries periodically conduct bilateral and multilateral reconciliation studies or implement data exchanges⁸³ so that their statistics can be made more accurate and useful both for national purposes and for international comparisons.

159. *Retained imports.* For presentation purposes, some countries that collect trade under the general trade system may wish to show retained imports, which are normally derived by deducting re-exports from general imports. The figures of retained imports must be used with care when individual commodities are dealt with. The deduction of re-exports from general imports presents two difficulties.

First, since there is likely to be a time lag between importation and subsequent re-exportation that may amount to several months, the deduction may well be made in a period subsequent to the importing period, which could result in a negative figure for retained imports for particular commodities. Because of commercial mark-ups, inflation or charges for internal warehousing, insurance, transport etc., a commodity could have a higher value on re-export than when it was imported.

For these reasons, some countries have discontinued publication of their statistics of retained imports.

160. *Index numbers.* Many users need more information than trade values by country or by commodity, and require information on prices and volumes as well. Two kinds of indices may be produced to reflect prices: unit value indices based primarily on customs documents and price indices based on survey data. The relative strengths and weaknesses of those two approaches to index number compilation are described in the United Nations publication *Strategies for Price and Quantity Measurement in External Trade; A technical report.*⁸⁴ Although price indices are generally preferred, in practice countries may not have the resources available to compile that information. **It is recommended** that all countries produce and publish volume (quantum) indices and either unit value or price indices for their total imports and exports on a monthly, quarterly and annual basis. Countries are also encouraged to calculate and publish such indices for the detailed commodity groups at least quarterly.

⁸³ Reconciliation studies involve comparison of a country's data with that of its major trading partners and investigation of any significant discrepancies.

Data exchange can mean either the substitution of one partner's import data for the other partner's export data, or simply the exchange of data between partners for comparison purposes.

⁸⁴ United Nations publication, Sales No. E.82.XVII.3.

161. *Seasonally adjusted data.* The publication of seasonally adjusted monthly/quarterly data, including both values and index numbers, provides additional valuable information required for economic analysis. Countries are encouraged to publish such data on a regular basis.

162. *IMTS, Rev.2 and the 1993 SNA and BPM5.* The present revision of the concepts and definitions of international merchandise trade statistics does not recommend data collection and reporting on a change of ownership basis since the customs-based data-collection systems run by most countries are unable to implement such an approach. **It is recommended**, however, that countries:

(a) Use crossing the border of an economic territory as a general guideline for the inclusion of goods in the international merchandise trade statistics;

(b) Use the list of adjustments contained herein (see paras. 55 - 63 above) to get international merchandise trade statistics coverage closer to the 1993 SNA and BPM5 requirements;

(c) Use the general system of data recording;

(d) Make a separate collection of data on freight and insurance.

These recommendations will result in data sets more compatible with the 1993 SNA and BPM5 definition of international merchandise trade, as well as in information that allows the national accounts and balance of payments compilers to approximate the 1993 SNA and BPM5 definitions as far as possible.

163. In the long run, provided that countries find it practical, modification of the customs procedures and development of non-customs data collection methods might create a basis for the recording of change of ownership of internationally traded goods. When and if such a stage is reached, the present recommendations might be reviewed with a view to achieving more harmonization with the 1993 SNA and BPM5 concepts.

ANNEX A BASIC NATIONAL ACCOUNTS AND BALANCE OF PAYMENTS CONCEPTS AND DEFINITIONS

1. *Goods* are "physical objects for which a demand exists, over which ownership rights can be established and whose ownership can be transferred from one institutional unit to another by engaging in transactions on markets" (1993 SNA, para. 6.7).

2. *Services* "are not separate entities over which ownership rights can be established. They cannot be traded separately from their production. Services are heterogeneous outputs produced to order and typically consist of changes in the conditions of the consuming units realized by the activities of producers at the demand of the consumers. By the time their production is completed they must have been provided to the consumers" (1993 SNA, para. 6.8).

3. *The economic territory of a country* "consists of the geographic territory administered by a government within which persons, goods and capital circulate freely" (1993 SNA, para. 14.9) and it includes:

"(a) Airspace, territorial waters, and continental shelf lying in international waters over which the country enjoys exclusive rights or over which it has, or claims to have, jurisdiction in respect of the right to fish or to exploit fuels or minerals below the seabed;

"(b) Territorial enclaves in the rest of the world (clearly demarcated areas of land which are located in other countries and which are used by the government which owns or rents them for diplomatic, military, scientific or other purposes - embassies, consulates, military bases, scientific stations, information or immigration offices, aid agencies, etc. - with the formal political agreement of the government of the country in which they are physically located).

Goods or persons may move freely between a country and its territorial enclaves abroad, but become subject to control by the government of the country in which they are located if they move out of the enclave;

"(c) Any free zones, or bonded warehouses or factories operated by offshore enterprises under customs control (these form part of the economic territory of the country in which they are physically located)" (1993 SNA, para. 14.9).

In the case of maritime countries, their economic territory "includes any islands belonging to that country which are subject to exactly the same fiscal and monetary authorities as the mainland, so that goods and persons may move freely to and from such islands without any kind of customs or immigration formalities" (1993 SNA, para. 14.9). The economic territory of a country does not include the territorial enclaves used by foreign Governments or international organizations that are physically located within the geographical boundaries of that country (see 1993 SNA, para. 14.11).

4. *The rest of the world* is any territory not included in the economic territory of a country. The rest of the world consists of, *inter alia*, economic territories of other countries, international territories, and territorial enclaves of other countries and international organizations within the national borders of a country (see 1993 SNA, para. 4.163).

5. *An institutional unit* (a household, legal or social entity, such as a corporation or quasi-corporation, a non-profit institution and the Government) (see 1993 SNA, para. 4.2 - 4.5) is said to have a *centre of economic interest* and is a *resident*

unit (for a detailed description of resident units, see BPM5, chap. IV) of a country when, from some location within the economic territory of the country, the unit "engages, and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale" (BPM5, para. 62; see also 1993 SNA, para. 14.12). The 1993 SNA considers one year as a reasonable approximation of such a period (see 1993 SNA, para. 14.13).

6. *Change of ownership.* A change of ownership of goods may be a legal, physical or economic one provided that it results in change of control or possession (see BPM5, para. 111). A change of ownership may occur in transactions in which (a) one party (transactor) provides an economic value to another party and receives in return an equal value (economic value in the case of international merchandise trade is represented by goods and means of payment) (see BPM5, para. 27) or (b) one transactor provides an economic value to another transactor but does not receive "any good, service or asset in return" (BPM5, para. 28; see also 1993 SNA, para. 8.27). The latter transactions are referred to as transfers and can be illustrated by grants or reparations.

7. There are three cases in which a change of ownership is imputed even though it has not happened:

(a) *Goods in transactions between direct investment enterprises (branches/affiliates) and parent companies.* In the case of such transactions, "legally, the ownership of goods may remain unchanged in such circumstances, but a de facto change of ownership is imputed" (1993 SNA, para. 14.59); "transactions involving goods and taking place between direct investment enterprises and their parent companies or other related enterprises should be recorded as if changes of ownership have occurred" (BPM5, para. 205);

(b) *Goods sent abroad for processing.* Goods that are sent abroad for processing and are expected to be returned back as new products should "be recorded as exports, even though they may not be sold to a non-resident, while the goods received back are recorded as imports, even though they were not purchased from a non-resident" (1993 SNA, para. 14.61);

(c) *Goods under financial lease.* Goods are under financial lease when "the lessee assumes the rights, risks, rewards, and responsibilities of ownership in practice" (BPM5, para. 206). As a practical rule, on a lease of one year or more, a change of ownership from lessor to lessee is imputed "when a financial lease is arranged even though legally the leased good remains the property of the lessor" (1993 SNA, para. 14.58).

8. There is also one case when a change of ownership is disregarded; it is the case of goods in merchanting transactions (see 1993 SNA, para. 14.60). Merchanting transactions occur when merchants or commodity dealers "buy commodities or other goods from non-residents and then sell them again to non-residents within the same accounting period without the commodities actually entering the economy in which the merchants are resident" (1993 SNA, para. 14.60). The 1993 SNA ignores a change of ownership in such a case. BPM5 contains a similar recommendation: "when goods are acquired from one economy, relinquished again to that or some other economy, and do not cross the frontier of the economy in which the temporary owner is a resident, the activity is considered a merchanting transaction rather than an import and re-export of the goods" (BPM5, para. 207).

ANNEX B DEFINITION OF CUSTOMS TERMS AND RELATED DEFINITIONS

1. *Customs territory*. The customs territory is "the territory in which the customs law of a state applies in full" (Kyoto Convention, annex A.1, p. 6).

2. *Goods in free circulation* "means goods which may be disposed of without customs restriction" (Kyoto Convention, annex B.3, p. 6).

3. *A goods declaration* is "a statement made in the form prescribed by the customs, by which the persons interested indicate the particular customs procedure to be applied to the goods and furnish the particulars which the customs require to be declared for the application of that procedure" (Kyoto Convention, annex A.1, p. 6).

4. *Importation of goods under clearance for home use*. "Clearance for home use means the customs procedure which provides that imported goods may remain permanently in the customs territory. This procedure implies the payment of any import duties and taxes chargeable and the accomplishment of all the necessary customs formalities" (Kyoto Convention, annex B.1, p. 8). The goods "may be declared for home use either directly on importation or after another customs procedure such as warehousing, temporary admission or customs transit" (Kyoto Convention, annex B.1, p. 7).

5. *Exportation of the goods (outright exportation)*. This "means the customs procedure applicable to goods which, being in free circulation, leave the customs territory and are intended to remain permanently outside it, excluding goods exported under the drawback procedure or under a processing procedure or with repayment of import duties and taxes" (Kyoto Convention, annex C.1, p. 6).

6. *Temporary admission (of goods) for inward processing* "means the customs procedure under which certain goods can be brought into a customs territory conditionally relieved from payment of import duties and taxes; such goods must be intended for re-exportation within a specific period after having undergone manufacturing, processing or repair... 'compensating products' means the products obtained during or as a result of the manufacturing, processing or repair of the goods temporarily admitted for inward processing... [they] need not be obtained solely from goods temporarily admitted for inward processing; it may be necessary to use goods of national origin or previously imported... Operations allowed under the temporary admission for inward processing procedure may be carried out in premises designated as warehouses for inward processing... compensating products [may be exported to a] free port or free zone [placed]... in a customs warehouse with a view to subsequent exportation or other authorized disposal... or [declared] for home use" (Kyoto Convention, annex E.6, pp. 6 - 8, and 21 and 22).

7. *Temporary exportation [of goods] for outward processing*. The temporary exportation [of goods] for outward processing is a "customs procedure under which goods which are in free circulation in a customs territory may be temporarily exported for manufacturing, processing or repair abroad and then reimported with total or partial exemption from import duties and taxes... 'compensating products' means the products obtained abroad during or as a result of the manufacturing, processing or repair of the goods temporarily exported for outward processing" The compensating products may be "placed in a customs warehouse or a free zone before being declared for home use" (Kyoto Convention, annex E.8, pp. 5 and 6, and 15).

8. *Reimportation of goods after temporary exportation for outward processing.*

Goods imported under this procedure are totally or partially exempt from import duties and taxes (see Kyoto Convention, annex E.8, p. 5).

9. *Reimportation of goods in the same state.* This term "means the customs procedure under which goods which were exported and were in free circulation or were compensating products may be taken into home use free of import duties and taxes, provided that they have not undergone any manufacturing, processing or repairs abroad" (Kyoto Convention, annex B.3, pp. 5 and 6).

10. *Temporary admission [of goods] subject to re-exportation in the same state.*

"Temporary admission" means the customs procedure under which certain goods can be brought into a customs territory conditionally relieved from payment of import duties and taxes; such goods must be imported for a specific purpose and must be intended for re-exportation within a specified period and without having undergone any change except normal depreciation due to the use made of the goods" (Kyoto Convention, annex E.5, p. 6). The Convention on Temporary Admission,^a which was agreed at Istanbul in June 1990, provides a detailed description of this procedure and identifies goods allowed for temporary admission.

11. *Customs warehousing.* Customs warehousing "means the customs procedure under which imported goods are stored under customs control in a designated place (a customs warehouse) without payment of import duties and taxes...imported goods are not the only goods which may qualify for customs warehousing...Storage in customs warehouses should [also] be allowed for goods which are entitled to repayment of import duties and taxes when exported...[and] goods that have previously been dealt with under another customs procedure...[This] makes it possible for the customs authorities to grant discharge of such other customs procedure or to repay the import duties and taxes, as the case may be, before the goods are actually re-exported" (Kyoto Convention, annex E.3, pp. 5 and 6, and 12).

12. "Warehoused goods...[are] allowed to undergo usual forms of handling to improve their packaging or marketable quality or to prepare them for shipment, such as breaking bulk, grouping of packages, sorting and grading and repacking...it is not intended to authorize any change in the essential character of the goods themselves" (Kyoto Convention, annex E.3, p. 14).

13. *Free zones.* "The term 'free zone' means a part of the territory of a State where any goods introduced are generally regarded, insofar as import duty and taxes are concerned, as being outside the customs territory and are not subject to the usual customs control" (Kyoto Convention, annex F.1, p. 6). "A distinction may be made between commercial and industrial free zones. In *commercial free zones* the permitted operations are generally limited to those necessary for the preservation of the goods and the usual forms of handling to improve their packaging or marketable quality or to prepare them for shipment. In *industrial free zones* processing operations are authorized" (Kyoto Convention, annex F.1, p. 5). "By specifying that the goods are not subject to the usual customs control, the definition draws attention to the fact that the customs control exercised over

^a United Nations, *Treaty Series*, forthcoming (Registration No. 30667).

goods placed in free zones is more flexible than that applicable to goods stored in customs warehouses, for example, or admitted under the temporary admission for inward processing procedure. Whereas in exercising the usual customs control the customs authorities have at their disposal a whole series of specific measures designed to ensure compliance with the laws and regulations which they are responsible for enforcing, in the case of free zones they normally have recourse to general surveillance measures only. Thus, premises situated in free zones are not usually subject to permanent customs surveillance. The control measures applied to goods during their stay in the free zone are generally reduced to an absolute minimum and are principally concerned with the relevant documentation" (Kyoto Convention, annex F.1, p. 7). "In some countries [a free zone] is also known under various other names, such as 'free port', 'free warehouse'" (Kyoto Convention, annex F.1, p. 5).

14. *Customs transit*. "The term 'customs transit' means the customs procedure under which goods are transported under customs control from one customs office to another" (Kyoto Convention, annex E.1, p. 5).^b

15. *Trans-shipment*. "The term 'trans-shipment' means the customs procedure under which goods are transferred under customs control from the importing means of transport to the exporting means of transport within the area of one customs office which is the office of both importation and exportation...[This procedure] does not apply to goods which on arrival in the customs territory of a country are already under a customs procedure (such as customs transit) and are transferred from one means of transport to another during the course of that procedure, such transfer being dealt with by the customs under the procedure already in operation. Nor does [it]...apply to goods carried by post or in travellers' baggage" (Kyoto Convention, annex E.2, pp. 5 and 6).

16. *Goods wholly produced in a country* include, according to the Kyoto Convention, the following:

"(a) Mineral products extracted from its soil, from its territorial waters or from its seabed;

"(b) Vegetable products harvested or gathered in that country;

"(c) Live animals born and raised in that country;

"(d) Products obtained from live animals in that country;

"(e) Products obtained from hunting or fishing conducted in that country;

"(f) Products obtained by maritime fishing and other products taken from the sea by a vessel of that country;

"(g) Products obtained aboard a factory ship of that country solely from products of the kind covered by [sub]paragraph (f) above;

^a Customs transit differs from the concept of "goods in transit", under which goods pass through the customs territory exclusively for the purpose of transport (see chap. I.B.2, para. 45 above).

"(h) Products extracted from marine soil or subsoil outside that country's territorial waters, provided that the country has sole rights to work that soil or subsoil;

"(i) Scrap and waste from manufacturing and processing operations, and used articles, collected in that country and fit only for the recovery of raw materials;

"(j) Goods produced in that country solely from the products referred to in [sub]paragraphs (a) to (i) above" (Kyoto Convention, annex D.1, pp 10 and 11).

17. "Where two or more countries have taken part in the production of the goods, the origin of the goods shall be determined according to the substantial transformation criterion" (Kyoto Convention, annex D.1, p 11). "The term 'substantial transformation criterion' means the criterion according to which origin is determined by regarding as the country of origin the country in which the last substantial manufacturing or processing, deemed sufficient to give the commodity its essential character, has been carried out" (Kyoto Convention, annex D.1, p. 9).

18. According to the Kyoto Convention, "In practice the substantial transformation criterion can be expressed:

"- by a rule requiring a change of tariff heading in a specified nomenclature with lists of exceptions, and/or

"- by a list of manufacturing or processing operations which confer, or do not confer, upon the goods the origin of the country in which those operations were carried out, and/or

"- by the *ad valorem* percentage rule, where either the percentage value of the materials utilized or the percentage of the value added reaches a specified level" (Kyoto Convention, annex D.1, p. 12).

ANNEX C RULES ON CUSTOMS VALUATION AS SET OUT IN THE WTO AGREEMENT ON VALUATION

The WTO Agreement on Valuation (see chap. IV above) contains four parts and three annexes. Part I defines the rules on customs valuation; part II concerns the administration of the Agreement, consultations and dispute settlement; part III concerns special and differential treatment for developing countries; and part IV contains the final provisions of the Agreement. Annex I of the Agreement contains interpretative notes on articles of the Agreement; annex II concerns the establishment of the Technical Committee on Customs Valuation; and annex III contains further explanations on the application of the Agreement by developing countries.

To consult on matters relating to the administration of the customs valuation, the Committee on Customs Valuation, which meets once a year, has been established. The Technical Committee on Customs Valuation, under the auspices of the World Customs Organization, has also been established with a view to ensuring, at the technical level, uniformity in interpretation and application of the Agreement; the Technical Committee meets at least twice a year. These two Committees should provide the appropriate forum for the improvement of the uniform application of the Agreement.

Part I of the WTO Agreement on Valuation ^a is reproduced below.

PART I

RULES ON CUSTOMS VALUATION

Article 1

1. The customs value of imported goods shall be the transaction value, that is the price actually paid or payable for the goods when sold for export to the country of importation adjusted in accordance with the provisions of Article 8, provided:

^a World Trade Organization, *The Results of the Uruguay Round of Multilateral Trade Negotiations: The Legal Texts* (Geneva, 1995), pp. 198 - 207.

(a) that there are no restrictions as to the disposition or use of the goods by the buyer other than restrictions which:

- (i) are imposed or required by law or by the public authorities in the country of importation;
- (ii) limit the geographical area in which the goods may be resold;
or
- (iii) do not substantially affect the value of the goods;

(b) that the sale or price is not subject to some condition or consideration for which a value cannot be determined with respect to the goods being valued;

(c) that no part of the proceeds of any subsequent resale, disposal or use of the goods by the buyer will accrue directly or indirectly to the seller, unless an appropriate adjustment can be made in accordance with the provisions of Article 8; and

(d) that the buyer and seller are not related, or where the buyer and seller are related, that the transaction value is acceptable for customs purposes under the provisions of paragraph 2.

2. (a) In determining whether the transaction value is acceptable for the purposes of paragraph 1, the fact that the buyer and the seller are related within the meaning of Article 15 shall not in itself be grounds for regarding the transaction value as unacceptable. In such case the circumstances surrounding the sale shall be examined and the transaction value shall be accepted provided that the relationship did not influence the price. If, in the light of information provided by the importer or otherwise, the customs administration has grounds for considering that the relationship influenced the price, it shall communicate its grounds to the importer and the importer shall be given a reasonable opportunity to respond. If the importer so requests, the communication of the grounds shall be in writing.

(b) In a sale between related persons, the transaction value shall be accepted and the goods valued in accordance with the provisions of paragraph 1 whenever the importer demonstrates that such value closely approximates to one of the following occurring at or about the same time:

- (i) the transaction value in sales to unrelated buyers of identical or similar goods for export to the same country of importation;
- (ii) the customs value of identical or similar goods as determined under the provisions of Article 5;
- (iii) the customs value of identical or similar goods as determined under the provisions of Article 6;

In applying the foregoing tests, due account shall be taken of demonstrated differences in commercial levels, quantity levels, the elements enumerated in Article 8 and costs incurred by the seller in sales in which the seller and the buyer are not related that are not incurred by the seller in sales in which the seller and the buyer are related.

(c) The tests set forth in paragraph 2(b) are to be used at the initiative

of the importer and only for comparison purposes. Substitute values may not be established under the provisions of paragraph 2(b).

Article 2

1. (a) If the customs value of the imported goods cannot be determined under the provisions of Article 1, the customs value shall be the transaction value of identical goods sold for export to the same country of importation and exported at or about the same time as the goods being valued.

(b) In applying this Article, the transaction value of identical goods in a sale at the same commercial level and in substantially the same quantity as the goods being valued shall be used to determine the customs value. Where no such sale is found, the transaction value of identical goods sold at a different commercial level and/or in different quantities, adjusted to take account of differences attributable to commercial level and/or to quantity, shall be used, provided that such adjustments can be made on the basis of demonstrated evidence which clearly establishes the reasonableness and accuracy of the adjustment, whether the adjustment leads to an increase or a decrease in the value.

2. Where the costs and charges referred to in paragraph 2 of Article 8 are included in the transaction value, an adjustment shall be made to take account of significant differences in such costs and charges between the imported goods and the identical goods in question arising from differences in distances and modes of transport.

3. If, in applying this Article, more than one transaction value of identical goods is found, the lowest such value shall be used to determine the customs value of the imported goods.

Article 3

1. (a) If the customs value of the imported goods cannot be determined under the provisions of Articles 1 and 2, the customs value shall be the transaction value of similar goods sold for export to the same country of importation and exported at or about the same time as the goods being valued.

(b) In applying this Article, the transaction value of similar goods in a sale at the same commercial level and in substantially the same quantity as the goods being valued shall be used to determine the customs value. Where no such sale is found, the transaction value of similar goods sold at a different commercial level and/or in different quantities, adjusted to take account of differences attributable to commercial level and/or to quantity, shall be used, provided that such adjustments can be made on the basis of demonstrated evidence which clearly establishes the reasonableness and accuracy of the adjustment, whether the adjustment leads to an increase or a decrease in the value.

2. Where the costs and charges referred to in paragraph 2 of Article 8 are included in the transaction value, an adjustment shall be made to take account of significant differences in such costs and charges between the imported goods and the similar goods in question arising from differences in distances and modes

of transport.

3. If, in applying this Article, more than one transaction value of similar goods is found, the lowest such value shall be used to determine the customs value of the imported goods.

Article 4

If the customs value of the imported goods cannot be determined under the provisions of Articles 1, 2 and 3, the customs value shall be determined under the provisions of Article 5 or, when the customs value cannot be determined under that Article, under the provisions of Article 6 except that, at the request of the importer, the order of application of Articles 5 and 6 shall be reversed.

Article 5

1. (a) If the imported goods or identical or similar imported goods are sold in the country of importation in the condition as imported, the customs value of the imported goods under the provisions of this Article shall be based on the unit price at which the imported goods or identical or similar imported goods are so sold in the greatest aggregate quantity, at or about the time of the importation of the goods being valued, to persons who are not related to the persons from whom they buy such goods, subject to deductions for the following:

- (i) either the commissions usually paid or agreed to be paid or the additions usually made for profit and general expenses in connection with sales in such country of imported goods of the same class or kind;
- (ii) the usual costs of transport and insurance and associated costs incurred within the country of importation;
- (iii) where appropriate, the costs and charges referred to in paragraph 2 of Article 8; and
- (iv) the customs duties and other national taxes payable in the country of importation by reason of the importation or sale of the goods.

(b) If neither the imported goods nor identical nor similar imported goods are sold at or about the time of importation of the goods being valued, the customs value shall, subject otherwise to the provisions of paragraph 1(a), be based on the unit price at which the imported goods or identical or similar imported goods are sold in the country of importation in the condition as imported at the earliest date after the importation of the goods being valued but before the expiration of 90 days after such importation.

2. If neither the imported goods nor identical nor similar imported goods are sold in the country of importation in the condition as imported, then, if the importer so requests, the customs value shall be based on the unit price at which the imported goods, after further processing, are sold in the greatest aggregate

quantity to persons in the country of importation who are not related to the persons from whom they buy such goods, due allowance being made for the value added by such processing and the deductions provided for in paragraph 1(a).

Article 6

1. The customs value of imported goods under the provisions of this Article shall be based on a computed value. Computed value shall consist of the sum of:

(a) the cost or value of materials and fabrication or other processing employed in producing the imported goods;

(b) an amount for profit and general expenses equal to that usually reflected in sales of goods of the same class or kind as the goods being valued which are made by producers in the country of exportation for export to the country of importation;

(c) the cost or value of all other expenses necessary to reflect the valuation option chosen by the Member under paragraph 2 of Article 8.

2. No Member may require or compel any person not resident in its own territory to produce for examination, or to allow access to, any account or other record for the purposes of determining a computed value. However, information supplied by the producer of the goods for the purposes of determining the customs value under the provisions of this Article may be verified in another country by the authorities of the country of importation with the agreement of the producer and provided they give sufficient advance notice to the government of the country in question and the latter does not object to the investigation.

Article 7

1. If the customs value of the imported goods cannot be determined under the provisions of Articles 1 through 6, inclusive, the customs value shall be determined using reasonable means consistent with the principles and general provisions of this Agreement and of Article VII of GATT 1994 and on the basis of data available in the country of importation.

2. No customs value shall be determined under the provisions of this Article on the basis of:

(a) the selling price in the country of importation of goods produced in such country;

(b) a system which provides for the acceptance for customs purposes of the higher of two alternative values;

(c) the price of goods on the domestic market of the country of exportation;

(d) the cost of production other than computed values which have been determined for identical or similar goods in accordance with the provisions of Article 6;

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(e) the price of the goods for export to a country other than the country of importation;

(f) minimum customs values; or

(g) arbitrary or fictitious values.

3. If the importer so requests, the importer shall be informed in writing of the customs value determined under the provisions of this Article and the method used to determine such value.

Article 8

1. In determining the customs value under the provisions of Article 1, there shall be added to the price actually paid or payable for the imported goods:

(a) the following, to the extent that they are incurred by the buyer but are not included in the price actually paid or payable for the goods:

- (i) commissions and brokerage, except buying commissions;
- (ii) the cost of containers which are treated as being one for customs purposes with the goods in question;
- (iii) the cost of packing whether for labour or materials;

(b) the value, apportioned as appropriate, of the following goods and services where supplied directly or indirectly by the buyer free of charge or at reduced cost for use in connection with the production and sale for export of the imported goods, to the extent that such value has not been included in the price actually paid or payable:

- (i) materials, components, parts and similar items incorporated in the imported goods;
- (ii) tools, dies, moulds and similar items used in the production of the imported goods;
- (iii) materials consumed in the production of the imported goods;
- (iv) engineering, development, artwork, design work, and plans and sketches undertaken elsewhere than in the country of importation and necessary for the production of the imported goods;

(c) royalties and license fees related to the goods being valued that the buyer must pay, either directly or indirectly, as a condition of sale of the goods being valued, to the extent that such royalties and fees are not included in the price actually paid or payable;

(d) the value of any part of the proceeds of any subsequent resale, disposal or use of the imported goods that accrues directly or indirectly to the seller.

2. In framing its legislation, each Member shall provide for the inclusion in or the exclusion from the customs value, in whole or in part, of the following:

- (a) the cost of transport of the imported goods to the port or place of importation;
- (b) loading, unloading and handling charges associated with the transport of the imported goods to the port or place of importation; and
- (c) the cost of insurance.

3. Additions to the price actually paid or payable shall be made under this Article only on the basis of objective and quantifiable data.

4. No additions shall be made to the price actually paid or payable in determining the customs value except as provided in this Article.

Article 9

1. Where the conversion of currency is necessary for the determination of the customs value, the rate of exchange to be used shall be that duly published by the competent authorities of the country of importation concerned and shall reflect as effectively as possible, in respect of the period covered by each such document of publication, the current value of such currency in commercial transactions in terms of the currency of the country of importation.
2. The conversion rate to be used shall be that in effect at the time of exportation or the time of importation, as provided by each Member.

Article 10

All information which is by nature confidential or which is provided on a confidential basis for the purposes of customs valuation shall be treated as strictly confidential by the authorities concerned who shall not disclose it without the specific permission of the person or government providing such information, except to the extent that it may be required to be disclosed in the context of judicial proceedings.

Article 11

1. The legislation of each Member shall provide in regard to a determination of customs value for the right of appeal, without penalty, by the importer or any other person liable for the payment of the duty.
2. An initial right of appeal without penalty may be to an authority within the customs administration or to an independent body, but the legislation of each Member shall provide for the right of appeal without penalty to a judicial authority.
3. Notice of the decision on appeal shall be given to the appellant and the reasons for such decision shall be provided in writing. The appellant shall also be informed of any rights of further appeal.

Article 12

Laws, regulations, judicial decisions and administrative rulings of general application giving effect to this Agreement shall be published in conformity with Article X of GATT 1994 by the country of importation concerned.

Article 13

If, in the course of determining the customs value of imported goods, it becomes necessary to delay the final determination of such customs value, the importer of the goods shall nevertheless be able to withdraw them from customs if, where so required, the importer provides sufficient guarantee in the form of a surety, a deposit or some other appropriate instrument, covering the ultimate payment of customs duties for which the goods may be liable. The legislation of each Member shall make provisions for such circumstances.

Article 14

The notes at Annex I to this Agreement form an integral part of this Agreement and the Articles of this Agreement are to be read and applied in conjunction with their respective notes. Annexes II and III also form an integral part of this Agreement.

Article 15

1. In this Agreement:

(a) "customs value of imported goods " means the value of goods for the purposes of levying *ad valorem* duties of customs on imported goods;

(b) "country of importation" means country or customs territory of importation; and

(c) "produced" includes grown, manufactured and mined.

2. In this Agreement:

(a) "identical goods" means goods which are the same in all respects, including physical characteristics, quality and reputation. Minor differences in appearance would not preclude goods otherwise conforming to the definition from being regarded as identical;

(b) "similar goods" means goods which, although not alike in all respects, have like characteristics and like component materials which enable them to perform the same functions and to be commercially interchangeable. The quality of the goods, their reputation and the existence of a trademark are among the factors to be considered in determining whether goods are similar;

(c) the terms "identical goods" and "similar goods" do not include, as

the case may be, goods which incorporate or reflect engineering, development, artwork, design work, and plans and sketches for which no adjustment has been made under paragraph (b)(iv) of Article 8 because such elements were undertaken in the country of importation;

(d) goods shall not be regarded as "identical goods" or "similar goods" unless they were produced in the same country as the goods being valued;

(e) goods produced by a different person shall be taken into account only when there are no identical goods or similar goods, as the case may be, produced by the same person as the goods being valued.

3. In this Agreement "goods of the same class or kind" means goods which fall within a group or range of goods produced by a particular industry or industry sector, and includes identical or similar goods.

4. For the purposes of this Agreement, persons shall be deemed to be related only if:

(a) they are officers or directors of one another's businesses;

(b) they are legally recognized partners in business;

(c) they are employer and employee;

(d) any person directly or indirectly owns, controls or holds 5 per cent or more of the outstanding voting stock or shares of both of them;

(e) one of them directly or indirectly controls the other;

(f) both of them are directly or indirectly controlled by a third person;

(g) together they directly or indirectly control a third person; or

(h) they are members of the same family.

5. Persons who are associated in business with one another in that one is the sole agent, sole distributor or sole concessionaire, however described, of the other shall be deemed to be related for the purposes of this Agreement if they fall within the criteria of paragraph 4.

Article 16

Upon written request, the importer shall have the right to an explanation in writing from the customs administration of the country of importation as to how the customs value of the importer's goods was determined.

Article 17

Nothing in this Agreement shall be construed as restricting or calling into question the rights of customs administrations to satisfy themselves as to the

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truth or accuracy of any statement, document or declaration presented for customs valuation purposes.

ANNEX D TERMS OF GOODS DELIVERY

1. *The terms of delivery* are the responsibility of the seller and the buyer of the goods under the contract of sale. The terms of delivery were standardized by the International Chamber of Commerce and published as INCOTERMS in 1980 and revised in 1990.^a The main types of terms of delivery are described below.

2. *Ex works (EXW)*. Under this term the obligation of a seller is completed when the goods are made available to a buyer at the seller's premises (i.e., works, factory, warehouse, etc.). The seller is not responsible, for instance, for loading the goods on the vehicle provided by the buyer or for clearing the goods through customs for export, unless the contract clearly so states. All costs and risks involved in delivering goods from the seller's premises to their destination are the buyer's responsibility.

3. *Free Carrier (FCA)*. Under this term the seller's obligation to deliver goods is fulfilled when the goods have been handed over, cleared for export, into the charge of the carrier named by the buyer at the named place or point. If no precise point is indicated by the buyer, the seller may choose within the place or range stipulated where the goods shall be taken into the charge of the carrier. When, according to commercial practice, the seller's assistance is required in making the contract with the carrier (such as in rail or air transport) the seller may act at the buyer's risk and expense. This term may be used for any mode of transport, including multimodal transport.

4. *Free Alongside Ship (FAS)*. This term mean that the seller's obligation to deliver is fulfilled when the goods have been placed alongside the vessel on the quay or in lighters at the named port of shipment. The buyer has to bear all costs and risks of loss of or damage to the goods from that moment. This term can only be used for sea or inland waterway transport.

5. *Free on Board (FOB)*. This term means that the seller's obligation to deliver is fulfilled when the goods have passed over the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that point. This term can only be used for sea or inland waterway transport. When the ship's rail serves no practical purpose, such as in the case of roll-on/roll-off or container traffic, the FCA term is more appropriate to use.

6. *Cost and Freight (CFR)*. The seller must pay the costs and freight necessary to bring the goods to the named port of destination but the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after

^a ICC No. 460, *INCOTERMS 1990*, Copyright 8 1990 by ICC Publishing S.A. All rights reserved. Reprinted with the permission of the International Chamber of Commerce through ICC Publishing, Inc., in New York.

the time the goods have been delivered on board the vessel, is transferred from the seller to the buyer when the goods pass the ship's rail in the port of shipment.

The CFR term requires the seller to clear the goods for export. This term can only be used for sea and inland waterway transport. When the ship's rail serves no practical purpose, such as in the case of roll-on/roll-off or container traffic, the CPT term (see para. 8 below) is more appropriate to use.

7. *Cost, Insurance and Freight (CIF)*. The seller has the same obligations as under CFR but with the addition that he has to procure marine insurance against the buyer's risk of loss of or damage to the goods during the carriage. The seller contracts for insurance and pays the insurance premium. The buyer should note that under the CIF term the seller is only required to obtain insurance on minimum coverage. The CIF term requires the seller to clear the goods for export. This term can only be used for sea and inland waterway transport. When the ship's rail serves no practical purpose such as in the case of roll-on/roll-off or container traffic, the CIP term (see para. 9 below) is more appropriate to use.

8. *Carriage paid to (CPT)*. The seller pays the freight for the carriage of the goods to the named destination. The risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered to the carrier, is transferred from the seller to the buyer when the goods have been delivered into the custody of the carrier. "Carrier" means any person who, in a contract of carriage, undertakes to perform or to procure the performance of carriage, by rail, road, sea, air, inland waterway or by a combination of such modes. If subsequent carriers are used for the carriage to the agreed destination, the risk passes when the goods have been delivered to the first carrier. The CPT term requires the seller to clear the goods for export. This term may be used for any mode of transport including multimodal transport.

9. *Carriage and insurance paid to (CIP)*. The seller has the same obligations as under CPT but with the addition that the seller has to procure cargo insurance against the buyer's risk of loss of or damage to the goods during the carriage. The seller contracts for insurance and pays the insurance premium. The buyer should note that under the CIP term the seller is only required to obtain insurance on minimum coverage. The CIP term requires the seller to clear the goods for export. This term may be used for any mode of transport including multimodal transport.

10. *Delivered at Frontier (DAF)*. The seller's obligation to deliver is fulfilled when the goods have been made available, cleared for export, at the named point and place at the frontier, but before the customs border of the adjoining country. The term "frontier" may be used for any frontier including that of the country of export. Therefore, it is of vital importance that the frontier in question be defined precisely by always naming the point and place in the term. The term is primarily intended to be used when goods are to be carried by rail or road, but it may be used for any mode of transport.

11. *Delivered Ex Ship (DES)*. The seller's obligation to deliver is fulfilled when the goods have been made available to the buyer on board the ship uncleared for import at the named port of destination. The seller has to bear all the costs and risks involved in bringing the goods to the named port of destination. This term can only be used for sea or inland waterway transport.

12. *Delivered Ex Quay (duty paid) (DEQ)*. The seller's obligation to deliver is fulfilled when he has made the goods available to the buyer on the quay (wharf) at the named port of destination, cleared for importation. The seller has to

bear all risks and costs including duties, taxes and other charges of delivering the goods thereto. This term should not be used if the seller is unable directly or indirectly to obtain the import license. If the parties wish the buyer to clear the goods for importation and pay the duty the words "duty unpaid" should be used instead of "duty paid". If the parties wish to exclude from the seller's obligations some of the costs payable upon importation of the goods (such as value added tax (VAT)), this should be made clear by adding words to this effect: "Delivered ex quay, VAT unpaid (... named port of destination)". This term can only be used for sea or inland waterway transport.

13. *Delivered duty unpaid (DDU)*. The seller's obligation to deliver is fulfilled when the goods have been made available at the named place in the country of importation. The seller has to bear the costs and risks involved in bringing the goods thereto (excluding duties, taxes and other official charges payable upon importation as well as the costs and risks of carrying out customs formalities). The buyer has to pay any additional costs and to bear any risks caused by the buyer's failure to clear the goods for import in time. If the parties wish the seller to carry out customs formalities and bear the costs and risks resulting therefrom, this has to be made clear by adding words to this effect. If the parties wish to include in the seller's obligations some of the costs payable upon importation of the goods (such as value added tax (VAT)), this should be made clear by adding words to this effect: "Delivered duty unpaid, VAT paid (... named place of destination)". This term may be used irrespective of the mode of transport.

14. *Delivered duty paid (DDP)*. The seller's obligation to deliver is fulfilled when the goods have been made available at the named place in the country of importation. The seller has to bear the risks and costs, including duties, taxes and other charges of delivering the goods thereto, cleared for importation. Whilst the EXW term (see para. 2 above) represents the minimum obligation for the seller, DDP represents the maximum obligation. This term should not be used if the seller is unable directly or indirectly to obtain the import license. If the parties wish the buyer to clear the goods for importation and to pay the duty, the term DDU should be used. If the parties wish to exclude from the seller's obligations some of the costs payable upon importation of the goods (such as value added tax (VAT)), this should be made clear by adding words to this effect: "Delivered duty paid, VAT unpaid (... named place of destination)". This term may be used irrespective of the mode of transport.

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