

Statistical Commission  
Forty-first session  
23-26 February 2010  
Item 3(c) of the provisional agenda

Background document  
Available in English only

**Items for discussion and decision: international merchandise trade statistics**

# **International Merchandise Trade Statistics: Concepts and Definitions 2010 (IMTS 2010)**

*Draft version*

(prepared by the United Nations Statistics Division)

United Nations,  
New York, 2010



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## Introduction

### A. Background

0.1. *Relevance of international merchandise trade statistics.* The international merchandise trade statistics (IMTS) is a specialized multipurpose domain of official statistics concerned with the provision of data on the movements of goods between countries and areas.<sup>1, 2</sup> The continued interest in international merchandise trade is due to its crucial role in economic development as it binds producers and consumers located in different countries into a global economic system. In this context, availability of timely and high quality trade statistics becomes a precondition for an in-depth analysis of the production, consumption, employment, income and overall welfare both at the country and global level.

0.2. *Users and uses of trade statistics.* Trade statistics are compiled to serve the needs of many users, including governments, business community, compilers of other economic statistics such as balance of payments and national accounts, various regional, supranational and international organizations, researchers and the public at large. Different users need different data, ranging from data sets of varying detail by country and commodity to aggregated figures. The uses include:

- a. Development of national, regional and international trade policy, including trade negotiations, monitoring trade agreements and settling trade disputes;
- b. Establishing general economic policy, including policies on sustainable development, fiscal, monetary, structural and sectoral matters as well as addressing issues of environmental and health concerns;
- c. Market analysis to find supply sources or foreign markets and, in combination with structural business statistics, to determine economic characteristics of traders;
- d. Establishing supply balances to monitor commodity markets, in particular 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.

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<sup>1</sup> The term “international merchandise trade statistics” refer to both foreign (or external) merchandise trade statistics compiled by countries as well as to the international merchandise trade statistics which are represented by the consolidated and standardized country data sets compiled and maintained by the international agencies. For the purposes of this publication, the term “trade statistics” will be used to refer to international, foreign or external merchandise trade statistics unless otherwise indicated. In the context of this publication the term “merchandise” has the same meaning as the terms “goods” and “commodities”.

<sup>2</sup> The list of countries or areas for which statistical data are compiled by the United Nations Statistics Division (UNSD) is available on the UNSD website at: <http://unstats.un.org/unsd/methods/m49/m49.htm>.

0.3. *A brief history of the development of the international recommendations.* Although the search for greater comparability of trade statistics has been going on for a very long time, it was not until the nineteen-twenties that significant developments towards the solution of the problem took place. In 1928 the League of Nations organized the International Conference Relating to Economic Statistics which devoted a significant part of its proceedings to these statistics. The conference formulated a number of recommendations including on coverage, trade system, valuation and partner attribution which provided a foundation for a better international comparability of the country data.<sup>3</sup> Ten years later, in 1938, the League of Nations published the report of its Committee of Statistical Experts entitled *Minimum List of Commodities for International Trade Statistics*<sup>4</sup> hereby making available the first internationally agreed classification of goods for use in international trade statistics. The United Nations Statistical Commission (the Commission) put the matters relevant to IMTS on its agenda since its inception and concentrated on the preparation of an improved commodity classification. After the preparatory work was completed, the *Standard International Trade Classification (SITC)* was adopted by the Commission and published in 1950<sup>5</sup>. For further details on SITC and recommendations on commodity classifications see Chapter 3.

0.4. The adoption and implementation of SITC played an important role in improving cross-country comparability of trade data. However, further work was needed to standardize many other elements of IMTS methodology. At its thirteenth session, in 1965, the Statistical Commission initiated the preparation of a broader set of recommendations in order to improve the comparability of international trade statistics. As a follow up to the Commission's decision the United Nations Statistical Office published in 1970 *International Trade Statistics: Concepts and Definitions*<sup>6</sup>. To take into account developments in commercial practices as well as methodological developments in other areas of statistics those recommendations were revised in 1981 and in 1997.

0.5. The 1997 version of the recommendations was adopted by the Commission at its 29<sup>th</sup> session and published (1998) in *International Merchandise Trade Statistics: Concepts and Definitions, Revision 2 (IMTS, Rev.2)*<sup>7</sup>. To assist countries in the implementation of IMTS, Rev.2 *International Merchandise Trade Statistics: Compilers Manual (IMTS: CM)*<sup>8</sup> was issued in 2004. Both publications were promoted by the United Nations Statistics Division (UNSD) and other

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<sup>3</sup> Proceedings of the International Conference Relating to Economic Statistics, Annex 1 – External trade statistics, League of Nations, Geneva, 1929.

<sup>4</sup> League of Nations, 1938 (II.A.14; and corrigendum, 1939).

<sup>5</sup> Statistical Papers, No. 10/Rev.1, June 1951 (United Nations publication, Sales No. 51.XVII.1).

<sup>6</sup> *International Trade Statistics: Concepts and Definitions* (United Nations publication, Sales No. E.70.XVII.16), United Nations, 1970.

<sup>7</sup> *International Merchandise Trade Statistics: Concepts and Definitions* (United Nations publication, Sales No. E.98.XVII.16), United Nations, 1998.

<sup>8</sup> *International Merchandise Trade Statistics: Compilers Manual* (United Nations publication, Sales No. E.02.XVII.17), United Nations, 2004.

agency-members of the Task Force on International Merchandise Trade Statistics (TFIMTS)<sup>9</sup> including in a series of training workshops for developing and transition countries. These efforts contributed to strengthening national merchandise trade statistics programmes and to harmonizing IMTS methodologies across countries, thus improving the availability of trade data and their cross country comparability. However, with time it became apparent that the next cycle of review and updating of the recommendations was needed.

## **B. Need for the current revision**

0.6. The need for a new revision was recognized in the recent years by both country and international experts at various regional, supranational and international forums including by TFIMTS. The new revision of the recommendations for international merchandise trade statistics became necessary, *inter alia*, in view of:

- (i) Changes in the way international merchandise trade is conducted, e.g. increasing globalization of the production and distribution processes, expansion of intra-firm trade, transactions with bundled goods and services components;
- (ii) Changes in user needs, including increased demand for more detailed and timely data for market access negotiations and trade policy purposes, market research by the business community and economic analysis (e.g. linking industry and trade data);
- (iii) Changes in the legal environment such as the adoption by the World Customs Organization (WCO) Council of the Revised Kyoto Convention and new legal/administrative measures for increased security or further simplification of customs formalities;
- (iv) Increasing use of non-customs data sources, particularly in countries which are members of a customs union;
- (v) Changes in related statistical frameworks, like the System of National Accounts and the Balance of Payments;
- (vi) Need for additional recommendations on data compilation strategies, quality and metadata, and dissemination;
- (vii) Need for further clarification of some existing concepts and improvement of the overall readability.

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<sup>9</sup> TFIMTS is an inter-agency body and consists of representatives of the United Nations Statistics Division, Economic Commission for Latin America and the Caribbean, Economic and Social Commission for Western Asia, United Nations Conference on Trade and Development, Food and Agriculture Organization of the United Nations, International Monetary Fund, World Trade Organization, International Trade Center, Organisation for Economic Cooperation and Development, Statistical Office of the European Communities and World Customs Organization.

## C. Organization of the revision process

0.7. During 2007 UNSD developed in consultation with the TFIMTS a strategy for the revision process which included the identification of areas where revision was particularly needed, the drafting of a timetable and the terms of reference of an Expert Group on International Merchandise Trade Statistics (EG-IMTS) which would assist in the revision process. The UNSD proposals were submitted to the Commission for consideration at its 39<sup>th</sup> session in February 2008. The Commission endorsed the UNSD initiative and strategy and requested that the draft revised recommendations be submitted for adoption at its forty-first session in 2010. The Commission requested, *inter alia*, that the revised recommendations provide an updated conceptual framework, as well as guidance on data compilation and dissemination, in the context of an integrated approach to economic statistics. Also, the Commission requested that the revised recommendations be harmonized to the extent possible with the updated recommendations for statistics of international trade in services, balance of payments statistics and national accounts and that due consideration be given to the concern of minimizing the cost of data collection and compilation.<sup>10</sup>

0.8. To provide a mechanism for an active involvement of countries in the revision process UNSD convened on 3-6 December 2007 the first meeting of EG-IMTS. The EG-IMTS is composed of national experts from developed and developing countries of different regions. A number of international organizations which are active in production and/or use of international merchandise trade statistics were also invited to participate. EG-IMTS agreed on the need for a new version of the recommendations and identified a set of issues for which advice was needed at the global level in order to define the scope of the future revised recommendations. Between May and July 2008 a worldwide consultation on these issues took place in which well over 100 countries participated.<sup>11</sup>

0.9. During 2008 – 2009 three virtual meetings of EG-IMTS were organized in order to prepare the provisional draft of the revised *International Merchandise Trade Statistics: Concepts and Definitions 2010* (IMTS2010) which would contain the revised recommendations and related explanatory material. In August and September 2009 another round of worldwide consultation on the full provisional draft of IMTS2010 was conducted. More than one hundred countries participated in the worldwide consultation. Their comments and suggestions provided important guidance for the revision. TFIMTS was involved in the revision process and individual members made valuable contributions to IMTS2010 at different stages of the revision process.

0.10. The second meeting of the EG-IMTS, held on 3-6 November 2009, endorsed the draft of IMTS2010 subject to several amendments and clarifications and in January 2010 the draft revised recommendations were submitted by the UNSD to the 41<sup>st</sup> session of the Commission for adoption.

0.11. IMTS is a part of official statistics and its compilation is guided by the Fundamental

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<sup>10</sup> See Official Records of the Economic and Social Council, 2008, Supplement No. 4 (E/2008/24), Decision 39/109.

<sup>11</sup> Comprehensive information about the revision process including the reports of the EG-IMTS meetings and the reports on the results of the worldwide consultation are available on the UNSD website at <http://unstats.un.org/unsd/trade/EG-IMTS/EG-IMTS%20web%20announcement.htm>



Principles of Official Statistics. These principles were fully taken into account during the preparation of IMTS2010.

**Box 0.1: The UN Fundamental Principles of Official Statistics.**

Principle 1. Official statistics provide an indispensable element in the information system of a democratic society, serving the Government, the economy and the public with data about the economic, demographic, social and environmental situation. To this end, official statistics that meet the test of practical utility are to be compiled and made available on an impartial basis by official statistical agencies to honor citizens' entitlement to public information.

Principle 2. To retain trust in official statistics, the statistical agencies need to decide according to strictly professional considerations, including scientific principles and professional ethics, on the methods and procedures for the collection, processing, storage and presentation of statistical data.

Principle 3. To facilitate a correct interpretation of the data, the statistical agencies are to present information according to scientific standards on the sources, methods and procedures of the statistics.

Principle 4. The statistical agencies are entitled to comment on erroneous interpretation and misuse of statistics.

Principle 5. Data for statistical purposes may be drawn from all types of sources, be they statistical surveys or administrative records. Statistical agencies are to choose the source with regard to quality, timeliness, costs and the burden on respondents.

Principle 6. Individual data collected by statistical agencies for statistical compilation, whether they refer to natural or legal persons, are to be strictly confidential and used exclusively for statistical purposes.

Principle 7. The laws, regulations and measures under which the statistical systems operate are to be made public.

Principle 8. Coordination among statistical agencies within countries is essential to achieve consistency and efficiency in the statistical system.

Principle 9. The use by statistical agencies in each country of international concepts, classifications and methods promotes the consistency and efficiency of statistical systems at all official levels.

Principle 10. Bilateral and multilateral cooperation in statistics contributes to the improvement of systems of official statistics in all countries.

0.12. In addition, the preparation of the recommendations was guided, *inter alia*, by the following considerations:

- a. needs of major user groups should be considered as a starting point and be taken into account to the maximum extent possible to ensure that the compiled data are policy relevant, meet the needs of the business and trade community and provide a solid foundation for integration of trade statistics into the broader framework of economic statistics;
- b. the revision should be conducted in close consultation with national statistical offices as well as with the relevant international and supranational organizations;
- c. while providing recommendations on data items and their definitions care should be taken that (i) necessary data sources are available in most countries to compile such

data, (ii) collection of the recommended data will not create significant additional reporting burden, and (iii) collection procedures can be implemented by the majority of countries to ensure improved cross-country comparability;

- d. the revision should be seen in the context of promoting an integrated approach to economic statistics by the national statistical systems which requires, to the extent possible, the use of harmonized concepts, classifications, and standardized data compilation methods in order to achieve maximum efficiency and to minimize the reporting burden;
- e. additional guidance on more practical/technical matters to assist countries in the implementation of the revised recommendations should be provided in the revised *IMTS Compilers Manual*.

#### **D. Conceptual framework**

0.13. *IMTS2010 and other economic statistics*. International merchandise trade statistics aim to satisfy the information needs of various user groups ranging from international trade policy makers and commodity market analysts to compilers of balance of payments and national accounts. IMTS2010 is intended to provide recommendations which are globally applicable and operational. The conceptual framework of IMTS2010 reflects both the multipurpose nature of these statistics and concern for availability of the adequate data sources and data compilation procedures. IMTS2010 follows an integrated approach to economic statistics including the use, as applicable, of common concepts, definitions, classifications and data compilation strategies.

0.14. It should be noted that the use of the term “trade” in the name of this statistical domain is a reflection of the dominant role of buying and selling in the generation of the cross-border flows of goods. However, many other movements of goods between countries are covered as well.

0.15. *IMTS2010, BPM6, 2008SNA and MSITS*. IMTS2010 was drafted in subsequence to the preparation of the *System of National Accounts 2008 (2008 SNA)*<sup>12</sup> and the *Sixth edition of the Balance of Payments and International Investment Position Manual (BPM6)*<sup>13</sup> and in parallel with the revised *Manual on Statistics of International Trade in Services 2010 (MSITS2010)*. IMTS2010 contains recommendations intended to make data compiled on its basis as consistent with the requirements of those systems as possible. However, giving priority to the needs for statistics which reflect physical cross-border movements of goods, IMTS2010 maintains the main elements of the conceptual framework established in the previous editions of the recommendations which differ in several important respects from the conceptual framework adopted in the 2008 SNA and BPM6. Therefore, data compiled following the IMTS2010 recommendations have in general to be

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<sup>12</sup> *System of National Accounts 2008*, European Commission, International Monetary Fund, Organization for Economic Co-operation and Development, United Nations, World Bank, available in pdf format at the website of the United Nations Statistics Division at: <http://unstats.un.org/unsd/nationalaccount/sna2008.asp>.

<sup>13</sup> *Sixth edition of the Balance of Payments and International Investment Position Manual*, (BPM6), International Monetary Fund, 2008, available electronically at the website of the International Monetary Fund at: <http://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm>.

adjusted prior to use in statistics based on balance of payments methodology.

0.16. For example, scope adjustments are needed as the IMTS2010 recommended coverage is broader than the cross border movements of goods due to the change of ownership between residents and non-residents, which are of interest to the balance of payments compilers. On the other hand, balance of payments statistics treat as international trade all transactions where a change of ownership between residents and non-residents takes place even if the goods do not cross the boundary of the economic territory of the compiling country. Such transactions are outside the scope of IMTS2010. Therefore, compilation of balance of payments and national accounts necessitates the use of other data sources as well as of estimates. Also, the valuation of imported goods recommended in IMTS2010 includes the costs of transportation and insurance needed to bring the goods to the border of the importing country (CIF-type valuation), while the balance of payment based systems require a uniform valuation of both exported and imported goods at the border of the exporting country (FOB-type valuation).

0.17. The national foreign merchandise trade data collections, in general, rely on administrative sources of data, and are set up to record transactions associated with the physical movement of goods across borders. The data collection systems lack the necessary mechanisms to determine when, where and with whom change of ownership occurs. Nevertheless, since most traded commodities are crossing the border as 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. For a detailed description of the relationship between IMTS2010 and BPM6/2008SNA see Annex F.

## **E. Structure of IMTS 2010**

0.18. The IMTS2010 consists of an introduction, eleven chapters and six Annexes as follows:

### Introduction

Chapter 1	Scope and time of recording
Chapter 2	Trade system
Chapter 3	Commodity classifications
Chapter 4	Valuation
Chapter 5	Quantity measurement
Chapter 6	Partner country
Chapter 7	Mode of transport
Chapter 8	Data compilation strategies
Chapter 9	Quality and metadata
Chapter 10	Dissemination
Chapter 11	Supplementary topics

### Annexes

- A. Basic national accounts and balance of payments concepts and definitions
- B. Definition of selected customs terms
- C. Rules of origin
- D. Rules on customs valuation as set out in the WTO Agreement on Valuation
- E. Terms of goods delivery
- F. Conceptual differences between IMTS2010 and BPM6

**[IMTS2010 will contain also a foreword, acknowledgements, a glossary of acronyms and an index]**

**F. Summary of the revised recommendations**

0.19. For the purposes of IMTS2010 the term “recommended” refers to a standard with which countries should comply while the term “encouraged” indicates a desirable practice which is not part of the standard. Below is a summary of the main recommendations and encouragements contained in the present publication with indication of whether updated or new (in order of their appearance). With respect to issues which might be relevant to compilers and users of foreign merchandise trade statistics, but which are not explicitly covered in the IMTS2010, **countries are encouraged** to develop their own treatments and clearly document them in their metadata.

**[The completion of the table is deferred pending decisions of the Commission at its 41<sup>st</sup> session]**

<i>IMTS2010</i>	<i>Relationship with IMTS, Rev.2</i>
Scope and time of recording	
Trade system	
Commodity classifications	
Valuation	
Quantity measurement	
Partner country	

<b>Mode of transport</b>	
<b>Data compilation strategies</b>	
<b>Quality and metadata</b>	
<b>Dissemination</b>	
<b>Supplementary topics</b>	

## **G. Implementation**

0.20. The United Nations Statistics Division in cooperation with the EG-IMTS and TFIMTS will develop a detailed programme to assist countries in the implementation of IMTS2010 which will include the preparation of the updated version of *International Merchandise Trade Statistics: Compilers Manual* (IMTS Compilers Manual) as well as such capacity-building activities as regional training workshops, technical assistance missions and preparation of related complementary technical materials.

0.21. It is recognized that the updating process of the recommendations should be envisaged as a recurrent and well-organized procedure. While any required interpretation of the existing recommendations will be the task of UNSD in cooperation with the TFIMTS, any proposed substantive changes in the recommendations should be reviewed and endorsed by the United Nations Expert Group on International Merchandise Trade Statistics and submitted to the United Nations Statistical Commission for adoption.

## Chapter I Scope and time of recording

1.1. The scope<sup>14</sup> of international merchandise trade statistics is defined by the general and specific guidelines contained in sections A and B below. While the general guidelines provide the universal rule, the specific guidelines are formulated to reconfirm or clarify the statistical treatment of a limited number of categories of goods where the application of the general guidelines might not be clear due to either the peculiarity of the goods, the special nature or complexity of the transaction or some practical considerations of data collection.

### A. General guidelines

1.2. *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. The general guideline is subject to the clarifications provided in this and other chapters and, in particular, to the specific guidelines set out in section B below. Except where otherwise stated, goods should be included, both in value and quantity, under the appropriate headings of the commodity classification with identification of the partner country following all applicable recommendations contained in this publication.

1.3. *Estimation of trade below customs and statistical thresholds.* There are flows of goods which comply with the general and the specific guidelines on the scope but are below the applicable customs or statistical thresholds for direct recording.<sup>15</sup> **Countries are encouraged** to estimate and include such flows in their foreign merchandise trade statistics following the recommendations contained in this publication if they are economically significant as determined by the statistical authorities of the compiling country.

1.4. *Change of ownership.* The criterion of change of ownership is to be used to determine whether certain goods should be recorded only if the general guideline is not applicable or not sufficient. Change of ownership of the goods entering (leaving) an economic territory is defined in accordance with 2008SNA and BPM6 as change of economic ownership and represents an example of adding to (subtracting from) stocks of material resources of a country, subject to the applicable exclusions listed in section B.<sup>16</sup>

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<sup>14</sup> The term “scope” is used in IMTS2010 to refer to goods recommended for recording (the recommended coverage). The term “coverage” has a broader meaning and can refer to both the recommended coverage as well as the actual coverage, which refers to the trade flows actually recorded by countries.

<sup>15</sup> It is recognized that some countries make a distinction between the statistical and customs thresholds and adopt rules on their application.

<sup>16</sup> Categories of goods where the criterion of change of ownership can be applicable for the recording of international merchandise trade transactions are ships and aircraft (para. 1.29), satellites and their launchers (para. 1.33) and mobile equipment that changes ownership while outside the residence of its original owner (para. 1.39) as transactions in these goods might not be properly, if at all, be captured in the recording of cross border movements of goods.

1.5. *Goods*. For the purpose of IMTS2010 and in reference to the 2008 SNA goods are defined as physical, produced 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, plus certain types of so called knowledge-capturing products stored on physical media which can cross borders physically<sup>17</sup> (see Annex A, para. A.2-A.4).

1.6. *Material resources of a country*. For the IMTS2010 purposes the material resources of a country are those located on its economic territory whether owned by residents or by non-residents.

1.7. *Economic territory*. IMTS2010 adopts the BPM6 definition of economic territory as the (not necessarily contiguous) area under the effective economic control of a single government (see Annex, para. A.7 for details). The economic territory of a country has the dimensions of physical location as well as legal jurisdiction. Therefore, for IMTS2010 purposes any installation or apparatus, mobile or not, located outside of the geographical territory of a country, owned by the country resident(s) and remaining under the country's jurisdiction, is treated as if it were a part of its economic territory. This applies, for example, to any drilling rigs, ships, aircraft, space stations etc.

1.8. *Time of recording*. As a general guideline **it is recommended** that goods be recorded at the time when they enter or leave the economic territory of a country. For specific recommendations on the time of recording under different trade systems see Chapter 2.

## **B. Specific Guidelines**

1.9. With respect to certain categories of goods the specific guidelines clarify whether those goods are:

- (i) included in international merchandise trade statistics;
- (ii) excluded from international merchandise trade statistics;
- (iii) excluded from international merchandise trade statistics but be separately recorded to assist in the derivation of the totals of international merchandise trade for balance of payments and national accounts purposes or for other statistical needs.

For some categories of goods under group (i) which are of special interest for users, **it is recommended** that they should not only be included under the appropriate headings of the commodity classification but also be separately identified (coded) for analytical purposes. In several cases it is indicated that the goods valuation is further elaborated in Chapter 4.

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<sup>17</sup> See 2008SNA, para. 6.15 and 6.22.

(i) **Goods recommended for inclusion**

1.10. *Non-monetary gold.* IMTS2010 adopts the definition of monetary and non-monetary gold provided in BPM6 (see Box 1.1). It is recognized that it might be difficult for IMTS compilers to differentiate between monetary and non-monetary gold in practice. **IMTS compilers are encouraged** to consult with the compilers of balance of payments or monetary authorities to ensure appropriate and consistent treatment.

*Box 1.1: BPM6 definition of monetary and non-monetary gold*

Monetary gold is gold to which the monetary authorities (or others who are subject to the effective control of the monetary authorities) have title and is held as reserve assets. Gold bullion not held as reserve assets is not a financial asset and is included in nonmonetary gold (BPM6, para 5.74).

Nonmonetary gold covers all gold other than monetary gold. Nonmonetary gold can be in the form of bullion (that is, gold bullion takes the form of coins, ingots, or bars with a purity of at least 995 parts per thousand, including such gold held in allocated gold accounts), gold powder, and gold in other unwrought or semimanufactured forms. Jewelry, watches, etc. that contain gold are not included under nonmonetary gold but under their respective goods category (BPM6, para. 10.50).

1.11. *Banknotes and securities, and coins not in circulation.*<sup>18</sup> This item includes both banknotes, securities and coins that are unissued or that are taken out of circulation. They are regarded as goods rather than as financial items and should be included in imports or exports as any other products. Issued banknotes and securities and coins in circulation are regarded as financial items and should be excluded (see para. 1.46).

1.12. *Goods traded in accordance with barter agreements.* These are goods which are exchanged between countries without use of any means of payment.

1.13. *Goods traded on government account.* This category refers to any goods 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. These goods can be intended for either civilian or military use (see also para. 1.49(c)).

1.14. *Humanitarian aid, including emergency aid.* Food, clothing, medicaments and other goods entering or leaving a country under humanitarian aid programmes or as emergency assistance, whether provided by governments (see also para. 1.13 above), international or non-governmental organizations. Recording of full commodity and partner detail for such trade may represent disproportionate effort, and if so, its inclusion in the total of exports/ imports without such detail is appropriate. However, if this trade consists of some important commodities (frequently of light

<sup>18</sup> HS07: part of heading 4907.00, and heading 7118.90.



weight and high value, such as medicine), those commodities should be recorded in international merchandise trade statistics in full commodity and partner detail under the appropriate headings of the commodity classification, while the remainder should be recorded as indicated above.

1.15. *Goods for military use.* Even if recording of the goods for military use might pose practical difficulties they should be included following all recommendations contained in this publication.

1.16. *Goods acquired by all categories of travellers, including non-resident workers, to a significant scale as defined by national law* are to be included. This recommendation covers and applies to what is called “shuttle trade”.

1.17. *Goods on consignment.* These are goods intended for sale but not actually sold when they cross the border. If reliable information exists which allows to establish the appropriate statistical value at the time when goods cross borders their revaluation after sale is not needed. However, in the absence of reliable information compilers are advised to attempt to revise the data to reflect the actual transaction value of the goods when sold. Goods on consignment should be distinguished from goods being simply transported through a country or temporarily admitted or withdrawn (see paras 1.41 - 1.44). Goods on consignment can be returned but their identification as returned goods might be difficult (see para. 1.23 and 4.15(f) on returned goods and their valuation).

1.18. *Media, whether or not recorded.* As a general guideline, media, whether or not recorded is included in international merchandise trade statistics at its full transaction value except for media used for carrying customized software or software written for a specific client or originals of any nature<sup>19</sup> which should, in principle, be excluded. Such exclusions should be based on the definitions recommended in the BPM6 and be undertaken in close cooperation with the compilers of balance of payments and international trade in services statistics (see BPM6 table 10.4 and MSITS table 3.1). It is recognized, however, that in view of (a) the prevailing customs practice of classifying both non-recorded and recorded media in one classification heading without any further differentiation and (b) the absence of other reliable and cost effective data sources for systematic identification, the exclusion of such media may not be possible.

1.19. *Goods for processing with or without change of ownership.* Goods for processing are goods that are sent abroad or brought into a country under a specific arrangement between the involved parties (which may or may not include the change of ownership) and for specific operations as defined by the statistical authorities of the compiling country. Usually these operations entail further transformation that is changing the characteristics of the goods. Goods for processing without change of ownership are a subset of this general category. Goods for processing may be brought into a country under special customs procedures such as inward processing or processing of goods for home use (see Annex B for definitions of these procedures) as well as be declared for home use. Goods resulting from processing might be returned to the sending country, sold in the country of processing or be sent to a third country. The choice of the customs procedure may vary from country to country and from trader to trader depending on many factors such as the level of customs duties, taxation, other fees and charges and the expected clearance time. In view of the

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<sup>19</sup> The term “originals” refer to [] <e.g. see CPC, version 2>

decreasing of customs duties and relaxing of other administrative requirements the spreading practice is to declare such goods for importation for home use and, subsequently, for outright exportation as this gives traders more freedom.

1.20. **It is recommended** that in all cases goods for processing, as well as goods resulting from the processing (compensating products in customs terminology) are to be included in the merchandise exports and imports of the countries, as applicable, at their full (gross) value<sup>20</sup> (see para. 4.15(e) for details) unless those goods fall into the category of goods temporarily admitted or dispatched and goods for repair and maintenance which are excluded from merchandise trade statistics.

1.21. Taking into account the needs of international trade in services and balance of payments statistics where manufacturing services on inputs owned by others should be recorded, **countries are encouraged** to explicitly identify (preferably by special coding) in their trade statistics goods for processing as well as goods resulting from such processing where no change of ownership takes place. However, it is recognized that such identification may not be all-inclusive and the obtained information may not be internationally comparable as (a) merchandise trade statistics compilers may not have adequate sources of data (especially in cases when the appropriate customs procedures are not used) and (b) national definitions of such procedures may differ significantly.<sup>21</sup>

1.22. *Goods which cross borders as a result of transactions between related parties.* These are goods in cross-border transactions between related parties, including parties related by ownership and/or control. **Countries are encouraged** to use the definition of related parties as provided in Article 15(4) of the WTO Valuation Agreement (see Annex D). These goods should be included following all recommendations contained in this publication. **Countries are further encouraged** to separately identify (code) such goods and types of the relationships in order to be able to review their valuation and to provide information on these transactions to users. It is acknowledged, however, that depending on their specific data needs and overall compilation strategies countries might find it more appropriate not to identify such goods in their regular trade data compilations but to estimate their share in imports/exports by conducting periodic surveys of companies which have foreign affiliates or are affiliates of the foreign companies. Countries should describe their practices in this respect in their metadata to ensure proper use of their statistics and to assist in international comparisons.

1.23. *Returned goods.* If an exported good is subsequently returned, it should be included in imports and identified as reimports at the time when it is returned. Similarly, goods imported and subsequently returned should be included in exports and identified as re-export, at the time they are returned.<sup>22</sup>

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<sup>20</sup> Often the term “gross” is used synonymous to “full”.

<sup>21</sup> Compilers of balance of payments and statistics on international trade in services are required to estimate the manufacturing services on inputs owned by others and it is **it is recommended** that countries provide in their metadata on international merchandise trade statistics this estimate, preferable together, if available, with the value of imports and exports of goods for processing as well as goods resulting from such processing where no change of ownership takes place.

<sup>22</sup> There are different cases of returned goods such as goods returned due to poor quality or goods on consignment (see para. 1.17) that are not sold and returned.

1.24. *Electricity, gas, oil<sup>23</sup> and water.* International sales and purchases of electricity, gas, oil 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 obtaining as accurate as possible records of this trade. It is also important that trading partners in such transactions record these flows using the same method to improve international comparability.

1.25. *Goods dispatched or received through postal or courier services.* Recording full commodity detail for such trade may represent disproportionate effort, and if so, its inclusion as a single total is appropriate.<sup>24</sup> 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.

1.26. *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 also para. 4.16 on valuation of such goods).

1.27. *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.

1.28. *Goods under financial lease.* There are two kinds of leases in common usage: financial leases and operating leases. 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 operating lease is any lease which does not have the above characteristics. Goods under operating lease should be excluded from international merchandise trade statistics (see para.1.51). In practice it might be difficult to differentiate between these two types of leases.<sup>25</sup> Therefore, in some cases, the duration of the lease can be used as an indication of whether the lease is financial (one year or more) or operating (less than one year).

1.29. *Ships and aircrafts.* These goods are to be included in international merchandise trade statistics when they change economic ownership between residents and non-residents (includes financial leasing)<sup>26</sup>. In this context, the acquisition of a ship or aircraft is treated as adding to its

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<sup>23</sup> The term "oil" refers to petroleum oils as defined in HS headings 2709 and 2710.

<sup>24</sup> Chapters 98 or 99 of the HS may be used to record this.

<sup>25</sup> See also BPM6, para, 5.57.

<sup>26</sup> See Annex A, para. A.11.

material resources (the reverse also applies). Ships and aircrafts are included whether they enter/leave the economic territory of the involved countries or remain in international waters or are used in international flights (see also para. 1.54). Frequently, such transactions are not recorded by customs. In the absence of customs documents, they should be recorded using non-customs data sources, such as registry additions and deletions or enterprise surveys as appropriate.

1.30. *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.

1.31. *Fish catch, minerals from the seabed and salvage.* These goods landed from vessels of one country in national ports of another country or acquired by vessels of one country on the high seas from vessels of another country are in the scope of IMTS2010 for both exports and imports and should be recorded where economically or environmentally significant. It is recognized that data collection in respect of this category of goods may be challenging, however, **countries are encouraged** to develop over time the necessary data collection and/or data estimation procedures in view of the important policy needs in such data, including assessing and monitoring of the environmental impact of such trade and related activities.

1.32. *Bunkers, stores, ballast and dunnage* that are acquired by national aircraft and vessels outside the economic territory of the compiling country, or from foreign vessels and aircraft inside the economic territory of a country, or are landed in national ports from foreign vessels and aircraft, are to be in the scope of IMTS2010 for imports and should be recorded where economically or environmentally significant. *Bunkers, stores, ballast and dunnage* that are supplied to foreign vessels or aircraft in the economic territory of the compiling country, or by national vessels or aircraft to foreign vessels or aircraft outside the economic territory of the compiling country, or are landed in foreign ports from national vessels or aircraft are in the scope of IMTS2010 for exports and should be recorded where economically or environmentally significant. It is recognized that data collection under this item may be challenging, however, such data are very important for various analytical purposes including for assessing and monitoring of the environmental impact of international transport. In this connection **countries are encouraged** to develop over time necessary data collection and/or estimation procedures.

1.33. *Satellites and their launchers.* Treatment of satellites, satellite launchers or their parts is equivalent to the treatment of ships and aircraft and depends on the kind of transactions involved. Some cases for inclusion are described below (for exclusions see para. 1.53). Case 1: A satellite launcher is produced in country A and sold to country B for use. This transaction should be recorded as an export of country A, and an import of country B. Case 2: A satellite is produced and launched in country B on behalf of country A. The satellite should be treated as an export of country B (import of country A) at launch or when control of the satellite is turned over from country B to country A. Launch and other related activities should be treated as services provided by country B to country A. **[a text box will be inserted to provide an example]**

1.34. *Goods in electronic commerce.* The term “goods in electronic commerce” refers to goods

which physically move across country borders as the result of transactions executed entirely, or to a significant extent, by electronic means (e.g. goods ordered and paid for via the Internet). Such goods are in the scope on IMTS2010 for both exports and imports. It is recognized that data collection under this item may be challenging (for example when goods are shipped through parcel or letter post or courier service, see para. 1.25 for details and recommendations), however, **countries are encouraged** to develop over time necessary data collection and/or estimation procedures.

1.35. *Gifts and donations.* Such goods should be included following all applicable recommendations contained in the present publication.

1.36. *Power lines, pipelines and undersea communications cables.* Compilers are advised to include these goods, and/or parts thereof, in exports/imports when they are dispatched from one country for installation in another. However, when dispatched from a country for installation in international waters (territory) they are to be treated as exports/imports only if there was change of ownership between a resident and a non-resident. Compilers are further advised to cooperate with compilers of national accounts and balance of payments statistics to ensure proper and harmonized treatment of all such transactions, which includes to clearly distinguish trade in goods and trade in services.

1.37. *Used goods.* Used goods are to be included following all applicable recommendations. This category covers any used industrial equipment or consumer goods (e.g. used computers or cars) as well as used containers crossing borders under commercial recycling arrangements (e.g. empty bottles for recycling).

1.38. *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 commercial value is positive (see para. 1.58 as well). It is recognized that data collection under this item may be challenging as for example the value might not be easily available at the time when entering/ leaving the country, however, **countries are encouraged** to develop over time necessary data collection and/or estimation procedures.

1.39. *Mobile equipment that changes ownership while outside the country of residence of its original owner.* For example, equipment which was 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. This category of goods is in the scope of IMTS2010 and **countries are encouraged** to collect data on such trade or estimate it.

1.40. *Goods received or sent abroad by international organizations* are included in imports of the countries (other than the host country) receiving goods from such organization and in exports of countries (other than the host country) sending goods to those organizations.<sup>27</sup> (see also para. 1.49(c)).

**(ii) Goods recommended for exclusion**

1.41. *Goods simply being transported through a country.* Goods are considered as simply being transported through a country if they (i) enter and leave the compiling country solely for the purpose of being transported to another country, (ii) are not subject to halts not inherent to the transportation and (iii) can be identified both at the time of entering and leaving the country.

1.42. Goods simply being transported include goods under "in transit" or "in trans-shipment" customs procedures but are not limited to them. Sometimes it is administratively easier for traders to declare goods, not as being in transit, but as regular imports on arrival and exports on departure. Irrespective of the customs procedure applied, if, at the time when goods cross the compiling country's border, it is known that their destination is a third country, the goods should be treated as simply being transported through the country and excluded. However, goods which are not under "in transit" or "transshipment" customs procedure and change ownership after entering the economic territory of a country should be recorded as imports and re-exports if they leave the country in the same state as imported. **Countries are encouraged** to make efforts to identify such movements using both customs and non-customs sources of data and exclude them from trade statistics (see para. 2.17 for the related recommendations on re-exports). To ensure data consistency **it is recommended** that the statistical authorities treat good movements as being simply transported only if reliable criteria are established.

1.43. *Goods temporarily admitted or dispatched.* **It is recommended** that goods are considered as temporarily admitted/dispached if at the time of admission/dispatch it is known that their intended stay in the receiving country is temporary (as defined by the statistical authority of a country) and after their stay they can be withdrawn/returned in the same state (except for normal wear and tear). This category includes, but is not limited to, goods identified in the Kyoto and Istanbul Conventions<sup>28</sup> as goods covered by the "temporary admission subject to re-exportation in the same state" customs procedure. Such goods include 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. Goods for processing and goods on financial lease are not covered by this recommendation (see paras 1.19-1.20 and 1.28). (see also paragraphs 1.51 and 1.57 for exclusion of goods under operating lease and of goods for repair or maintenance).

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<sup>27</sup> The term "host country" refers to a country that contains territorial enclaves of other countries or international organizations within its geographic boundaries.

<sup>28</sup> See []

1.44. It may be not known that the admitted or dispatched goods are expected to be brought back within a limited time period. In this case, good would be treated as exports (imports) and imports (exports) when returned. It is recognized that customs records may not exist or may not provide enough information to allow reliable identification of temporary admission/dispatch. Therefore, **countries statistical authorities are encouraged** to establish criteria for the identification of such goods. For example, countries may wish to use one year (or less) of stay as an approximation for temporary admission. It is advisable that such criteria are developed in cooperation with customs or other authorities, as required, especially for the goods admitted to and dispatched from the premises for customs warehousing or customs free zones. To ensure data consistency **it is recommended** that the statistical authorities treat goods movements as temporarily admission/dispatch only if reliable criteria are established.

1.45. *Monetary gold.*<sup>29</sup> IMTS2010 adopts the definition of monetary and non-monetary gold provided in BPM6 (see para. 1.10, Box 1.1). Monetary gold is gold to which the monetary authorities (or others who are subject to the effective control of the monetary authorities) have title and is held as reserve assets. Gold bullion not held as reserve assets is not a financial asset and is included in nonmonetary gold. (BPM6, para 5.74).<sup>30</sup> 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. The identification of both monetary and non-monetary gold should be done in cooperation with the balance of payments compilers or monetary authorities.

1.46. *Issued banknotes and securities and coins in circulation*<sup>31</sup> represent evidence of financial claims, and are excluded from international merchandise trade statistics.

1.47. *Goods consigned to and from the territorial enclaves.* The movement of goods between a country and its enclaves abroad is considered as an internal flow, and should be excluded.

1.48. *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.

1.49. *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. 1.16 above);

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<sup>29</sup> HS07, subheading 7108.20.

<sup>30</sup> An equivalent definition of monetary gold is provided in the *Explanatory Notes to the Harmonized Commodity Description and Coding System* (World Customs Organization, Brussels, 2007; see heading 7108.20). According to this definition, monetary gold is gold that is exchanged between national or international monetary authorities or authorized banks.

<sup>31</sup> HS07: part of subheadings 4907.00 and 7118.90.

- (b) Newspapers and periodicals sent under direct subscription (see, for example, BPM6, paras.[] );
- (c) *Goods supplied by and to enclaves of foreign governments, such as embassies, military bases etc., and international organizations* located in the economic territory of a host country, are excluded as they are included in the BPM6 under services (see BPM6, para 10.17(o) and 10.173-10.177).
- (d) Media carrying software customized or written for a specific client or originals of any nature, where identified (see para. 1.18).

1.50. *Goods under merchanting.* Merchanting is defined as the purchase of goods by a resident of the compiling economy from a nonresident combined with the subsequent resale of the same goods to another nonresident without the goods being present or crossing the border of the compiling country. These are excluded from international merchandise trade statistics.<sup>32</sup>

1.51. *Goods under operating lease.* This category comprises goods shipped under operating - that is, non-financial - leasing arrangements. In absence of other information the duration of a lease of less than one year can be taken as an indication that the lease is an operating lease (see para. 1.28 above).

1.52. *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. 1.60 below).

1.53. *Satellites and their launchers launched in another country without change of ownership.* If a satellite which is produced in country A moved from there to country B for launching without change of ownership it is to be considered in country A as an internal operation not constituting external trade (similar to ships going to and remaining in international waters). The same satellite entering country B should be considered a temporary admission and not included in imports. Launch and other related activities can be treated as services provided by country B to country A (see also para. 1.33).

1.54. *Goods functioning as means of transport.* This includes a wide range of items from ships and aircrafts (other than ships and aircrafts of para. 1.29) to containers used to transport cargo in ship/rail/road supply chains to empty bottles which are returned to be refilled.

1.55. *Content delivered electronically.* The electronic delivery (downloading, e-mailing, streaming etc.) from one country to another of any content (e.g. on-line books, newspapers and periodicals, directories and mailing lists, musical audio downloads, streamed audio content, films

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<sup>32</sup> See BPM6, para. 10.41-10.49.



and other video downloads, streamed video content, system software downloads, application software downloads, on-line games etc.) is explicitly excluded from the scope of international merchandise trade statistics. (For recommendations on the treatment of the cases where similar content is delivered via material media crossing country borders see para. 1.18).

**(iii) Goods recommended for exclusion but to be separately recorded**

1.56. Certain categories of goods, which are recommended to be excluded in IMTS due to conceptual and practical considerations, are required for inclusion in the totals of international merchandise trade compiled on BPM6 and 2008 SNA basis. Also, information on certain categories of goods is required for other purposes. **Countries are encouraged** to undertake efforts to collect the relevant data to the extent possible or to make estimates of trade in these goods for use in balance of payments and national accounts and other purposes. Cooperation of several agencies might be required to obtain such data or estimates.

1.57. *Goods for repair or maintenance.* This category comprises goods temporarily crossing borders for repair or maintenance abroad. That are activities that reinstate the quality of the goods or help to keep it and do not result in the creation of a new product. This category does not include goods temporarily admitted or dispatched (see para. 1.43-1.44) and goods for processing (see para. 1.19-1.21). The identification of goods for repair or maintenance should be done in cooperation with the balance of payments compilers.

1.58. *Waste and scrap.* Waste and scrap having no commercial value are to be excluded but should be separately recorded using appropriate quantity units (see also para. 1.38).

1.59. *Goods entering or leaving the economic territory of a country illegally.*<sup>33</sup> 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.

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<sup>33</sup> This may include legal as well as illegal goods.

1.60. *Goods lost or destroyed after leaving the exporting country but before entering the importing country and 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. 1.52).

#### BOX 1.2: GOODS FOR SEPARATE RECORDING

In the above sections certain categories of included or excluded goods were recommended to be recorded separately or countries were encouraged to do so. For ease of reference these categories of goods are listed below:

Goods included but encouraged to be separately recorded (identified)

- (a) Goods for processing where no change of ownership took place (para. 1.19-1.21);
- (b) Goods which cross borders as a result of transactions between related parties (para. 1.22);

Goods to be excluded but encouraged to be separately recorded

- (a) Goods for repair or maintenance (para. 1.57)
- (b) Waste and scrap having no commercial value (para 1.58)
- (c) Goods entering or leaving the economic territory of a country illegally (para. 1.59);
- (d) Good lost or destroyed after ownership has been acquired by the importer (para.1.60).

## Chapter II Trade system

### A. An overview of basic terms

2.1. *Statistical territory.* The statistical territory of a country is the territory with respect to which trade data are being compiled. The definition of the statistical territory may or may not coincide with the economic territory of a country or its customs territory depending on the availability of data sources and other considerations. **It is recommended** that countries provide a detailed description of their statistical territory and make that description publicly available as a part of their metadata to ensure an unambiguous identification of the flows of goods recorded in their trade statistics<sup>34</sup>.

2.2. *Customs territory.* In the majority of countries, trade data collection is based on customs procedures, and many of these countries adopt the boundary of their customs territory as the boundary of their statistical territory. The customs territory is the territory in which the Customs law of a state applies".<sup>35</sup> However, there is a growing number of cross-country flows of goods which are not captured by customs or are captured inadequately (e.g. flows between member states of customs unions, and shipments of goods into and out of customs free zones). Therefore, in many cases, the statistical territory is defined broader than the customs territory and compilers of trade statistics have to use non-customs sources (e.g. sample surveys and tax-based collections) to approximate the trade transactions related to the statistical territory.

2.3. *Elements of statistical territory.* The statistical authorities of a country may define its statistical territory by listing various elements of its economic territory which belong to it. These elements are usually described with reference to the country's customs legislation and may vary from country to country. However, **it is recommended** that countries use, as far as possible, the definitions of the customs terms as contained in the annexes to the Revised Kyoto Convention. For the purposes of international comparison, **it is recommended** that countries make clear whether or not the following territorial elements exist in their country, and whether or not they are included in their statistical territory:

- a. Islands;
- b. Territorial waters;
- c. Continental shelf;
- d. Offshore and outer space installations and apparatus;
- e. Commercial free zones;
- f. Industrial free zones;

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<sup>34</sup> The results of a survey on statistical territories of countries (or areas) have been made available in the publication *Statistical Territories of the World for Use in International Merchandise Trade Statistics* (United Nations publications, Sales No. 01.XVII.8) which is available on the UNSD website at [http://unstats.un.org/unsd/trade/stat\\_terr\\_e.pdf](http://unstats.un.org/unsd/trade/stat_terr_e.pdf).

<sup>35</sup> World Customs Organization, *International Convention on the Simplification and Harmonization of customs Procedures (as amended)* (Revised Kyoto Convention), Brussels, 2006, General Annex/ Chapter 2/ E.12. Instead of 'state' the Revised Kyoto Convention uses the term 'Contracting Party' which means contracting party to the Convention.

- g. Customs warehouses;
- h. Premises for inward processing;
- i. Territorial enclaves of the compiling country in other countries;
- j. Territorial enclaves that is enclaves of other countries in the compiling country.

2.4. *The commercial and industrial 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 duties and taxes are concerned, as being outside the customs territory.<sup>36</sup> Referring to two kinds of authorized operations specified in the Revised Kyoto Convention a distinction may be made between commercial and industrial free zones:<sup>37</sup>

- (a) "Goods admitted to a free zone shall be allowed to undergo operations necessary for their preservation and 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."<sup>38</sup>
- (b) "Where the competent authorities allow processing or manufacturing operations in a free zone, they shall specify the processing or manufacturing operations to which goods may be subjected in general terms and/or in detail in a regulation applicable throughout the free zone or in the authority granted to the enterprise carrying out these operations."<sup>39</sup>

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 labor force. The legal status of these zones ranges from extra-territorial, whereby they are exempt from all customs laws, to varying degrees of customs control.

2.5. *Premises for inward processing.* These can be any premises where goods can be placed conditionally relieved from payment of import duties and taxes (under the customs procedure known as inward processing (see para. B.11)). Such goods must be intended for re-exportation within a specific period after having undergone manufacturing or processing. Depending on the customs regulations premises for inward processing might be specially designated areas or any premises, provided that other conditions for inward processing are complied with.

2.6. *Customs warehouses.* A customs warehouse is a designated place where imported goods which are brought into the country under the Customs warehousing procedure are stored under customs control without payment of import duties and taxes.<sup>40</sup> Warehoused goods can undergo usual forms of handling to improve their packaging or marketable quality or to prepare them for shipment,

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<sup>36</sup> Revised Kyoto Convention, Annex D/ Chapter 2/ E.2.

<sup>37</sup> The terms "commercial" and "industrial" free zone were used in the 1973 version of the Kyoto Convention and are still used by many countries.

<sup>38</sup> Revised Kyoto Convention, Annex D/ Chapter 2, paragraph 11.

<sup>39</sup> Revised Kyoto Convention, Annex D/ Chapter 2, paragraph 12.

<sup>40</sup> Revised Kyoto Convention, Specific Annex D/ Chapter 1/ E.1.

such as breaking bulk, grouping of packages, sorting and grading and repacking. However, operations that may change the essential character of the goods are not normally allowed.

2.7. *Territorial waters and continental shelf* include the areas over which jurisdiction is exercised and over which fishing rights and rights to fuels or minerals exist.

2.8. *Offshore and outer space installations and apparatus*. These include any installation or apparatus, mobile or not, located outside the geographical territory of a country, owned by the country's resident(s) and remaining under the country's jurisdiction.

2.9. *Territorial enclaves and exclaves*. Enclaves are clearly demarcated land areas (such as embassies, consulates, military bases, scientific stations, information or immigration offices, aid agencies, central bank representative offices with diplomatic immunity, etc.) physically located in other territories and used by governments that own or rent them for diplomatic, military, scientific, or other purposes with the formal agreement of governments of the territories where the land areas are physically located.<sup>41</sup> An enclave of a given country is an exclave from the perspective of the country where that enclave is located.

2.10. *Domestic and foreign goods*. In their trade statistics countries usually distinguish between flows of domestic and foreign goods. However, country practices differ with respect to the definition of these two concepts. To increase international comparability of country trade data **it is recommended** that *domestic goods* be defined as 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 (criteria for determination of origin of goods are discussed in more detail in Chapter 6). Goods normally 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 customs warehouses or commercial free zones, 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 (this includes foreign goods which are in transit through the compiling country) or are obtained under the outward processing procedure, when such processing confers foreign origin (compensating products which changed origin).

2.11. *Trade systems*. Depending on what parts of the economic territory are included in the statistical territory the trade data compilation system adopted by a country (its trade system) may be referred to as general or special. The detailed description of the trade systems is provided in sections B and C below. Recommendations on data compilation strategies are provided in Chapter 8.

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<sup>41</sup> See Annex A, para A.7.

## B. General trade system

2.12. *Statistical territory under the general trade system.* The general trade system is in use when the statistical territory coincides with the economic territory. Consequently, **it is recommended** that the statistical territory of a country applying the general trade system should include all applicable territorial elements (a) to (h) as listed in para. 2.3 above<sup>42</sup>.

2.13. *General imports and exports* are flows of goods entering/leaving the statistical territory of a country applying the general trade system and recorded in compliance with the general and specific guidelines on coverage.

2.14. *General imports* consist of:

- a. *Imports of foreign goods* (including compensating products after outward processing which changed their origin from domestic to foreign) entering the free circulation area, premises for inward processing, industrial free zones, premises for customs warehousing or commercial free zones;
- b. *Reimports* of domestic goods into the free circulation area, premises for inward processing or industrial free zones, premises for customs warehousing or commercial free zones.

2.15. *Reimports* are imports of domestic goods which were previously recorded as exports. **It is recommended** that reimports should not only be included in total imports, but also be separately identified (coded) for analytical purposes. This may require the use of supplementary sources of information in order to determine that the goods in question are indeed reimports rather than (i) goods withdrawn after being temporarily dispatched without being previously recorded as exports, or (ii) domestic goods that have acquired foreign origin through processing and which, therefore, should be recorded as imports of foreign goods under para. 2.14(a), but not identified as reimports.

2.16. *General exports.* General exports consist of:

- a. *Exports of domestic goods* (including compensating products after inward processing which changed their origin from foreign to domestic) from any part of the statistical territory including free zones and customs warehouses;
- b. *Re-exports* of foreign goods from any part of the statistical territory including free zones and customs warehouses.

2.17. *Re-exports* are exports of foreign goods which were previously recorded as imports. **It is recommended** that re-exports should not only be included in total exports, but also be separately identified (coded) for analytical purposes. This may require the use of supplementary sources of information in order to determine that the goods in question are indeed re-exports rather than (i)

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<sup>42</sup> Transactions in goods between a country's enclaves in other countries with the host or third countries are treated as international trade in services (see para. 1.49(c)).

goods temporarily admitted without being previously recorded as imports or (ii) the export of foreign goods that have acquired domestic origin through processing and which, therefore, should be recorded as exports of domestic goods under para. 2.16(a), but not identified as re-exports.

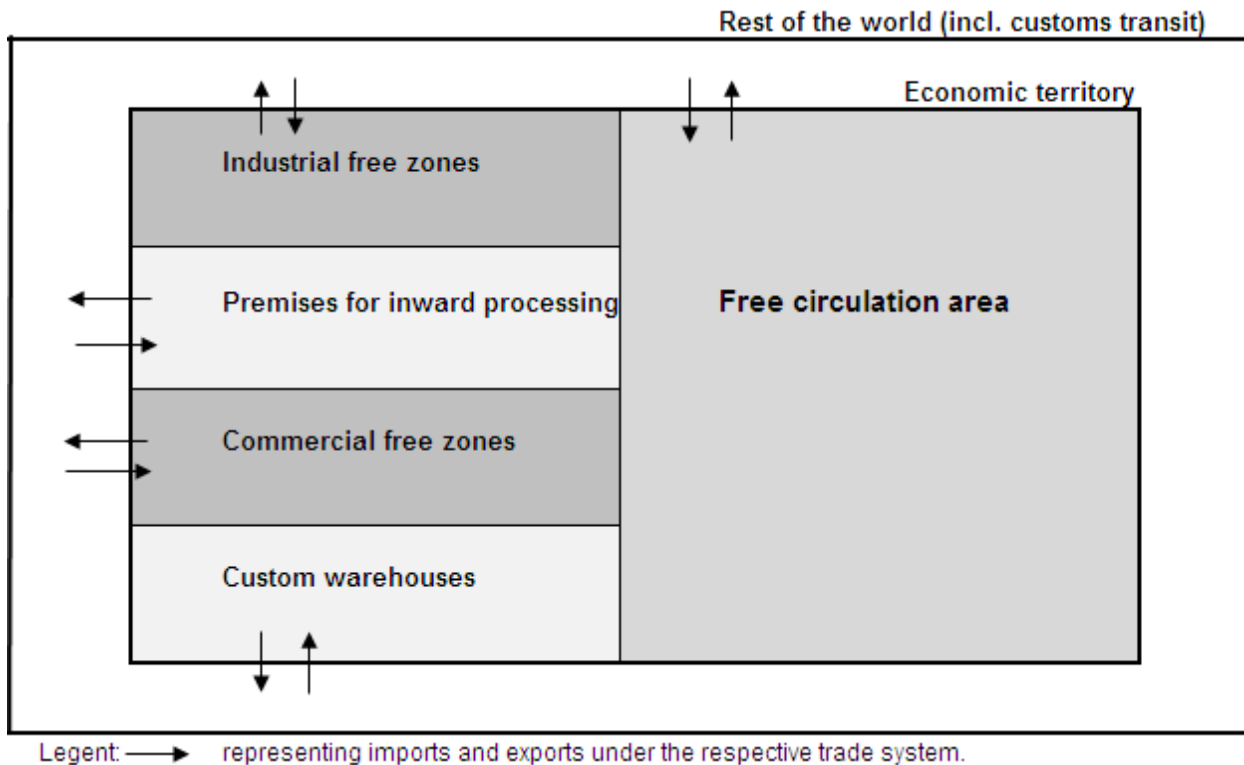
2.18. **It is recommended** that information about the customs procedure applied to individual transactions (or the nature of transaction) is part of the dataset for trade statistics in order to facilitate the identification of re-exports and re-imports but also of other types of trade such as goods for processing, trade between related parties, goods on consignment etc. as far as possible. Further **it is recommended** that, if the customs is not the agency compiling trade statistics, this information is regularly included in the dataset provided by customs to the agency responsible for the compilation of trade statistics of a country.

2.19. The general imports provide the most comprehensive record of the goods entering the economic territory of a compiling country and increasing the stock of its material resources while general exports provide the most comprehensive record of the goods leaving its territory and thus decreasing that stock. **It is recommended**, therefore, that countries use the general trade system for compilation of both their import and export statistics.

2.20. It is acknowledged that countries may find the compilation of data according to the general trade system difficult, in particular if there is no or no detailed customs recording for parts of the economic territory such as free zones. In such cases countries might decide to adopt the special trade system.

2.21. *Time of recording under general trade system.* Under the general trade system the time of recording should be the time when goods enter or leave the economic territory of the compiling country. In the case of customs-based data-collection systems this time can be frequently approximated by the dates associated with the lodgement of the customs declaration (e.g. the date when goods are presented at the customs office). If such dates differ considerably from the date when goods actually cross the border of the economic territory (e.g. if goods are cleared well in advance or after their arrival) or non-customs data sources are used (e.g. enterprise surveys) more appropriate dates should be identified and used (e.g. the date of arrival/departure of the goods carrier as indicated in the transportation documents). It is the responsibility of countries' statistical authorities to identify (or estimate) the best proxy date of the general guideline on time of recording by taking into account the peculiarity of national rules on administrative procedures and the need in consistency in the application of the selected method.

Graph 2.1: Territorial elements and potential imports and exports under the general trade system



### C. Special trade system

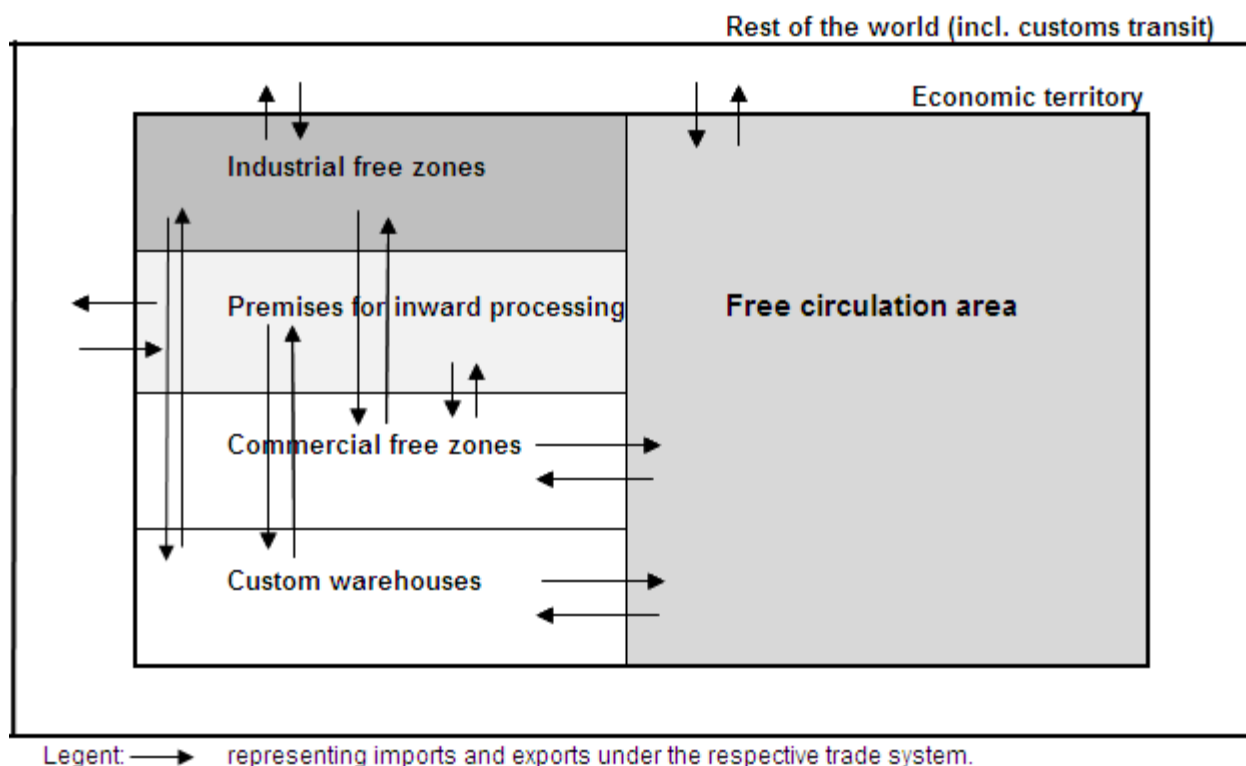
2.22. *The special trade system* is in use when the statistical territory comprises only a particular part of the economic territory, so that certain flows of goods which are in IMTS2010 scope are not included in either import or export statistics of the compiling country. Countries may apply various definitions of special trade. Traditionally the *strict* and the *relaxed definitions* of the special trade are differentiated.

2.23. *The strict definition of the special trade system* 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). Consequently, in such a case, imports include only goods entering the free circulation area of a compiling country and exports include only goods leaving the free circulation area of a compiling country. Under the strict definition, goods imported for inward processing and goods which enter or leave an industrial or commercial free zone or customs warehouses would not be recorded since they would not have been cleared through customs for home use. The compensating products after inward processing also would not be included in exports.



2.24. *The relaxed definition of the special trade system* 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.

Graph 2.2: Territorial elements and potential imports and exports under the special trade system in its relaxed definition



2.25. The use of the special trade system narrows the coverage of the statistics as not all goods which are in the scope of international merchandise trade statistics are covered. Moreover, its application is not uniform across countries and creates serious incomparability. For instance, some countries base their recording on the concept of the strict special trade system while many other countries adopt the different variants of the relaxed definition including adding to their statistical territories certain (but not all) customs free zones.

2.26. *Time of recording under special trade system.* Under the special trade system the time of recording should be the time when goods enter or leave the statistical territory of the compiling country. As in the case of the general trade system this time may be approximated by the dates associated with the lodgement of the customs declaration or other dates, if appropriate, depending on the circumstances (see also para. 2.21).

2.27. The lack of territorial coverage and the lack of uniformity in the application of the special trade system has a negative impact on the usefulness of trade data for policy analysis purposes as well as for the compilation of national accounts and balance of payments statistics. Therefore, countries using this system **are encouraged** to develop plans to introduce the general trade system. However, it is recognized that a change from the special to the general trade system would require important administrative restructuring, which might prove impractical for some countries. Therefore, **it is recommended** that countries which continue to use the special system should compile or estimate (unless this trade is insignificant), 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 and (b) goods imported into and exported from premises for customs warehousing or commercial free zones, when the relaxed definition is used. This will facilitate the necessary adjustments for the estimation of data on a general trade system basis for use in the balance of payments statistics and national accounts.

## Chapter III Commodity Classifications

3.1. 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 trade statistics with the most detailed commodity specifications.

3.2. 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), or extended versions based on HS, such as the Combined Nomenclature<sup>43</sup> used by the countries that are members of the European Union 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 4* (SITC, Rev.4)<sup>44</sup>, which classifies commodities according to their stage of production. The *Classification by Broad Economic Categories Defined in Terms of SITC, Rev.3 and the Harmonized Commodity Description and Coding System (2002)* (BEC),<sup>45</sup> 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 of All Economic Activities (ISIC), Revision 4* (ISIC, Rev.4.)<sup>46</sup> is an example of such a nomenclature: it classifies according to the principal industry of origin of products. The *Central Product Classification Version 2.0* (CPC)<sup>47</sup> combines the main classification principle of ISIC, Rev.4 with criteria applied in HS. For the purposes of balance of payments statistics, trade flows are broken down into the three broad categories general merchandise, goods under merchanting and non-monetary gold (see BPM6, paras. 10.13 -10.54). For other analytical purposes sub-groupings of elements of HS and SITC are established.<sup>48</sup>

3.3. *Correspondence tables.* Correspondence tables describe the relationship between different classifications or different versions of the same classification by providing the relationship between the elements (codes) of the two classifications at the detailed level. It is common practice that correspondences to the previous edition and directly related other classifications are issued together with a new classification. For example, SITC, Rev. 4 contains the detailed correspondence to the 2007 edition of the HS on which it is based (using its elements as building blocks) and the correspondence to SITC, Rev.3. An important application of correspondence tables is the

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<sup>43</sup> 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.

<sup>44</sup> United Nations publication, Sales No. E.06.XVII.10. It also contains a description of the origin and development of SITC.

<sup>45</sup> United Nations publication, Sales No. E.03.XVII.8.

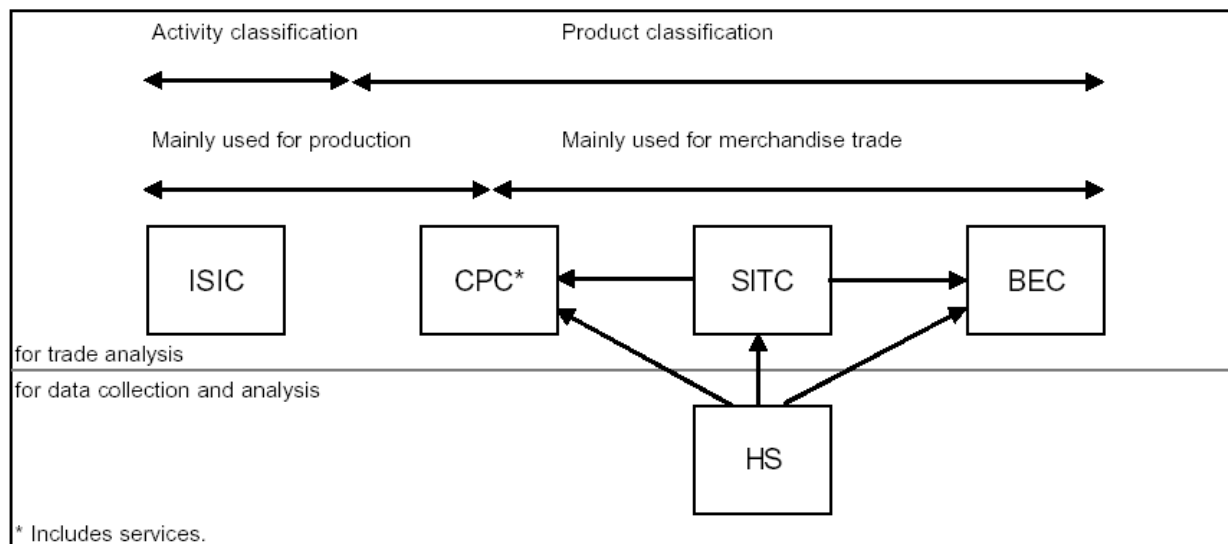
<sup>46</sup> United Nations publication, Sales No. E.08.XVII.25.

<sup>47</sup> See <http://unstats.un.org/unsd/cr/registry/cpc-2.asp>

<sup>48</sup> For example the OECD Working Party on Indicators for the Information Society proposed a classification of information and communication technology (ICT) goods in terms of 6-digit HS codes (DSTI/ICCP/IIS(2003)1/REV2, OECD, 2003).

conversion of data, usually for analytical purposes, from the classification in which data are compiled and reported to other classifications.<sup>49</sup>

Graph 3.1: Relationship between different classifications



#### A. Harmonized Commodity Description and Coding System

3.4. 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).<sup>50</sup>

3.5. 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 trade statistics.<sup>51</sup>

3.6. In accordance with the preamble to the HS Convention, which recognized the importance of ensuring that HS is kept up to date in the light of changes in technology or in patterns of international trade, HS is regularly reviewed and revised. The Statistical Commission, at its twenty-seventh session, recommended that the Customs Co-operation Council take fully into account the statistical

<sup>49</sup> The United Nations Statistics Division website provides access to the classifications relevant for international merchandise trade statistics, including correspondence and conversion tables at <http://unstats.un.org/unsd/trade/methodology/imts.htm> and <http://unstats.un.org/unsd/cr/registry/regot.asp> or <http://unstats.un.org/unsd/cr/registry/regdnld.asp>.

<sup>50</sup> 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 8 May 2009 there were 137 Contracting Parties to the Convention, and another 32 countries or territories which were not contracting parties but were using HS for customs/statistical purposes. The proper classification of goods is a legal obligation of the Contracting Parties to the HS Convention. HS, when incorporated in the country's tariff, becomes a national law. Entering wrong codes in the goods declaration may entail legal consequences.

<sup>51</sup> See Official Records of the Economic and Social Council, 1993, Supplement No. 6 (E/1993/26), para. 162 (d).

implications of any changes proposed for HS and the statistical needs and capacities of developing countries.<sup>52</sup>

3.7. 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.

3.8. Four amended editions of the HS came into force, the latest (HS07) became effective on 1 January 2007.<sup>53</sup> The amendments took account of technological progress and trade patterns, clarified the text to ensure uniform application of HS, and provided a legal basis for decisions taken by the Harmonized System Committee. HS07 has 5,052 subheadings of which 4,208 are subheadings from the original HS88. 844 non-original subheadings (17 per cent) were introduced in the subsequent HS editions (1 in 1992, 267 in 1996, 316 in 2002, and 260 in 2007).<sup>54</sup> The fifth amended edition of the HS (HS12) is currently being discussed and is expected to be effective beginning 1 January 2012.

3.9. The 5,052 subheadings of HS07 are grouped in 1,221 headings, 97 chapters and 21 sections.<sup>55</sup> 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.

3.10. 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

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<sup>52</sup> See Official Records of the Economic and Social Council, 1993, Supplement No. 6 (E/1993/26), para. 162 (e).

<sup>53</sup> 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). The amendments which became effective on 1 January 2002 (HS02) were relatively minor while the amendments of 1 January 2007 (HS07) entailed significant changes. For more information please visit [http://www.wcoomd.org/home\\_wco\\_topics\\_hsoverviewboxes\\_tools\\_and\\_instruments\\_hsnomenclature.htm](http://www.wcoomd.org/home_wco_topics_hsoverviewboxes_tools_and_instruments_hsnomenclature.htm)

<sup>54</sup> Revisions of HS entail the creation of new or deletion of existing headings (four digit codes) and subheadings (six-digit codes). In order to facilitate the maintenance and use of data in different versions of HS, codes for commodities which have been deleted are not supposed to be reused.

<sup>55</sup> HS chapter 77 is reserved for possible future use and HS chapters 98 and 99 are reserved for special use by Contracting Parties. Countries should avoid where possible the use of chapters 98 and 99. The revised IMTS Compilers Manual will contain more information on the practices of countries regarding the use of chapters 98 and 99.

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
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

3.11. **It is recommended** that countries use HS for the collection, compilation and dissemination of international merchandise trade statistics. **Countries are encouraged** to use the most current version of the HS.

## **B. Standard International Trade Classification**

3.12. Taking into account the needs of countries, intergovernmental bodies and international agencies for greater international comparability of trade data, the Statistical Commission at its third session in 1948 had recommended that a revision of the League of Nations' Minimum List of Commodities for International Trade Statistics<sup>56</sup> be prepared. In cooperation with Governments and with the assistance of expert consultants, the United Nations Secretariat drew up the 1950 edition of the United Nations Standard International Trade Classification (referred to below as the "original" SITC).<sup>57</sup> In its resolution 299 B (XI) of 12 July 1950, the Economic and Social Council, upon the recommendation of the Statistical Commission at its fifth session held in May 1950, urged all Governments to make use of the Standard Classification by adopting it. By 1960, many countries were compiling international merchandise trade data according to the original SITC or national classifications correlated to it and major international organizations had adopted SITC as a basis for the reporting of international trade statistics.

3.13. The first revision of SITC was issued in 1961, after being considered by the Statistical Commission at its eleventh session.<sup>58</sup> In 1974, the Statistical Commission adopted SITC, Revision 2 which was issued in the following year.<sup>59</sup> The Statistical Commission, at its twenty-first session in 1981, took note of the fact that a third revision of SITC would have to be made available when HS came into force in 1988.<sup>60</sup> Employing the subheadings of HS88 as building blocks, in consultation with experts from Governments and interested international organizations and with the assistance of an 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:

<sup>56</sup> League of Nations, 1938 (II.A.14; and corrigendum, 1939).

<sup>57</sup> Statistical Papers, No. 10/Rev.1, June 1951 (United Nations publication, Sales No. 51.XVII.1).

<sup>58</sup> Statistical Papers, Series M, No. 34, 1961 (United Nations publication, Sales No. 61.XVII.6).

<sup>59</sup> Statistical Papers, No. 34/Rev.2 (United Nations publication, Sales No. E 75.XVII.6).

<sup>60</sup> See Official Records of the Economic and Social Council, 1981, Supplement No. 2 (E/1981/12), para. 41 (a).

- (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.

3.14. The final draft of SITC, Revision 3, was approved by the Statistical Commission at its twenty-third session, in February 1985.<sup>61</sup> The Economic and Social Council, in its resolution 1985/7 of 28 May 1985, recommended that Member States should report internationally data on external trade statistics according to SITC, Revision 3.<sup>62</sup>

3.15. In 1993, the Statistical Commission endorsed the use of HS at the national level in compilation and dissemination of international merchandise trade statistics<sup>63</sup>; and in 1999, the Commission confirmed the recognition of SITC as an analytical tool.<sup>64</sup>

3.16. In the past the United Nations Statistics Division had issued appropriate correspondence tables between SITC, Revision 3, and each new edition of HS. However, a strict period-to-period comparability was being lost for a growing number of series owing to significant changes in the HS classification scheme. At the same time, the majority of countries and international organizations continued to use SITC for various purposes, such as the study of long-term trends in international merchandise trade and aggregation of traded commodities into classes more suitable for economic analysis. The Statistical Commission, at its thirty-fifth session (2-5 March 2004), agreed with the conclusion of the inter-agency Task Force on International Merchandise Trade Statistics that the fourth revision of SITC was needed in view of accumulated changes in HS.<sup>65</sup> SITC, Revision 4, was issued by the United Nations in 2006.<sup>66</sup>

3.17. The scope of SITC, Revision 4, remains the same as that of SITC, Revision 3, that is to say SITC, Revision 4, covers all goods classifiable in HS except for monetary gold, gold coin and current coin. All SITC, Revision 4 basic headings (except for 911.0 and 931.0) are defined in terms of HS07 subheadings. Since SITC is now recommended only for analytical purposes, there was no need –except in several special cases- to create new basic headings in SITC, Revision 4, that would be in one-to-one correspondence with the new HS07 subheadings.

3.18. SITC, Revision 4, retains the overall structure of SITC, Revision 3, and consists of the same number of sections, divisions and groups. The changes made were at the level of basic headings and some subgroups. It contains 3,993 basic headings and subheadings, which are assembled in 262 groups, 67 divisions and 10 sections. The sections are listed as follows:

- 0 Food and live animals
- 1 Beverages and tobacco

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<sup>61</sup> See Official Records of the Economic and Social Council, 1985, Supplement No. 6 (E/1985/26), Chapter IV, para. 57 (d).

<sup>62</sup> Statistical Papers, No. 34/Rev.3 (United Nations publication Sales No. E.86.XVII.12 and corrigenda).

<sup>63</sup> See Official Records of the Economic and Social Council, 1993 Supplement No. 6 (E/1993/26), Chapter XI, para. 158.

<sup>64</sup> *Ibid.*, 1999, Supplement No. 4 (E/1999/24), Chapter II, para. 24 (c).

<sup>65</sup> See Official Records of the Economic and Social Council, 2004, Supplement No. 4 (E/2004/24), chapter V, para. 4 (i).

<sup>66</sup> United Nations publication, Sales No. E.06.XVII.10.

- 2 Crude materials, inedible, except fuels
- 3 Mineral fuels, lubricants and related materials
- 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.

3.19. **It is recommended** that, in addition to HS, countries can use SITC for the dissemination and the analysis of trade statistics according to user requirements.

### C. Classification by Broad Economic Categories

3.20. The original version of the Classification by Broad Economic Categories (BEC)<sup>67</sup> 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 and as a means for converting trade data compiled in terms of SITC into end-use categories that were meaningful within the framework of System of National Accounts (SNA),<sup>68</sup> namely, categories approximating the three basic classes of goods in SNA: capital goods, intermediate goods and consumption goods.<sup>69</sup> BEC has 19 basic categories that can be aggregated to approximate these 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.

3.21. The Statistical Commission expected the BEC to serve as a guideline for the development of national classifications of imports according to broad economic categories.<sup>70</sup> 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.<sup>71</sup>

3.22. The original BEC was defined in terms of the divisions, groups, subgroups and basic headings of the Standard International Trade Classification, Revised<sup>72</sup> and was issued in 1971.<sup>73</sup> It

<sup>67</sup> United Nations publication, Sales No. E.71.XVII.12.

<sup>68</sup> See Official Records of the Economic and Social Council, Forty-fourth Session, Supplement No. 10 (E/4471), paras. 116 and 118.

<sup>69</sup> See United Nations, A System of National Accounts (United Nations publication, Sales No. E.69.XVII.3), para. 1.50.

<sup>70</sup> Official Records of the Economic and Social Council, Forty-fourth Session, Supplement No. 10 (E/4471), para. 123.

<sup>71</sup> Ibid, Fiftieth Session, Supplement No. 2 (E/4938), para. 95.

<sup>72</sup> Statistical Papers, Series M, No. 34, 1961 (United Nations publication, Sales No. 61.XVII.6).



has since been revised four times. The first revision defined BEC in terms of the Standard International Trade Classification, Revision 2<sup>74</sup> and was issued in 1976.<sup>75</sup> The second revision defined BEC in terms of the Standard International Trade Classification, Revision 3 (SITC, Rev.3)<sup>76</sup> and was issued in 1986.<sup>77</sup> A third revision was issued in 1985 to provide full details of the SITC, Rev. 3 headings corresponding to BEC categories 41\* and 62\*, which were incomplete in the second revision due to the omission of one page; it also incorporated a corrigendum and a revised introduction.

3.23. In 2003, the fourth BEC revision was issued to take into account the more detailed description of commodities provided by the 2002 edition of the Harmonized Commodity Description and Coding System (HS02).<sup>78</sup>

#### **D. Central Product Classification**

3.24. The Central Product Classification (CPC) originated from initiatives in the early 1970s to harmonize international classifications. The new classification was intended to cover both goods and services (products) and would use the detailed subheadings of the Harmonized System as building blocks for the part dealing with transportable goods.

3.25. The first release of CPC, called The Provisional Central Product Classification, was approved by the Statistical Commission at its twenty-fifth session in 1989<sup>79</sup> and published by the United Nations in 1991.<sup>80</sup> CPC, Version 1.0 was adopted by the Statistical Commission at its twenty-ninth session in 1997<sup>81</sup> and published in 1998.<sup>82</sup> In 2003, CPC, Version 1.1 was released<sup>83</sup> taking into account the update to its goods sections according to the 2002 edition of the Harmonized Commodity Description and Coding System (HS02).

3.26. In 2008, the work on the next update of CPC, Version 2.0 was completed. It is divided into 10 sections, 71 divisions, 324 groups, 1,267 classes and 2,738 subclasses. Sections 0 to 4 are based on HS07,<sup>84</sup> and aggregate the HS codes into product categories suitable for various types of

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<sup>73</sup> Classification by Broad Economic Categories (United Nations publication, Sales No. E.71.XVII.12).

<sup>74</sup> United Nations publication, Sales No. E.75.XVII.6.

<sup>75</sup> Classification by Broad Economic Categories Defined in Terms of SITC, Revision 2 (United Nations publication, Sales No. E.76.XVII.7).

<sup>76</sup> United Nations publication, Sales No. E.86.XVII.12.

<sup>77</sup> Classification by Broad Economic Categories Defined in Terms of SITC, Revision 3 (United Nations publication, Sales No. E.86.XVII.24).

<sup>78</sup> United Nations publication, Sales No. E.03.XVII.8.

<sup>79</sup> Official Records of the Economic and Social Council, 1989, Supplement No. 3 (E/1989/21), paras. 95(b) and (f).

<sup>80</sup> Provisional Central Product Classification, Statistical Papers Series M, No. 77 (United Nations publication, Sales No. E.91.XVII.7).

<sup>81</sup> See Official Records of the Economic and Social Council, 1997, Supplement No. 4 (E/1997/24), para. 19 (d).

<sup>82</sup> Central Product Classification (CPC) Version 1.0, Statistical Papers Series M, No. 77, Ver.1.0 (United Nations publication, Sales No. E.98.XVII.5)

<sup>83</sup> United Nations publication, Sales No. E.03.XVII.3

<sup>84</sup> The correspondences between HS07 and CPC, Version 2.0 can be accessed at the United Nations Statistics Division website

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 2.0 go beyond HS categories to provide a classification of service products<sup>85</sup>.

## **E. International Standard Industrial Classification of All Economic Activities**

3.27. Unlike HS, SITC, BEC and CPC that are considered product classifications, the International Standard Industrial Classification of All Economic Activities (ISIC) is the international reference classification of productive activities. Its main purpose is to provide a set of activity categories that can be utilized for the collection and reporting of statistics according to such activities. Since the adoption of the original version of ISIC in 1948,<sup>86</sup> ISIC has provided guidance to countries in developing national activity classifications and has become an important tool for comparing statistical data on economic activities at the international level. Wide use has been made of ISIC, both nationally and internationally, in classifying data according to kind of economic activity in the fields of economic and social statistics, such as for statistics on national accounts, demography of enterprises, employment and others.

3.28. The original ISIC was revised four times. The structure of the current fourth revision of ISIC was considered and approved by the Statistical Commission at its thirty-seventh session, in March 2006,<sup>87</sup> as the internationally accepted standard. It contains 21 sections, 88 divisions, 238 groups and 419 classes.

3.29. Since ISIC has been used for the collection and presentation of statistics in many areas, there has been a strong need for correspondence tables between ISIC and other classifications. When drafting ISIC, Rev.4, and simultaneously CPC, Ver.2, a strong link was established between the two classifications. By rearranging the CPC categories according to their industrial origin and using the link between CPC, SITC and HS, a detailed correspondence table between HS, SITC, CPC and ISIC was established.<sup>88</sup> Countries may find this correspondence useful when analyzing trade flows by activity categories. However, the alternative approach to obtain such information by identifying the activity of the trader, whenever possible, should be given preference.

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at <http://unstats.un.org/unsd/class>.

<sup>85</sup> The CPC is used by many countries as the basis for development of their national product classifications. For example, the Statistical classification of products by activity (CPA) was created at the level of the European Union (EU) by assigning CPC products to one single activity category.

<sup>86</sup> *Statistical Papers*, No. 4, Lake Success, New York, 31 October 1949.

<sup>87</sup> Official Records of the Economic and Social Council, 2006, Supplement No.4 (E/2006/24), chap. I, para. 3, item 37/105 (a).

<sup>88</sup> These and other correspondence tables are available in electronic format only and can be accessed at the United Nations Statistics Division website at <http://unstats.un.org/unsd/class>.

## Chapter IV Valuation

### A. Statistical value of imports and exports

4.1. *Statistical value.* **It is recommended** that for all goods covered in international merchandise trade statistics, whether sold, exchanged or provided without payment, a statistical value is recorded following the specific rules as defined below.

4.2. *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. 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.<sup>89</sup>

4.3. *Transaction value.* Since the adoption of Article VII (Valuation for Customs Purposes) of the GATT 1947, a series of agreements have led to a standardization of the customs approach to valuation, culminating in the Agreement on Implementation of Article VII of the GATT 1994 (WTO Agreement on Customs Valuation).<sup>90</sup> This Agreement adopts the transaction value (the price actually paid or payable for goods including some adjustments) as the customs value of imported goods, provided that certain conditions for a fair, uniform and neutral valuation are met. Annex D contains the text of the rules as set out in the WTO Agreement on Customs Valuation.

4.4. **It is recommended** that countries adopt the WTO Agreement on Customs Valuation as the basis for valuation of their international merchandise trade for statistical purposes (whether a country is a WTO member or not). This recommendation for determining the statistical value applies to both imports and exports.

4.5. The WTO Agreement on Customs 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."

4.6. *FOB-type and CIF-type values.* In principle, under the Agreement, countries can choose

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<sup>89</sup> 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.

<sup>90</sup> 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.

two different approaches to the valuation of goods, namely 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 (see paras 4.10 and 4.12 for further details).

4.7. *Country practices.* Countries almost universally apply FOB-type values for the valuation of exports. In the case of imports most countries use the CIF-type values as customs administrations usually determine the customs value of the goods on this basis. The CIF-type value of imported goods is important for various analytical purposes such as price comparison with other goods available on the domestic market etc. The FOB-type values of imports are more difficult to compile and are systematically applied by a rather limited number of countries. However, FOB-type values provide a uniform basis for goods valuation (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.<sup>91</sup> The FOB-type values of imported goods at the detailed level are very important for reconciliation studies, the examination of bilateral trade balances and trade negotiations as only they provide a comparable valuation of the exports and imports of trading partners.

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

(a) *The statistical value of exported goods* be an FOB-type value;

(b) *The statistical value of imported goods* be a CIF-type value; however, **countries are encouraged** to compile FOB-type value of imported goods as supplementary information;

4.9. Countries which compile only CIF-type values of imports **are encouraged** to compile separately data for freight and insurance, at the most detailed commodity and partner level possible.<sup>92</sup> It is recognized that the compilation of imports on the FOB-type basis and the separate compilation of data for freight and insurance might entail a significant additional burden for respondents and merchandise trade compilers and should be undertaken based on the national situation and needs. However, **countries are encouraged** to explore additional methods which can facilitate the compilation of FOB-type values of imports (examples will be provided in the updated IMTS Compilers Manual).

#### COMPILATION OF FOB-TYPE AND CIF-TYPE VALUES

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<sup>91</sup> See 2008 SNA, para. 26.19, and BPM6, para. 10.30-10.36 on valuation. The balance of payments and national accounts require the valuation of imports on a FOB-type basis but many more adjustments are needed to derive imports required for balance of payments and national accounts purposes (see Annex F for details).

<sup>92</sup> The separate collection of data on freight and insurance can improve the data quality.

4.10. Customs administrations generally require the FOB- or CIF-type value to be placed on the customs declarations by traders or, if needed, calculate those values themselves based on the various documents submitted by traders. Such supporting documents may include the contract of sale, which would normally contain the terms of delivery of goods and the price of the goods, and the invoice issued by the seller of the goods to the buyer. The price of the goods negotiated between traders and reflected in the invoice (also referred to as invoice price) depends on the terms of delivery. The terms of delivery is an agreement between the seller and the buyer as to who is responsible for the cost and risk of delivering the goods to the agreed place. Types of terms of delivery used in international commerce, including FOB and CIF, are defined by the International Chamber of Commerce and are described in Annex E. Compilers have to make appropriate adjustments to the invoice price to obtain CIF- or FOB-type values of goods.

4.11. The delivery term FOB (Free on board) applies only when goods are dispatched from the exporting country by sea or inland waterway and the term CIF (Cost, Insurance and Freight) applies only when goods are delivered by sea or inland waterway to the port of importation. When other means of transport are used for exports and 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 the exporting country may be used. Since the invoice prices of the goods delivered under the FOB, FCA and DAF terms reflect the costs of delivery of goods to the border of the exporting country they are similar and are referred to as FOB-type values. If, in the case of imports, CIF is not applicable, the goods can be delivered on the basis of "Carriage and insurance paid to" (CIP) at port of importation. Since the invoice prices of the goods delivered under the CIF and CIP terms reflect costs, including freight and insurance, of goods delivery to the border of the importing country, they are similar and are referred to as CIF-type values. If other kinds of terms of delivery are used (such as Ex works, Free Alongside Ship etc.), other sources of data need to be used to establish the FOB-type or CIF-type value by adding to or subtracting from the invoice price certain cost items.<sup>93</sup> Additional guidance on the compilation of the FOB- or CIF-type values is provided in the IMTS Compilers Manual.

4.12. Commercial practices in international merchandise trade display a variety of detail in the terms of delivery of goods. Statisticians should carefully examine the available data sources and information, including the terms of goods delivery, in order to derive the recommended FOB/CIF values. In addition, they should establish a close cooperation with the customs and other primary data collectors in order to provide guidance on the methodology regarding the statistical value and to ensure the availability of adequate data. **It is recommended** that the customs value, when established in compliance with the WTO Agreement on Customs Valuation, should form the basis for the statistical value.

4.13. Compilers should be aware that values placed on goods by customs authorities may not necessarily comply with statistical requirements. If customs values of economically significant shipments of goods are established with a clear deviation from those requirements, trade statistics

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<sup>93</sup> For ease of reference, the word "type" may be omitted and the terms "CIF value" and "FOB value" may be used as generic names instead.

compilers should use values derived from non-customs sources or estimated values, if deemed more accurate. In the case of exports, **compilers are encouraged** to contact exporters of major commodities and, if necessary, to conduct special studies to determine the statistical value on the basis of cost of production, including cost of materials and compensation of employees and other relevant information.

#### SELECTED ISSUES OF VALUATION

4.14. Most of the goods covered by 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, 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. The prices indicated in the contracts of sale or the invoices, however, do not necessarily reflect all the costs associated with goods importation and exportation. The identification of the total costs depends, as indicated above, on the analysis of the terms of delivery embodied in the particular contracts.<sup>94</sup> 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.

4.15. There are international transactions which present special difficulties regarding the valuation of the categories of 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 parties involved and are not accompanied by the movement of currency or credit. All categories of goods should be valued based on the WTO Agreement on Customs Valuation and the recommendations contained in the present publication (see paras. 4.8 and 4.9 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. 1.11 above);

(b) *Media, whether or not recorded* be valued at their full transaction value (not at the value of the empty diskettes or CD-ROMs, paper or other materials). The transaction value might fully or partially include the value of certain services and countries should provide details on how the transaction value is established in specific cases. Certain types of media, if identified i.e. via its transaction value are to be excluded (see para.1.18 above);

(c) *Electricity, gas, oil and water* (para 1.24) be valued net of any delivery charges (besides the charges included according to FOB- or CIP type valuation) which might or might not appear separately on the invoice. **It is recommended** that countries obtain the transaction value (the value of the goods exclusive any delivery charges) of these goods directly from the buyer and seller. However if only the overall value, including the delivery charges is available, the delivery charges

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<sup>94</sup> 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.

should be subtracted in order to arrive at the transaction value for these goods. Delivery charges should be valued at market prices but it is acknowledged that often no markets for such services exist and that prices for such services are either set administratively or based on some cost calculation. **It is recommended** that trading partners in such transactions value and record these flows in a uniform way to improve international comparability.

(d) *Goods under financial lease* (para 1.28). Goods which are part of a financial lease should be recorded using a value equivalent to the price of the goods if offered for sale. The value of any services supplied under the lease (e.g. training, maintenance, finance charges etc.) should be excluded. If the goods are not normally offered for sale, the shipment should be valued following the general WTO guidelines on valuation.

(e) *Goods for processing with or without change of ownership* (para 1.19-1.21). The statistical value of goods in trade statistics does not depend on the change of ownership. In the case where the transaction value of goods for processing entering/ or leaving the compiling country without change of ownership is not available the WTO agreement on valuation (see Annex D) provides additional methods to arrive at the appropriate valuation. Goods for processing should always be valued at their full (gross) value (see also Annex A, para. A.10).

(f) *Returned goods* (para 1.23), if identifiable, are to be valued as at the initial transaction. Returned goods are a special case of re-imports and re-exports and only in this special case the valuation at the initial transaction value applies. In all other cases re-imports and re-exports should be valued as any other good based on their transaction value.

(g) *Goods bundled with services*. The customs/ statistical value applies to goods and the value of any services associated with them should be excluded, except for the delivery services which are included according to the FOB- and CIF-type valuation of goods. The only category of good where additional (but unidentified) services may be included in the value is in the case of media (whether or not recorded) (see para. 1.18).

4.16. There are cases in which an international transaction in goods may not require goods valuation by the parties involved 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. 1.12 above), food and other humanitarian aid (para. 1.14 above), goods on consignment (para. 1.17 above), goods for processing (para. 1.19-1.21 above), migrants' effects (para. 1.26 above), cross-border movements of unsold articles and gifts and donations made by private agencies or persons. In these cases, following the general recommendation, the value of the goods should be established in accordance with the WTO Agreement on Customs 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. 4.8 and 4.9 above).

4.17. The appropriate valuation of goods is very important for the accuracy of international merchandise trade statistics. Consequently, the agency responsible for the overall compilation of trade statistics and the agencies that collect data should cooperate to provide reliable valuation in all cases, especially for problem categories of goods and irrespective of whether their prices are available.

## **B. Currency conversion**

4.18. *The unit of account.* The value of trade transactions may be expressed initially in a variety of currencies or other standards of value. 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 significantly larger fluctuations than 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 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.

4.19. *Exchange rate for conversion.* In accordance with the WTO Agreement on Customs 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;<sup>95</sup>

(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."<sup>96</sup>

4.20. 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.

4.21. *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

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<sup>95</sup> The term "document of publication" is to be understood to refer to any form of official publication.

<sup>96</sup> See World Trade Organization, *op.cit.*, pp. 204 and 205.



recorded using the actual rate applicable to specific transactions, noting which official rate was used for each currency.

4.22. *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.

## Chapter V Quantity measurement

5.1. Quantity information is an important part of the dataset on international merchandise trade statistics which provides an additional dimension for the measurement of international movement of goods and which allows the verification of trade values and the construction of trade index numbers. However, the quantity information available from trade statistics is used for many other additional and equally very important statistical purposes, such as the compilation of transportation statistics, the calculation of food balances as well as for environmental and energy statistics.

5.2. *Quantity units* refer to physical characteristics of goods, and since they are free of the valuation problems discussed in chapter IV above, in some cases they provide a more reliable indicator of international movements of goods. The use of appropriate quantity units may also result in more internationally comparable data on these movements, because differences in quantity measurements between the importing country and the exporting country can be less significant than in value measurements. Quantities are often used in checking the reliability of the value data via the calculation of so called unit values (value divided by quantity).

5.3. *The standard units of quantity recommended by the World Customs Organization (WCO).* 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.<sup>97</sup> The WCO standard units of quantity are:<sup>98</sup>

Weight <sup>99</sup>	kilograms (kg) carat (carat)
Length	metres (m)
Area	square metres (m <sup>2</sup> )
Volume	cubic metres (m <sup>3</sup> ) 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))

5.4. In the WCO recommendation, one of the above standard units of quantity is specified for each HS six-digit subheading.<sup>100</sup>

<sup>97</sup> See HS, annex II (for HS citation, see para. 6, footnote b above).

<sup>98</sup> Ibid., introduction.

<sup>99</sup> 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.

<sup>100</sup> The WCO considers a country as complying with its recommendations on quantity unit when the recommended quantity units are applied to 80 percent of commodities.

5.5. **It is recommended** that countries collect or estimate, validate and report quantity information in WCO standard units of quantity and in net weight on all trade transactions.<sup>101</sup> Specifically, **it is recommended** that:

- (a) Countries use the applicable WCO standard units of quantity when collecting and reporting international merchandise trade on the basis of the Harmonized System;<sup>102</sup>
- (b) In the case of the HS headings (subheadings) where the standard unit is other than weight, a weight also be compiled and reported;
- (c) Weight figures be reported on a net weight basis;<sup>103</sup>
- (d) Countries that use units of quantity other than the WCO standard units or use units of quantity different from the one recommended for the specific commodity (HS 6-digit subheading), provide the conversion factors to the recommended standard units in their metadata.

5.6. In order to establish a greater uniformity in the application of quantity units and the availability of quantity information **it is recommended** that

- (a) the same quantity units are applied for all transactions within one sub-heading, unless there is good reason for applying different units of quantity measurement;
- (b) a clear description of the used quantity units and the applicable conversion factors is provided in the metadata.

5.7. **It is further recommended** that countries identify estimated (or ‘imputed’) quantities as deemed necessary and appropriate, taking into account the needs of users and provide information about the methodology used for estimation in their metadata. Also information about the use of quantity units and the methodology for the calculation of quantity conversion factors should be provided in the metadata.

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<sup>101</sup> A few exceptions may apply, i.e. net weight does not apply to HS sub-heading 271600 ‘Electrical energy’.

<sup>102</sup> It is acknowledged that WCO standard units of quantity do not necessarily reflect industry norms in all countries.

<sup>103</sup> Net weight is useful for economic analysis such as the calculation of unit values. To the extent that gross weights (which includes packaging) are also desired by a country, they should be collected directly. However, given that collection of gross weight data presents difficulties in many countries, countries may wish to obtain gross weights from net weights through sampling and estimation.

## Chapter VI Partner country

### A. General

6.1. Trade statistics by partner country, both for the total value of trade in goods and for the value and quantity 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 over-reporting 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. In this context further harmonization of the partner attribution applied by countries will contribute to better international comparability of trade data (for further discussion of the issue of data comparability, see para. 9.18 below).

6.2. Section B describes different types of partner country attribution used in international merchandise trade statistics by various countries, section C provides a brief comparison of their advantages and disadvantages and section D contains the recommendations.

### B. Types of partner country attribution<sup>104</sup>

#### IMPORTS

6.3. *COUNTRY OF PURCHASE.* The country of purchase is the country where the seller of the goods (the purchaser's co-contractor) resides. The term "resides" should be interpreted in accordance with the 2008 SNA and BPM6 (see annex A, para. A6 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.

6.4. *COUNTRY OF CONSIGNMENT.* 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 one or more further countries and are subject to such transactions or operations, that last intermediate country should be taken as the country of consignment.

6.5. *COUNTRY OF SHIPMENT.* The country of shipment (in the case of imports), is the country from which goods are shipped, whether or not commercial transactions or any other operations which

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<sup>104</sup> Definitions presented in paragraphs below are derived from definitions used by countries and from the text of the 1982 revision of *International Trade Statistics: Concepts and Definitions*.

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.

6.6. *COUNTRY OF ORIGIN*. The country of origin of a good is determined by rules of origin established by each country.<sup>105</sup> 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;

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

6.7. The international guidance on these criteria is currently provided by the Revised Kyoto Convention.<sup>106</sup> **It is recommended** that countries follow the relevant provisions of the Revised Kyoto Convention in international merchandise trade statistics for determining country of origin.

6.8. Since the WTO Agreement on Rules of Origin came into force,<sup>107</sup> 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.

6.9. 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 involved 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. A recent significant development has been the completion of a draft document on the non-preferential rules of origin.<sup>108,109</sup>

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<sup>105</sup> There are also a number of countries which do not have rules of origin at all.

<sup>106</sup> See Revised Kyoto Convention, Specific Annex K/ Chapter 1. .

<sup>107</sup> See World Trade Organization, op.cit., pp. 241 - 254.

<sup>108</sup> World Trade Organization, Committee on Rules of Origin, G/RO/W/111/Rev.3 as of 2 December 2008, DRAFT Consolidated Text of Non-Preferential Rules of Origin.

<sup>109</sup> See Annex C for further information on rules of origin.

## EXPORTS

6.10. *COUNTRY OF SALE.* The country of sale is the country where the purchaser of the goods (the seller's co-contractor) resides. As mentioned above, the term "resides" should be interpreted in accordance with the 2008 SNA and BPM6 (see annex A, para. A.6 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.

6.11. *COUNTRY OF CONSIGNMENT OR DESTINATION.* The country of consignment<sup>110</sup> 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 taking place in any intermediate country. If there are several intermediate countries, then the first intermediate country after leaving the exporting country should be recorded as country of consignment or destination.

6.12. *COUNTRY OF SHIPMENT.* The country of shipment (in the case of exports), is the country to which goods are shipped, whether or not commercial transactions or any other operations which change the legal status of the goods are expected to take place before arrival of the goods in that country.

6.13. *COUNTRY OF LAST KNOWN DESTINATION.* 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 (consignment) 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.

6.14. *COUNTRY OF CONSUMPTION.* The *country of consumption* of goods (for exports) is the economic complement 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.

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<sup>110</sup> It is also referred to as country of destination.

## C. Comparison of several alternative methods

### *COUNTRY OF PURCHASE OR OF SALE*

6.15. This method 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 assume that:

(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.

6.16. 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.

6.17. 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. 6.16 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*

6.18. In general, the method of compiling data by the country of consignment (or 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. This approach should result in symmetrical data sets since goods recorded as imports by one country are to be recorded as exports by another.

6.19. However, there can be a lack of knowledge about the destination of goods at the time of export as goods can be redirected while at sea or goods can be trans-shipped from the original country of consignment and, therefore, not included in that country's imports thus creating the incomparability in partner statistics. In practice, export statistics are rarely revised to reflect the change in country of consignment. Also, data on a consignment basis do not provide the information

required for quota and tariff purposes.

#### *COUNTRY OF SHIPMENT*

6.20. The use of country of shipment has the advantage that for the majority of transactions 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 last 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 dispatched. 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 OR CONSUMPTION*

6.21. 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".<sup>111</sup>

6.22. 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.

6.23. 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.<sup>112</sup> In the case of customs union countries, the union's external trade statistics

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<sup>111</sup> See World Trade Organization, *op.cit.*, p. 242.

<sup>112</sup> According to the Revised Kyoto Convention, "documentary evidence of origin may be required only when it is necessary for the



(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).<sup>113</sup>

6.24. The country of consumption for exports is the economic equivalent to the country of origin for imports and would be analytically useful, but the country of consumption is rarely known with certainty at the time of exportation.

#### **D. Recommendations**

6.25. 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**

- a. that in the case of imports, the country of origin be recorded;
- b. that in the case of exports, the country of last known destination be recorded.

6.26. The partner data compiled on the country of origin (for imports) and the country of last known destination (for exports) are very often not comparable. For example, if goods were produced in country A but exported from country B to country C, country C will record imports from country A not B, while country B will identify country C as its partner, so export and import statistics maintained by these trading countries will not be symmetrical in such a case. Therefore, in view of the analytical needs for the internationally comparable partner data including for the purposes of trade data reconciliation, **it is recommended** that country of consignment is recorded for imports as the second partner country attribution alongside with country of origin. Considering, in the case of exports, that countries often do not differentiate the country of last known destination and the country of consignment and that their separate recording might create a significant additional data reporting and data processing burden, the compilation of export statistics on the country of consignment basis is only **encouraged** depending on a country's needs and circumstances. It is recognized, that that the compilation of country of consignment for exports may be considered by some countries as a rather longer term objective.

6.27. For the calculation of trade balances of in the context of the analysis of international merchandise trade statistics **it is recommended** to use imports by country of origin and exports by country of last known destination. For specific purposes such as the balance of payments, reconciliation studies etc. trade balances using a different partner attribution might be used.

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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" (see Revised Kyoto Convention, Specific Annex K, Chapter 2, para. 2).

<sup>113</sup> See Official Journal of the European Communities, No. 102/7 (2004), European Parliament and Council Regulation (EC) 638/2004, Annex.

6.28. **It is recommended** that the economic territory of the trading partners constitute the basis upon which the statistics on trade by partner are compiled.<sup>114</sup> **Countries are encouraged** to use the UN Standard country or area codes for statistical use as guidance for the identification of trading partners.<sup>115</sup>

6.29. *Trade with itself and trade with Free Zones.* It is possible that in the case of re-imports (imports of domestic goods which were previously recorded as exports) and the use of country of origin a country registers trade (imports) with itself. Yet, it is neither recommended nor common practice to record exports to itself as the country of last known destination, even if the return of the goods might be almost certain (i.e. after minor processing which does not change the country of origin). Countries applying the strict or relaxed definition of the special trade system may register trade (imports or exports) from and to their free zones (or premises for inward processing or customs warehouses). The recording of trade with its free zones (or premises for inward processing or customs warehouses) clearly indicates that the country does not use the general trade system.

6.30. Countries may wish, in national publications, to group together countries for analytical purposes. However, in reporting to regional and international organizations, **it is recommended** that countries report their data with complete and most detailed partner breakdown. This will allow both national and international users to aggregate countries into economic and geographical groupings according to their own analytical requirements, and will facilitate the estimation of trade for late reporting or non-reporting countries.

6.31. *Country of origin for certain types of goods.* The recommendation for the recording of the country of origin in the case of imports applies to all goods. **It is recommended** that countries provide in their metadata information on how the partner country is determined for the purpose of their trade statistics in the case a different partner attribution is used for certain types of imports such as used goods (used cars, used ships, used aircraft, etc.) which often have a high transactions value.

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<sup>114</sup> Some countries might find it useful for the analysis of trade flows to identify trade with the special territories, such as free zones, of their trading partners, in particular when those follow the special trade system. To assist compilers in other countries and users in knowing how countries define their statistical territory and how the statistical territory relates to the 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). The results of a new survey on the statistical territories of countries (or areas) in 1999 have been made available in the publication *Statistical Territories of the World for Use in International Merchandise Trade Statistics* (United Nations publications, Sales No. 01.XVII.8) which is available on the UNSD website at [http://unstats.un.org/unsd/trade/stat\\_terr\\_e.pdf](http://unstats.un.org/unsd/trade/stat_terr_e.pdf).

<sup>115</sup> *Standard Country or Area Codes for Statistical Use, Revision 4* (United Nations publication, Sales No. 98.XVII.9) – see also the continuously updated online version of this publication at <http://unstats.un.org/unsd/methods/m49/m49.htm>.

## Chapter VII Mode of transport

7.1. **It is recommended** that countries compile and disseminate international merchandise trade statistics by mode of transport at the most detailed commodity level (as a new data dimension) in order to provide information on transportation arrangements and for other analytical purposes<sup>116</sup>. **It is further recommended** that the mode of transport which should be recorded is the means of transport used when goods enter or leave the economic territory of a country. Diversions from this recommendation, which can, for example, be related to the application of the special trade system should be indicated in the country's metadata.

7.2. To allow international comparability to the best possible extent **countries are encouraged** to use the main categories (1-digit) and, if countries wish to do so, the detailed (2- or 3-digit) categories of the following classification for the compilation and reporting of the trade statistics by the mode of transport.

1. Air
2. Water
  - 2.1 Sea
  - 2.2 Inland waterway
3. Land
  - 3.1 Railway
  - 3.2 Road
4. Not elsewhere classified
  - 4.1 Pipelines and cables<sup>117</sup>
    - 4.1.1 Pipelines
    - 4.1.2 Cables
  - 4.2 Postal consignments, mail or courier shipments
  - 4.3 Self-propelled goods
  - 4.4 Other

7.3. Depending on their national requirements countries may wish to compile mode of transport at the one, two or three digit level or create even more detailed breakdowns. The above classification is not intended to limit the flexibility of countries to implement a detailed classification according to their own requirements but **it is recommended** that countries clearly indicate the contents of the categories used and in particular whether postal consignments, mail or courier shipments and self-propelled goods are separately classified or included in the main categories air, water and land. The category 4.4 "Other" is to be used when the available information does not allow to attribute a transaction to any of the specific mode of transport categories.

7.4. Taking into account their national requirements and circumstances countries might want to

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<sup>116</sup> This recommendation was introduced for the first time in IMTS, Rev.1, para. 148.

<sup>117</sup> Breakdown of the category 4.1 into 4.1.1 Pipelines and 4.1.2 Cables can be applied if countries find it desirable and feasible.

compile mode of transport not only according to the means of transport when crossing the border, but, in addition, according to other criteria such as the predominant mode of transport. Predominant mode of transport can, for example, be defined as the mode of transport which accounts for the majority of the transportation costs or the longest part of the route by distance. Countries are free to define such different criteria and to record multiple modes of transport as necessary (i.e. in the case of landlocked countries), but **it is recommended** that they provide detailed information about this additional recording of mode of transport in their metadata.

## Chapter VIII Data compilation strategies

### A. Data sources

8.1. 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 the collection of statistical data. In a growing number of cases, full coverage of international merchandise trade statistics cannot be achieved by use of customs records only and **countries are encouraged** to review their current data compilation practices and to develop a long term strategy to deal with the emerging issues to ensure uninterrupted availability of high quality and timely trade statistics.

#### USE OF CUSTOMS RECORDS

8.2. **It is recommended** that statisticians use the customs records as the main and normally preferred data source since those records reflect the physical movement of goods across borders, which international merchandise trade statistics aims to record, and, in general, are reliable, detailed and readily available in most countries.

8.3. *Customs declarations:* Statistical information are mostly derived directly from customs declarations. A customs declaration is “any statement or action, in any form prescribed or accepted by the customs, giving information or particulars required by the customs”.<sup>118</sup> The customs declaration indicates the customs procedures under which goods enter, move within or leave the country.

8.4. *Customs procedures:* A customs procedure is a “treatment applied by the customs to goods which are subject to customs control”.<sup>119</sup> The customs procedure is the basis for the correct identification of the flows of goods for the inclusion or exclusion under the general or special trade. Customs usually apply a system of codes which allows to identify flows of goods and prevents double recording of the goods which have undergone several customs procedures. It is **recommended** that statisticians closely cooperate with customs experts in order to correctly allocate customs procedure codes and associated trade transactions according to the general or the special trade system. The annexes to the Revised Kyoto Convention identify a set of customs procedures, and provide standards and recommended practices regarding those activities.

8.5. *Customs procedures under the Revised Kyoto Convention covering goods to be included in trade statistics by countries applying the general trade system:* Countries may have other procedures in addition to those identified in the Revised Kyoto Convention and compilers should decide on the inclusion/exclusion of customs procedures following the recommendations on the scope contained in chapter 1. As a general guideline goods crossing borders under the following procedures should be included in accordance with the general and special guidelines of chapter 1.

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<sup>118</sup> WCO Glossary, p. 17. See also the Revised Kyoto Convention, General annex, Chapter 2, E19 (Goods declaration).

<sup>119</sup> See WCO Glossary (see footnote 22), and revised Kyoto Convention, general annex, chap. 2, E7/F3.

- (a) Clearance for home use (Revised Kyoto Convention, Specific Annex B/ Chapter 1);
- (b) Outright exportation (Revised Kyoto Convention, Specific Annex C, Chapter 1);
- (c) Reimportation in the same state (Revised Kyoto Convention, Specific Annex B/ Chapter 2);
- (d) Customs warehousing procedure (Revised Kyoto Convention, Specific Annex D/ Chapter 1);
- (e) Inward processing (Revised Kyoto Convention, Specific Annex F/ Chapter 1);
- (f) Outward processing (Revised Kyoto Convention, Specific Annex F/ Chapter 2);
- (g) Free zone (Revised Kyoto Convention, Specific Annex D/ Chapter 2);
- (h) Drawback (Revised Kyoto Convention, Specific Annex F/ Chapter 3);
- (i) Processing of goods for home use (Revised Kyoto Convention, Specific Annex F/ Chapter 4);
- (j) Temporary admission (Revised Kyoto Convention, Specific Annex G/ Chapter 1)
- (k) Customs formalities in respect of postal traffic (Revised Kyoto Convention, Specific Annex J/ Chapter 2);

8.6. **It is recommended** that information about the customs procedures applied to individual transactions is part of the dataset provided by customs to the agency responsible for the compilation of international merchandise trade statistics.

8.7. Information available at customs is not limited to the customs declaration as supportive documentation such as the commercial invoice, transport documents, import licenses and certificate of origin is usually accompanying the customs declaration. Compilers should make arrangements with the customs authorities to have access, as required (i.e. to solve gaps and quality concerns) and as permitted by law, to whichever of those documents that are collected, and use them as additional sources of information.

8.8. Depending on the national legislation and practices customs records can include or exclude transactions of certain goods such as electricity, gas, oil, ships and aircraft, goods sent by parcel and letter post etc. Compilers should be aware of the coverage of the customs recording and use additional data sources as required (including conducting surveys). The customs authorities might also have information about transactions of goods outside the customs territory, for example, about goods entering and leaving free zones. Compilers should be aware of this information and obtain access to it in order to compile international merchandise trade statistics to the best possible extent as recommended in this publication.

## NON CUSTOMS RECORDS

8.9. The full coverage of international merchandise trade flows cannot be achieved by use of customs records only, either because the relevant transactions are no longer subject to customs controls or customs surveillance (e.g. in customs unions or when customs authorities move to system based<sup>120</sup> rather than transaction based customs control) or because the record keeping may not be adequate from the statistical point of view. **It is recommended that** in such cases, customs based data be supplemented with information obtained from other sources, as necessary, to ensure full coverage of international merchandise trade statistics. **It is recommended** to use non-customs sources as substitutes for available customs records only if they provide a cost effective way to improve quality of trade statistics. A description of the non-customs sources used, including how they were used, as well as an assessment of their quality should be provided in the metadata.

8.10. There are various non-customs sources of data. Foreign shipping manifests can be used for cross-checking and supplementing information gathered from customs declarations. 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, oil and goods for military use). The member States of the European Union have developed, for the purposes of intra-Union merchandise trade statistics, a data collection system (Intrastat) relying on monthly reporting by enterprises; additional information is supplied via the fiscal authorities through the value added tax collection system. Surveys are also used to capture so called shuttle trade and border trade. Currency exchange records and records of monetary authorities often provide timely information about international transactions, including merchandise flows. Aircraft and ship registers may be utilized to capture trade in aircrafts and ships in case customs records are incomplete or non-existent. Parcel post and letter post records are used to ensure that the merchandise flows via parcel and postal services are adequately covered. Reports from commodity boards may be used, as appropriate, to supplement or cross-check customs recording of trade in these commodities.

8.11. In the case of the use of non-customs data sources such as enterprise surveys **it is recommended** that countries take an integrated approach to data collection and make use of business registers and enterprise identification numbers in order to obtain the required information with minimal costs and burden on enterprises. The integrated approach to data collection is of particular importance for the fulfilment of additional information requirements such as for goods for processing (including obtaining information on change of ownership), intra-firm trade etc. which often cannot be satisfied through the use of customs declarations only.

## COMPARISION OF CUSTOMS AND NON CUSTOMS DATA SOURCES

8.12. Both, custom and non-customs sources have specific problems and shortcomings and compilers should be aware of them. Customs records, for example, may not provide full coverage of all transactions, may not be subject to adequate statistical quality control at customs or might not be made available to statistics compilers in a comprehensive and unrestricted manner. The use of

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<sup>120</sup> For example by using company records. It is planned that further information on system based customs control will be provided in the updated IMTS Compilers Manual.

non-customs data sources may increase the burden on data providers and compilers. Also, these sources may suffer from a lack of a consistent classification (e.g. of goods, countries) and under-coverage (i.e. non-responses in surveys) and do not follow standards recommended for valuation, time of recording and partner country attribution. Trade statistics compilers should pay special attention to these issues in order to obtain information from customs and non-customs sources that fulfils the requirements of trade statistics.

8.13. The reconciliation and integration of customs and non-customs data includes adding non-customs to the customs data and substituting non-customs for the customs data. To merge and crosscheck data collected from customs and non-customs sources is a complex and time-consuming activity. Compilers need to be aware of the conceptual and practical difficulties in reconciling and integrating data from different sources and users should be informed accordingly.<sup>121</sup>

## **B. Institutional arrangements**

8.14. The compilation of IMTS is organized on the basis of the statistical and other applicable national laws and regulations of countries, which, to different degrees, specify the rights and responsibilities of the involved institutions and agencies. The data sources for IMTS (in terms of their contents and availability) are subject to their own laws and regulations. In particular customs records, the main data source for IMTS, are subject to customs laws and regulations. The national agency responsible for the overall compilation and dissemination of IMTS should, whenever appropriate, actively participate in the discussion of national legislation or relevant administrative regulations in order to establish a solid foundation for the high quality and timeliness of trade statistics.

8.15. In most countries several institutions and agencies are involved in the compilation of trade statistics. Typically, the most important are national statistical offices, customs administrations and central banks. In some countries, the ministry of trade or other specialized governmental bodies may be assigned responsibility for trade statistics or may play an important role, for example, by providing additional information.

8.16. It is recognized that different institutional arrangements (depending on the structure of a country's government and other considerations) can result in acceptable trade statistics provided that the agency responsible for the overall IMTS compilation follows internationally recognized methodological guidelines, utilizes all available statistical sources and applies appropriate compilation procedures. Effective institutional arrangements are usually characterized by (a) the designation of only one agency responsible for the dissemination of official trade statistics, (b) a clear definition of the rights and responsibilities of all agencies involved, (c) the establishment of formalized working arrangements between them including agreements on holding inter-agency working meetings as needed and on the access to micro data that those agencies collect. The formal

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<sup>121</sup> Best practices on the integration and reconciliation of customs and non customs sources are planned to be provided in the updated IMTS Compilers Manual.



arrangements should be complemented by the informal agreements between the involved agencies and institutions as required.

8.17. **It is recommended** that countries consider the establishment of the institutional arrangements necessary to ensure the compilation of high quality trade statistics as a matter of high priority and periodically review their effectiveness.

8.18. Whatever the institutional arrangement, the national agency responsible for the overall IMTS compilation should periodically review the definitions, methods and the trade statistics themselves to ensure that they are compiled in accordance with the recognized international methodological guidelines, are of high quality, and are available to users in a timely fashion.

## Chapter IX Data quality and metadata

9.1. Data on international merchandise trade statistics are the end product of a complex process comprising many stages starting from the collection and processing of basic records to compilation and dissemination of official statistics. Recommendations on how to approach the issue of data quality in a systematic and comprehensive way are provided in section A.

9.2. The objective of quality measurement of international merchandise trade statistics can be twofold: to provide producers with the appropriate information to monitor and further enhance data quality and to provide users with sufficient information to judge whether the data are adequate for their intended use (to judge their “fitness for use”). Quality is seen as a multidimensional and difficult to measure concept. The dimensions of quality are described in section B while approaches to their measurement are outlined in section C.

### A. Enhancing quality of international merchandise trade statistics

9.3. *Enhancing data quality of international merchandise trade statistics.* Enhancing data quality is a process covering all stages of the statistical production process and is cutting across all issues covered in these recommendations. It starts with validation of the data provided by the trader or broker when completing the customs declaration, requires appropriate institutional arrangements, for example, in order to allow adequate access to different data sources and implies the appropriate use of information and communication technology among many other relevant activities.

9.4. Actions for enhancing data quality are often focused on individual elements of the data such as reported commodity, value, quantity, quantity unit and trading partner (or combinations thereof) but must also address more general issues of coverage and comprehensiveness of recording. The systematic approach to data quality implies that all aspects of the entire trade statistics program are examined and evaluated against certain principles and standards as it allows to more effectively identify and implement appropriate actions to further improve data quality. **It is recommended** that countries develop such standards and related good practices covering the institutional arrangements, the statistical processes and outputs.<sup>122</sup>

9.5. **Further, it is recommended** that countries develop a standard for regular quality reports which cover the full range of statistical processes and their outputs and which would use the above mentioned principles and standards as its basis. Such reports can be either producer-oriented with the aim to identify strengths and weaknesses of the statistical process and lead to or contain the definition of quality improvement actions or user-oriented with the aim to keep users informed on the methodology of the statistical process and the quality of the statistical output.

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<sup>122</sup> Countries may wish to review and consider use of the European Statistics Code of Practice as an example in such an exercise and are also encouraged to share their own established practices.

9.6. **It is recommended** that the quality reports of international merchandise trade statistics should be completed or updated at least every five years or more frequently if significant methodological changes or changes in the data sources occur. For monitoring the quality of the processes and effectiveness of quality improvement actions the reviews should be conducted with higher frequency.

9.7. **It is recommended that** countries base their quality reports on a set of quantitative and qualitative indicators for international merchandise trade statistics and on a checklist covering data collection, processing and dissemination to allow for an assessment of strengths and weaknesses in the statistical process and to identify possible quality improvement actions.

## **B. Measuring quality of international merchandise trade statistics**

9.8. *Data quality assessment frameworks.* Most international organizations and many countries have developed definitions of quality, outlining the various dimensions (aspects) of quality and quality measurement, and integrated them into quality assessment frameworks.<sup>123</sup> Although the existing quality assessment frameworks differ to some extent in their approaches to quality including number, name and scope of quality dimensions, they complement each other and provide comprehensive and flexible structures for the quality assessment of a broad range of statistics. For example:

(a) The *IMF Data Quality Assessment Framework (DQAF)* takes a holistic view of data quality and includes governance of statistical systems, core statistical processes and statistical products. The Framework is organized as a cascading structure covering the prerequisites and five dimensions of quality: assurances of integrity, methodological soundness, accuracy and reliability, serviceability and accessibility;

(b) The *European Statistical System (ESS)* adopted a Code of Practice which provides a broad conceptual framework for viewing quality and sets standards for the institutional environment, statistical processes and statistical outputs. The European Statistics Code of Practice is formulated in terms of fifteen principles of which the following five relate to the statistical output: relevance, accuracy and reliability, timeliness and punctuality, coherence and comparability, accessibility and clarity;

(c) The *OECD quality measurement framework* views quality as a multifaceted concept. As with the Eurostat approach, the quality characteristics depend on user perspectives, needs and priorities, which vary across groups of users. Quality is viewed in terms of seven

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<sup>123</sup> See for instance: International Monetary Fund, Data Quality Assessment Framework (<http://dsbb.imf.org/Applications/web/dqrs/dqrsdqaf/>); Eurostat Working Group - Assessment of quality in statistics, "Definition of quality in statistics" (document Eurostat/A4/Quality/03/General/Definition), prepared for the sixth meeting (Luxembourg, 2 and 3 October 2003); Organization for Economic Cooperation and Development, Statistics Directorate, "Quality framework for OECD statistics" (Paris, June 2002).

dimensions: relevance, accuracy, credibility, timeliness, accessibility, interpretability and coherence.

9.9. The overall aim of the three quality assessment frameworks is to standardize and systematize statistical quality measurement and reporting across countries. They allow an assessment of national practices to be made against internationally (or regionally) accepted statistical approaches for quality measurement. The quality assessment frameworks could be used in a number of contexts, including for (a) guiding countries' efforts towards strengthening their statistical systems by providing a self-assessment tool and a means of identifying areas for improvement; (b) technical assistance purposes; (c) reviews of particular statistical domains as performed by international organizations; and (d) assessment by other groups of data users.

9.10. *Dimensions of quality.* National statistical offices and other agencies responsible for compilation and dissemination of international merchandise trade statistics may decide to implement one of the existing frameworks for quality assessment or develop on their basis national quality assessment frameworks that fit best their country's practices and circumstances. **It is recommended** that the following dimensions of quality are taken into account while developing such frameworks: prerequisites of quality, relevance, credibility, accuracy, timeliness, methodological soundness, coherence and accessibility. A brief description of these dimensions is provided below:

(a) *Prerequisites of quality.* Prerequisites of quality refer to all institutional and organizational conditions that have an impact on the quality of international merchandise trade statistics. The elements within this dimension include the legal basis for compilation of data; adequacy of data-sharing and coordination among data-producing agencies; assurance of confidentiality; adequacy of human, financial, and technical resources for implementation of international merchandise trade statistics programmes and implementation of measures to ensure their efficient use; balancing of the costs on data providers with user needs, especially where use of non-customs sources of data is considered, and quality awareness;

(b) *Relevance.* The relevance of international merchandise trade statistics reflects the degree to which they meet the user needs;

(c) *Credibility.*<sup>124</sup> The credibility of international merchandise trade statistics refers to the confidence that users place in those data based on the image of the statistical office or agency that produces the data. Confidence by users is built over time. One important aspect of credibility is trust in the objectivity of the data, which implies that the data are perceived to be produced professionally in accordance with appropriate statistical standards, and that policies and practices are transparent. For example, data should not be manipulated, nor should their release be timed in response to political pressure;

(d) *Accuracy.* The accuracy of international merchandise trade statistics refers to the closeness of the disseminated statistics to the true (yet unknown) characteristics of the trade flows

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<sup>124</sup> This dimension is referred to as assurances of integrity in the IMF Data Quality Assessment Framework.

and can be assessed only indirectly. It has many facets and in practice there is no single aggregate for or overall measure of accuracy (see section C for indicators of accuracy);

(e) *Timeliness.* The timeliness of international merchandise trade statistics reflects the amount of time between the end of the reference period to which the data pertain, and the date on which the data are released. Timeliness is closely tied to the existence of a publication (including revisions) schedule. A publication schedule may comprise a set of target release dates or may entail a commitment to release international merchandise trade data within a prescribed time period following their receipt. This factor usually involves a trade-off with respect to accuracy. The improved timeliness of statistics enhances its relevance;

(f) *Methodological soundness.* Methodological soundness is a dimension that encompasses the application of the available international standards, guidelines and good practices in the production of international merchandise trade statistics.

(g) *Coherence.* The coherence of international merchandise trade statistics reflects the degree to which the data are logically connected and mutually consistent, as well as the degree to which they can be successfully brought together with other statistical information within a broad analytical framework and over time.

(h) *Accessibility.* The accessibility of international merchandise trade statistics refers to the ease with which they can be obtained from the statistical office, including the ease with which the existence of information can be ascertained, as well as the suitability of the form or the media of dissemination through which the information can be accessed. Aspects of accessibility also include the availability of metadata and the existence of user support services. Accessibility requires development of an advance release calendar so that the users will be informed well in advance on when and where the data will be available and how to access them.

9.11. These dimensions of quality are overlapping and interconnected. Action taken to address or modify one aspect of quality will tend to affect other aspects. For example, there may be a trade-off between aiming for the most accurate estimation of the value of a country's total exports and imports and providing this information in a timely manner.

9.12. The measurement of quality of any statistical data, including international merchandise trade statistics data, is not a simple task. Problems arise from the difficulties involved in quantifying the levels of individual dimensions and in aggregating the levels of all dimensions. Under these circumstances, deriving a single quantitative measure of quality is not possible. In the absence of such a single measure, **countries are encouraged** to use a system of quality measures/indicators following the recommendations contained in section C below.

9.13. **Countries are also encouraged** to develop their own quality assessment frameworks based on the above mentioned dimensions, taking into account the specific circumstances of their economies. The adoption of a quality assessment framework offers the compiling agency a practical approach for a self-assessment of the statistical programme as well as for the assessment of whether

the provided data meet the needs of users. Also, the publication of quality reports allows users to judge for themselves whether a data set meets their particular quality requirements.

### C. Quality measures and indicators

9.14. *Quality measures.* Quality measures directly reflect a particular aspect of quality. For example, the time lag from the reference date to the release of particular international merchandise trade statistics is a direct quality measure. However, in practice, quality measures can be difficult or costly to calculate. Instead, quality indicators can be used in the quality assessment.

9.15. *Quality indicators.* Quality indicators are summarized quantitative or qualitative evidences about the quality of the data. They are generally defined with respect to some reference point and can assist in making different types of comparisons. When countries define the quality indicators for their international merchandise trade statistics, **it is recommended** that they ensure that the indicators satisfy the following criteria: (a) they cover all dimensions of quality as defined in section A above; (b) are based on the consistent application of a sound methodology; and (c) the indicators are easy to interpret both by internal and external users.

9.16. **It is recommended** that countries maintain a balance between different dimensions of quality and the number of indicators. The objective of quality measurement is to have a limited set (minimum number) of indicators which can be used to measure and to follow over time the quality of the international merchandise trade statistics and to ensure that users are provided with a useful summary of overall quality, while not overburdening respondents with demands for unrealistic amounts of quality metadata.

9.17. *Suggested quality measures/indicators.* Table 1 below presents a possible set of indicators which countries might wish to consider for measuring the quality of international merchandise trade statistics. Their utilization provides users with a clear and up-to-date overview of the overall quality of international merchandise trade statistics.

**Table 9.1: Suggested indicators for measuring the quality of international merchandise trade statistics**

<i>Quality dimension</i>	<i>Quality measure/indicator</i>
Relevance	<ol style="list-style-type: none"> <li>1. Gaps between key user interests and compiled international, merchandise trade statistics in terms of concepts, coverage and detail</li> <li>2. Results of users' satisfaction surveys and meetings with user groups.</li> </ol>
Accuracy	<ol style="list-style-type: none"> <li>1. Application of reporting thresholds,</li> <li>2. Under-coverage (% of non-reporting due to thresholds, % of non-reporting due to non-response),</li> <li>3. Characteristics and frequency of revisions (e.g. as % of total value),</li> <li>4. Application of confidentiality and its impact,</li> <li>5. Use of data validation techniques and their impact.</li> </ol> <p>In the case of sample surveys-based international merchandise trade estimates, the accuracy can be measured using the following indicators:</p> <ol style="list-style-type: none"> <li>6. Sampling errors</li> <li>7. Non-sampling errors               <ul style="list-style-type: none"> <li>- Unit response rate</li> <li>- Item response rate</li> </ul> </li> <li>8. Number and average size of revisions of international merchandise trade data</li> </ol>
Timeliness	<ol style="list-style-type: none"> <li>1. Time lag between the end of the reference period and the date of the first release (or the release of final results) of international merchandise trade data</li> </ol>
Methodological soundness	<ol style="list-style-type: none"> <li>1. Number and degrees of divergences from the relevant international statistical standards in concepts and measurement procedures used in the collection/compilation of international merchandise trade statistics (preferably in terms of the amount of data affected)</li> </ol>
Coherence	<ol style="list-style-type: none"> <li>1. Use of common concepts, classifications, data sources and methods;</li> <li>2. Availability of appropriate bridging tables.</li> </ol>
Accessibility	<ol style="list-style-type: none"> <li>1. Number and types of means used for dissemination of international merchandise trade statistics</li> <li>2. International merchandise trade statistics data sets made available, by mode of dissemination, as a percentage of total international merchandise trade statistics data sets produced</li> <li>3. Dissemination of complete metadata and methodology used</li> </ol>

#### **D. Cross-country data comparability**

9.18. *Cross-country data comparability.* Cross-country data comparability remains an important issue. Non-comparability is caused, inter alia, 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, reporting errors, 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. **Countries are encouraged**, therefore, to periodically conduct bilateral and multilateral reconciliation studies or implement data exchanges so that their statistics can be made more accurate and useful both for national purposes and for international comparisons.



## E. Metadata on international merchandise trade statistics

9.19. *Content of statistical data.* Generally, statistical data consist of the following:

(a) *Microdata:* data on the characteristics of individual transactions collected by customs or by means of a other sources such as administrative records or surveys or estimated;

(b) *Macrodata:* data derived from microdata by grouping or aggregating them, such as total exports of goods classified in a particular HS subheading;

(c) *Metadata:* data that describe the microdata, macrodata or other metadata.

9.20. *Metadata.* The term metadata defines all information used to describe other data. A very short definition of metadata, then, is “data about data.” Metadata encompasses administrative facts about data (who has created them and when), definition of concepts applied as well as description of how data were collected and processed before they were disseminated or stored in a database.<sup>125</sup>

9.21. *Statistical metadata.* Statistical metadata describe or document statistical data, that is to say, microdata, macrodata or other metadata. They facilitate sharing, querying and understanding of statistical data over the lifetime of the data. They also refer to any methodological descriptions on how data are collected and compiled. There is a bidirectional relationship between metadata and quality. On the one hand, metadata describe the quality of statistics. On the other hand, metadata are themselves a quality component, which improves the availability and accessibility of statistical data.

9.22. Taking into account many types of users and uses for any given set of data, a broad spectrum of metadata requirements have to be addressed. In particular, the responsible agency must make sufficient metadata available to enable the least and the most sophisticated users to readily assess data and their quality. As a minimum segmentation, metadata at the following two levels are **recommended:**

- i) *Reference metadata* presented as a detailed explanatory note describing the scope, coverage and quality of data set and is made available electronically alongside the database or in special publications.
- ii) *Structural metadata* presented as an integral part of the international merchandise trade statistics database and which can be extracted together with any data item; structural metadata can published as part of a statistical table;

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<sup>125</sup> See for example the websites of the International Monetary Fund (IMF), the Statistical Office of the European Communities (Eurostat) and the Organization for Economic Cooperation and Development (OECD) which have developed metadata standards and collected metadata for different areas of statistics.

9.23. *International merchandise trade statistics metadata items.* **It is recommended** that countries at least cover the following categories of metadata for their international merchandise trade statistics:

- (i) description of all underlying concepts and definitions, including the trade system used, and deviations from international standards;
- (ii) legal framework, institutional arrangements and description of data sources;
- (iii) description of data collection and data processing procedures;
- (iv) description of estimation methods;
- (v) data dissemination policy including release and revision schedules;
- (vi) description of the all data fields/ variables (reference period, trade flow, commodity classification used, valuation, currency, quantity (net weight), weight unit used, supplementary quantity, supplementary quantity unit used, partner country (origin, last known destination, consignment) (this applies to all forms of data dissemination);
- (vii) explanations and footnotes concerning the data as required, i.e. informing about revisions, break in series and application of confidentiality;
- (viii) quality reporting.

9.24. *Purposes of international merchandise trade statistics metadata.* The primary purpose of metadata is to help the users of international merchandise trade statistics to interpret, understand and analyse the data. International merchandise trade statistics metadata should help users transform statistical data into information. Yet, this metadata is also crucial for conducting bilateral reconciliation studies and also allows countries to compare their practices and to learn from each other.

9.25. **It is recommended** that countries view the development of metadata as a high priority and to consider their dissemination an integral part of the dissemination of international merchandise trade statistics. Moreover, **it is recommended** that this is done in compliance with the approach adopted by a given country to metadata across all areas of economic statistics. **Countries are encouraged** to take advantage of the metadata standards proposed by various international organizations<sup>126</sup> while developing their metadata in general and trade metadata in particular. Further guidance on metadata for purposes related to international merchandise trade statistics will be elaborated and presented in the future *International Merchandise Trade Statistics: Compilers Manual*.

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<sup>126</sup> See previous footnote.

## Chapter X Dissemination

10.1. *Data dissemination.* Official statistics that meet the test of practical utility are to be compiled and made available on an impartial basis by official statistical agencies to honor citizens' entitlement to public information.<sup>127</sup>

### A. Statistical confidentiality<sup>128</sup>

10.2. *Statistical confidentiality.* In general, statistical confidentiality is applied to protect disclosure of information about individual natural or legal persons and is necessary in order to gain and keep the trust of both those required to provide data and those using the statistical information. Legal provisions governing statistical confidentiality at national level are set forth in countries' statistical laws or other supplementary governmental regulations and are, as a rule, consistent with the principle 6 of the UN Fundamental Principles of Official Statistics (see Introduction, Box 1). It is recognized, however, that statistical confidentiality needs to be balanced against the need for public information in cases where the application of statistical confidentiality would limit or make it impossible to provide sufficient or meaningful information and that the ways statistical confidentiality is applied may differ from one statistical domain to another.

10.3. *Confidentiality rules for international merchandise trade statistics.* The customs and other documentation upon which the trade statistics are based is often designed for use for nonstatistical purposes, such as clearing goods into and out of the country, and contains detailed information about individual transactions. Such information, even when aggregated by commodity and/or partner may, potentially, disclose some information about individual traders. For trade statistics it is common practice that trade data are made confidential only when the trader requests so and the statistical authority finds the request justified based on the confidentiality rules. This approach to confidentiality is called "passive confidentiality" as opposed to "active confidentiality" which aims to systematically prevent the identification of any statistical unit in the disseminated data, thereby disclosing individual information. In view of high demand for detailed trade statistics and the burden and potential difficulties of applying active confidentiality to trade statistics **it is recommended that** passive confidentiality is applied as much as possible, unless the use of active confidentiality is already the established, desired and accepted practice. **It is further 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. This recommendation specifies a minimum requirement and countries might develop other measures which can serve the same purpose of protecting confidentiality.

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<sup>127</sup> See United Nations Fundamental principles for official statistics.

<sup>128</sup> Statistical confidentiality refers to the protection of information of individual statistical units and has to be differentiated from other forms of confidentiality under which information is not provided due to other considerations, such as for example national security concerns. Nevertheless, merchandise trade statistics compilers should always strive for full coverage of all trade transactions and should apply appropriate methods to keep certain information confidential as mandated.

## **B. Reference period and data dissemination timetable.**

10.4. *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

10.5. *Data dissemination timetable.* In producing statistical information, there is usually a trade-off between the timeliness with which the information is prepared and the accuracy and level of detail of the published data. A crucial factor, therefore, in the maintaining of good relations between producers of international merchandise trade statistics and the user community is developing and adherence to an appropriate data compilation and release schedule. **It is recommended** that countries announce in advance the precise dates at which those statistics will be released and revised. This advance release calendar should be posted before the beginning of each year on the website of the national agency responsible for the dissemination of the official trade statistics.

10.6. The most important elements that should be taken into account in determining the compilation and release schedule of international merchandise trade statistics include:

- (a) User requirements, such as requirements of policy makers, the business community and the general public;
- (b) Timing of the collection of initial data by the customs administrations and other source agencies;
- (c) The extent and timing of data revisions of the major data sources;
- (d) Modes of data dissemination (press release, on-line access, or hard copy).

10.7. Timeliness is the lengths of time between the event and the availability of statistical information about this event. The timeliness of the release of monthly, quarterly and annual international merchandise trade data varies greatly from country to country, mainly reflecting different perspectives on the timeliness-reliability-accuracy trade-off but also differences in available resources and in the efficiency and effectiveness of the statistical production process. Taking into account that processing of the customs declarations in most countries is automated and that the records relevant to statistics are edited and consolidated on the monthly basis, **countries are encouraged** to issue their first releases of data as follows:

- (a) monthly totals of exports and imports within 45 days after the end of the month, at least by major trading partners and basic commodity breakdown;
- (b) quarterly data within 60 days after the end of the quarter;
- (c) annual data within 90 days after the end of the year.

10.8. In view of the importance of the timeliness of totals of exports and imports **countries are encouraged** to explore the possibility of publishing their provisional estimates soon after the end of

the reference period. Such estimates, by their nature, would be based on relatively limited data content and be replaced by more accurate, but less timely figures at a later date.

10.9. If countries use additional information for compilation of annual international merchandise trade statistics, the data for the fourth quarter (or for the twelfth month) need to be compiled and disseminated in their own right and should not be derived as the difference between the annual totals and the sum for the first three quarters (or 11 months) in order to provide undistorted data for all months and quarters. **Countries are encouraged** to disseminate all revised monthly, quarterly and annual data to ensure consistency of data available to users.

### C. Data revision

10.10. *Data revisions.* Revisions are an essential part of country practices in the compilation of international merchandise trade statistics. Their production is a consequence of the trade-off between the timeliness of published data and their reliability, accuracy and comprehensiveness. To resolve these issues, countries might consider to compile provisional data which are later revised when new and more accurate information becomes available. Such practice **is encouraged** if countries can ensure consistency between provisional and final data. Although, in general, repeated revisions may be perceived as reflecting negatively on the reliability of official international merchandise trade data, the attempt to avoid them by producing accurate but very untimely data will ultimately fail to satisfy users' needs. It is important to emphasize that the revisions of international merchandise trade data are produced for the benefit of users, in order to provide them with data that are as timely and accurate as possible. The revisions affect both annual and short-term international merchandise trade statistics but they are often more significant for the short-term data.

10.11. *Reasons for revisions of data.* Reasons for revisions can be classified in multiple ways. In general, two types of revisions are differentiated: (a) routine, normal or concurrent revisions which are part of the regular statistical production process and which aim at the incorporation of new or updated data or the correction of data or compilation errors; and (b) major or special revisions which are not part of the regular revision schedule and which are conducted in order to incorporate major changes in concepts, definitions, classifications and changes in data sources. For normal statistical data revisions **countries are encouraged** to develop a revision policy which is synchronized with the release calendar. Statistical offices may decide to carry out a special revision, in addition to the normal statistical data revisions, for the purpose of reassessing the data or investigating in depth some new economic structures. Such revisions are carried out at longer, irregular intervals of time. Often, they may require changes in the time series going as far back as the beginning of the series to retain the methodological consistency. These revisions should be subject to prior notification to users to explain the reasons and to provide information on the possible impact of the revisions on the data.

10.12. *Revision policy.* **Countries are encouraged** to develop a revision policy that is well designed, carefully managed and well coordinated with other areas of statistics. The development of a revision policy should be aimed at providing users with the information necessary for coping

with revisions in a systematic manner. The absence of coordination and of planning of revisions is considered a quality problem by users. Essential features of a well-established revision policy are a predetermined release and revision schedule, reasonable stability from year to year, openness, information on reasons and effects, easy access of users to sufficiently long time series of revised data, as well as adequate documentation of revisions in the statistical publications and databases. A sound revision policy is recognized as an important aspect of good governance in statistics, as it will not only help the national users of the data but will also promote international consistency.<sup>129</sup>

#### **D. Dissemination strategy**

10.13. *Data dissemination.* A key to the usefulness of trade statistics is its broad dissemination. **It is recommended that** all users are treated equally and data are disseminated without preference to any national or international user group. Data can be disseminated both electronically and in paper publications. **It is recommended** that countries choose the dissemination format that best suits their users' needs. For example, press releases of international merchandise trade statistics have to be disseminated in ways that facilitate re-dissemination by mass media; more comprehensive or detailed statistics need to be disseminated in electronic and/or paper formats. **It is further recommended** that international merchandise trade statistics can be accessed through the electronic dissemination databases maintained by the responsible agency. Regular data dissemination should satisfy most if not all user needs. It is advisable that countries ensure that users are clearly made aware of the procedures and options for obtaining the required data.

10.14. *Dissemination of metadata.* Provision of adequate metadata and quality assessment of international merchandise trade statistics are as important to users as the provision of data itself. **Countries are encouraged** to follow the recommendations provided in chapter IX on data quality and metadata for international merchandise trade statistics and to develop and disseminate metadata in accordance with the recommendations provided. Countries might consider developing different levels of detail of metadata so as to facilitate access and use.<sup>130</sup>

10.15. *International reporting.* **Countries are encouraged** to cooperate with international, supranational and regional organizations to identify and apply the most efficient ways of international dissemination of their trade statistics and related metadata. In this context countries might wish to review the Statistical Data and Metadata Exchange (SDMX)<sup>131</sup> format for possible use in the exchange and sharing of their data.<sup>132</sup>

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<sup>129</sup> For examples of good practices, see Organization for Economic Cooperation and Development *Data and Metadata Reporting and Presentation Handbook* (Paris, 2007), chap.7, "Guidelines on key reporting practices."

<sup>130</sup> For further details on data and metadata reporting, see Organization for Economic Cooperation and Development, *Data and Metadata Reporting and Presentation Handbook* (Paris, 2007).

<sup>131</sup> The SDMX technical standards and content oriented guidelines can provide common formats and nomenclatures for exchange and sharing of statistical data and metadata using modern technology. The dissemination of national data and metadata using web technology and SDMX standards is encouraged as a means to reduce the international reporting burden and to increase the efficiency of the international data exchange. For additional information on SDMX, see: <http://www.sdmx.org/>.

<sup>132</sup> See recommendation by the United Nations Statistical Commission: Economic and Social Council Official Records 2008 Supplement No. 4 E/CN.3/2008/34 para 39/112.

## Chapter XI Supplementary topics

### A. External trade indices

11.1. *Need for external trade indices.* Many users need more information than trade values by country or by commodity, and require information on prices and volumes as well. The information on the development of prices and volumes is generally presented in the form of indices. **It is recommended** that all countries produce and publish volume (quantum) indices and either price or unit value 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 commodity groups of particular importance to countries at least quarterly and annually.

11.2. *Price and unit value indices.* Two kinds of indices may be produced to reflect prices for imports and exports: unit value indices based primarily on customs documents and export/ import price indices based on survey data.<sup>133</sup> Both approaches have strengths and weaknesses. Although price indices are generally preferred on methodological grounds, in practice countries may not have the resources available to compile that information. Many countries compile only unit value indices, while others compile and use both, price and unit value indices in a complementary manner.<sup>134</sup>

### B. Seasonally adjusted data

11.3. *Need for seasonally adjusted data.* Monthly and quarterly data on international merchandise trade statistics are an important tool for economic policy making, business cycle analysis, modelling and forecasting. However, they are often characterized by seasonal fluctuations and other calendar or trading-day effects, which mask other characteristics of the data that are of interest to analysts. Seasonal adjustment is a process of estimating and removing seasonal or calendar influences from a time series in order to achieve a better knowledge of the underlying behaviour. **Countries are encouraged** to compile and publish, where appropriate, seasonally adjusted monthly and quarterly international merchandise trade data on a regular basis.

11.4. *Seasonal adjustment method.* Because national circumstances vary from one country to another, no preferred seasonal adjustment method is recommended. If seasonally adjusted data is published, **it is recommended** that information on the adjustment methods, data quality etc. should be provided by countries in their metadata.<sup>135-136</sup>

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<sup>133</sup> For detailed information on external trade price indices and unit values please refer to the IMF's upcoming Export and Import Price Index Manual. (see <http://www.imf.org/external/np/sta/tegeipi/index.htm>).

<sup>134</sup> More detailed information and guidance on good practices will be provided in the revised Compilers Manual as appropriate and required.

<sup>135</sup> For Eurostat practices in this area, visit: [http://epp.eurostat.ec.europa.eu/portal/page/portal/product\\_details/publication?p\\_product\\_code=KS-RA-09-006](http://epp.eurostat.ec.europa.eu/portal/page/portal/product_details/publication?p_product_code=KS-RA-09-006)

<sup>136</sup> More detailed information and guidance regarding the issue of seasonal adjustment will be provided in the revised IMTS Compilers Manual

## C. Linking trade and business statistics

11.5 *Need for linking business and trade statistics:* Linking and integrating trade and business statistics is important for data compilation as well as for analytical purposes. A major development in economics statistics of recent years has been the establishment and use of national business registers which allow not only the conduct of business surveys but also to link information from different data sources, potentially leading to significant efficiency and quality gains in data collection. Also, the integration of data from different sources provides new information for many analytical purposes that otherwise would not exist. One application is the analysis of trade by enterprise characteristics which, for example, allows to examine the impact of globalization on businesses.<sup>137</sup>

11.6 *Recommendation:* **Countries are encouraged** to integrate their trade register with their business register and to take steps towards an integrated system of economics statistics for data compilation and analysis. Further examples of the applications of linking trade and business statistics will be provided in the IMTS Compilers Manual.<sup>138</sup>

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<sup>137</sup> Eurostat, Bridging trade statistics with business statistics – Eurostat's experiences of register linkages, Paper prepared for 21st Meeting of the Wiesbaden Group on Business Registers - International Roundtable on Business Survey Frames, Paris, 24 - 27 November 2008.

<sup>138</sup> During the meeting of EG-IMTS, 3-6 November 2009 several analytical issues have been suggested which potentially could be facilitated by the integration of trade and business statistics. These issues were vertical integration, import content of export, small business development, export promotion and food security.



# **Annexes**

## **Annex A Basic national accounts and balance of payments concepts and definitions**

A.1 *Introduction.* This annex reproduces for the convenience of users of this publication important concepts and definitions contained in the *System of National Accounts 2008*<sup>139</sup> (2008 SNA) and the *Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual*<sup>140</sup> (BPM6) which are relevant for compilers of IMTS and referred to in the body of the text.

A.2 *Goods* are "physical, produced 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" (2008 SNA, para. 6.15).

A.3 [...] *services* "are not separate entities over which ownership rights can be established. They cannot be traded separately from their production. By the time their production is completed, they must have been provided to the consumers." The 2008 SNA differentiates two types of services, change-effecting services and margin services. Change-effecting services are 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. Margin services result when one institutional unit facilitates the change of ownership of goods, knowledge-capturing products, some services or financial assets between two other institutional units. (2008 SNA, para. 6.16 – 6.21).

A.4 *Knowledge-capturing products* "concern the provision, storage, communication and dissemination of information, advice and entertainment in such a way that the consuming unit can access the knowledge repeatedly. The industries that produce the products are those concerned with the provision, storage, communication and dissemination of information, advice and entertainment in the broadest sense of those terms including the production of general or specialized information, news, consultancy reports, computer programs, movies, music, etc. The outputs of these industries, over which ownership rights may be established, are often stored on physical objects (whether on paper or on electronic media) that can be traded like ordinary goods. They have many of the characteristics of goods in that ownership rights over these products can be established and they can be used repeatedly. Whether characterized as goods or services, these products possess the essential common characteristic that they can be produced by one unit and supplied to another, thus making possible division of labor and the emergence of markets." (2008 SNA, para. 6.22).

A.5 *Institutional unit.* An institutional unit is an economic entity that is capable, in its own right,

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<sup>139</sup> *System of National Accounts 2008*, European Commission, International Monetary Fund, Organization for Economic Co-operation and Development, United Nations, World Bank, available in pdf format at the website of the United Nations Statistics Division at: <http://unstats.un.org/unsd/nationalaccount/sna2008.asp>.

<sup>140</sup> *Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual*, International Monetary Fund, 2008, available electronically at the website of the International Monetary Fund at: <http://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm>.

of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities. The main attributes of institutional units may be described as follows:

- a. An institutional unit is entitled to own goods or assets in its own right; it is therefore able to exchange the ownership of goods or assets in transactions with other institutional units;
- b. It is able to take economic decisions and engage in economic activities for which it is itself held to be directly responsible and accountable at law;
- c. It is able to incur liabilities on its own behalf, to take on other obligations or future commitments and to enter into contracts;
- d. Either a complete set of accounts, including a balance sheet of assets and liabilities, exists for the unit, or it would be possible and meaningful, from an economic viewpoint, to compile a complete set of accounts if they were to be required. (2008 SNA, para. 4.2)

**A.6 Residence.** The residence of each institutional unit is the economic territory with which it has the strongest connection, in other words, its centre of predominant economic interest. An institutional unit has a centre of predominant economic interest in an economic territory when there exists, within the economic territory, some location, dwelling, place of production, or other premises on which or from which 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. The location need not be fixed so long as it remains within the economic territory. Actual or intended location for one year or more is used as an operational definition; while the choice of one year as a specific period is somewhat arbitrary, it is adopted to avoid uncertainty and facilitate international consistency. The concept of residence in the SNA is exactly the same as in *BPM6*. (2008 SNA, 4.10 – 4.15).

**A.7 Economic territory.** The concept of economic territory in the SNA coincides with that of the *BPM6*. The most commonly used concept of economic territory is the area under the effective economic control of a single government. However, currency or economic unions, regions, or the world as a whole may be used, as they may also be a focus for macroeconomic policy or analysis.

- The economic territory includes the land area, airspace, territorial waters, including jurisdiction over fishing rights and rights to fuels or minerals. In a maritime territory, the economic territory includes islands that belong to the territory. The economic territory also includes territorial enclaves in the rest of the world. These are clearly demarcated land areas (such as embassies, consulates, military bases, scientific stations, information or immigration offices, aid agencies, central bank representative offices with diplomatic immunity, etc.) located in other territories and used by governments that own or rent them for diplomatic, military, scientific, or other purposes with the formal agreement of governments of the territories where the land areas are physically located.

- Economic territory has the dimensions of physical location as well as legal jurisdiction, so that corporations created under the law of that jurisdiction are part of that economy. The concepts of economic territory and residence are designed to ensure that each institutional unit is a resident of a single economic territory.

- The economic territory also includes special zones, such as free trade zones and off-shore financial centres. These are under the control of the government so are part of the economy, even though different regulatory and tax regimes may apply. (However, it may also be useful to show

separate data for such zones.) The territory excludes international organizations and enclaves of other governments that are physically located in the territory. (2008 SNA, paras. 4.10 - 4.12 and 26.14 - 26.15).

A.8 *Ownership.* Within the SNA, a distinction is made between legal ownership and economic ownership. The legal owner of an entity such as goods and services, natural resources, financial assets and liabilities is the unit entitled in law to the benefits embodied in the value of the product. A legal owner may, though, contract with another unit for the latter to accept the risks and rewards of using the product in production in return for an agreed amount that has a smaller element of risk in it (this other unit becomes the economic owner). The economic owner is the institutional unit entitled to claim the benefits associated with the use of the entity in the course of an economic activity by virtue of accepting the associated risks. (2008 SNA, para. 2.46-2.49 and 3.21-3.29)

A.9 *Change of ownership.* The criterion for recording the transfer of products from one unit to another in the SNA is that the economic ownership of the product changes from the first unit to the second. The SNA and the BPM6 apply the criterion of change of economic ownership to all national and international transactions (2008 SNA, para. 2.46-2.49 and 26.20-26.22).<sup>141</sup>

A.10 *Manufacturing services on physical inputs owned by others.* Because there is no change of ownership of goods between a resident and a nonresident goods for assembly, packing, labelling, or processing by an entity that does not own the goods concerned are not recorded as a goods transaction in the balance of payments (and the 2008 SNA) but as manufacturing services on physical inputs owned by others. (BPM6, para. 10.22(f) and 10.62-10.71).

A.11 *Financial and operating leasing.* A financial lease is a contract under which the lessor as legal owner of an asset conveys substantially all the risks and rewards of ownership of the asset to the lessee. In other words, the lessee becomes the economic owner of the asset (BPM6 – December 2008, para. 5.56). Because the lessee is the economic owner, a change of ownership between the seller of the goods and the lessee is recorded at the start of the lease. The lessor has legal title, but does not have economic ownership. In contrast, goods under *operating leases* do not change ownership to the lessee, and thus are not included in general merchandise when delivered to the lessee. (BPM6, para. 5.56-5.60 and 10.17(f)).

A.12 *Merchanting.* Merchanting is defined as the purchase of goods by a resident (of the compiling economy) from a nonresident combined with the subsequent resale of the same goods to another nonresident without the goods being present in the compiling economy. (BPM6, para. 10.23(a) and 10.41–10.49).

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<sup>141</sup> In contrast, according to this recommendations the recording of imports and exports is based on the physical movement of goods across borders and the criterion of change of ownership is to be used only if the general guideline is not applicable or not sufficient (see para 1.2 and 1.4).

## **Annex B      Definition of customs terms and related definitions**

B.1 *Introduction.* This annex reproduces for the convenience of users of this publication important definitions contained in the Revised Kyoto Convention<sup>142</sup> which are relevant for compilers of IMTS and referred to in the body of the text.

B.2 “*Customs territory*” means the territory in which the Customs law of a Contracting Party applies (Revised Kyoto Convention, General Annex/ Chapter 2/ E12).

B.3 “*Goods declaration*” means a statement made in the manner prescribed by the Customs, by which the persons concerned indicate the Customs procedure to be applied to the goods and furnish the particulars which the Customs require for its application (Revised Kyoto Convention, General Annex/ Chapter 2/ E19). For further information see Revised Kyoto Convention, General Annex/ Chapter 3, The Goods declaration, 3.11.-3.19.

B.4 “*goods in free circulation*” means goods which may be disposed of without Customs restriction (Revised Kyoto Convention, Specific Annex B/ Chapter 1/ E1).

B.5 “*compensating products*” means the products resulting from the manufacturing, processing or repair of goods for which the use of the inward processing procedure is authorized (Specific Annex F/ Chapter 1/ E1) or the products obtained abroad and resulting from the manufacturing, processing or repair of goods for which the use of the outward processing procedure is authorized (Specific Annex F/ Chapter 2/ E1).

B.6 “*free zone*” means a part of the territory of a Contracting Party where any goods introduced are generally regarded, insofar as import duties and taxes are concerned, as being outside the Customs territory (Revised Kyoto Convention, Specific Annex D/ Chapter 2/ E1). *Authorized operations:* Goods admitted to a free zone shall be allowed to undergo operations necessary for their preservation and 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. (Revised Kyoto Convention, Specific Annex D/ Chapter 2/ paragraph 11). Where the competent authorities allow processing or manufacturing operations in a free zone, they shall specify the processing or manufacturing operations to which goods may be subjected in general terms and/or in detail in a regulation applicable throughout the free zone or in the authority granted to the enterprise carrying out these operations. (Revised Kyoto Convention, Specific Annex D/ Chapter 2/ paragraph 12).

### Customs procedures

B.7 “*clearance for home use*” means the Customs procedure which provides that imported goods enter into free circulation in the Customs territory upon the payment of any import duties and taxes

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<sup>142</sup> World Customs Organization, *International Convention on the Simplification and Harmonization of customs Procedures (as amended)* (Revised Kyoto Convention), Brussels, 2006.

chargeable and the accomplishment of all the necessary Customs formalities (Revised Kyoto Convention, Specific Annex B/ Chapter 1/ E1).

B.8 “outright exportation” means the Customs procedure applicable to goods which, being in free circulation, leave the Customs territory and are intended to remain permanently outside it (Revised Kyoto Convention, Specific Annex C/ Chapter 1/ E1).

B.9 “re-importation in the same state” means the Customs procedure under which goods which were exported may be taken into home use free of import duties and taxes, provided they have not undergone any manufacturing, processing or repairs abroad and provided that any sums chargeable as a result of repayment or remission of or conditional relief from duties and taxes or of any subsidies or other amounts granted in connection with exportation must be paid. The goods that are eligible for re-importation in the same state can be goods that were in free circulation or were compensating products (Revised Kyoto Convention, Specific Annex B/ Chapter 2/ E5).

B.10 “Customs warehousing procedure” 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 (Revised Kyoto Convention, Specific Annex D/ Chapter 1/ E1).

B.11 “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, on the basis that such goods are intended for manufacturing, processing or repair and subsequent exportation (Revised Kyoto Convention, Specific Annex F/ Chapter 1/ E3).

B.12 “outward processing” means the 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 re-imported with total or partial exemption from import duties and taxes (Revised Kyoto Convention, Specific Annex F/ Chapter 2/ E2).

B.13 “free zone” means a part of the territory of a Contracting Party where any goods introduced are generally regarded, insofar as import duties and taxes are concerned, as being outside the Customs territory (Revised Kyoto Convention, Specific Annex D/ Chapter 2/ E1). Admission to a free zone shall be authorized not only for goods imported directly from abroad but also for goods brought from the Customs territory of the Contracting Party concerned.

B.14 “drawback procedure” means the Customs procedure which, when goods are exported, provides for a repayment (total or partial) to be made in respect of the import duties and taxes charged on the goods, or on materials contained in them or consumed in their production (Revised Kyoto Convention, Specific Annex F/ Chapter 3/ E2).

B.15 “processing of goods for home use” means the Customs procedure under which imported goods may be manufactured, processed or worked, before clearance for home use and under Customs control, to such an extent that the amount of the import duties and taxes applicable to the products thus obtained is lower than that which would be applicable to the imported goods (Revised Kyoto Convention, Specific Annex F/ Chapter 4/ E1).

B.16 “temporary admission” means the Customs procedure under which certain goods can be brought into a Customs territory conditionally relieved totally or partially 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 them (Revised Kyoto Convention, Specific Annex G/ Chapter 1/ E1).

B.17 Customs formalities in respect of postal traffic: “CN22/23” means the special declaration forms for postal items as described in the Acts of the Universal Postal Union currently in force (Revised Kyoto Convention, Specific Annex J/ Chapter 2/ E1); “Customs formalities in respect of postal items” means all the operations to be carried out by the interested party and the Customs in respect of postal traffic (Revised Kyoto Convention, Specific Annex J/ Chapter 2/ E2).

#### Additional definitions related to customs procedures

B.18 “*goods exported with notification of intended return*” means goods specified by the declarant as intended for re-importation, in respect of which identification measures may be taken by the Customs to facilitate re-importation in the same state (Revised Kyoto Convention, Specific Annex B/ Chapter 2/ E2).

B.19 “*temporary storage of goods*” means the storing of goods under Customs control in premises and enclosed or unenclosed spaces approved by the Customs (hereinafter called temporary stores) pending lodgement of the Goods declaration (Revised Kyoto Convention, Specific Annex A/ Chapter 2/ E2).

#### Origin of goods

B.20 “*country of origin of goods*” means the country in which the goods have been produced or manufactured, according to the criteria laid down for the purposes of application of the Customs tariff, of quantitative restrictions or of any other measure related to trade (Revised Kyoto Convention, Specific Annex K/ Chapter 1/ E1).

B.21 “*rules of origin*” means the specific provisions, developed from principles established by national legislation or international agreements (“origin criteria”), applied by a country to determine the origin of goods (Revised Kyoto Convention, Specific Annex K/ Chapter 1/ E2).

B.22 “*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 (Revised Kyoto Convention, Specific Annex K/ Chapter 1/ E3).

B.23 Goods produced wholly in a given country shall be taken as originating in that country. The following only shall be taken to be produced wholly in a given country (Revised Kyoto Convention, Specific Annex K/ Chapter 1/ paragraph 2):

- a. mineral products extracted from its soil, from its territorial waters or from its sea-bed;
- 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 paragraph (f) 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 paragraphs (a) to (ij) above.

B.24 Where two or more countries have taken part in the production of the goods, the origin of the goods should be determined according to the substantial transformation criterion. (Revised Kyoto Convention, Specific Annex K/ Chapter 1/ paragraph 3)

B.25 Operations which do not contribute or which contribute to only a small extent to the essential characteristics or properties of the goods, and in particular operations confined to one or more of those listed below, should not be regarded as constituting substantial manufacturing or processing (Revised Kyoto Convention, Specific Annex K/ Chapter 1/ paragraph 6):

- a. operations necessary for the preservation of goods during transportation or storage;
- b. operations to improve the packaging or the marketable quality of the goods or to prepare them for shipment, such as breaking bulk, grouping of packages, sorting and grading, repacking;
- c. simple assembly operations;
- d. mixing of goods of different origin, provided that the characteristics of the resulting product are not essentially different from the characteristics of the goods which have been mixed.



## Annex C Rules of origin

C.1 *Introduction.* This annex provides further background information for IMTS compilers and users on the rules of origin and its use in import statistics.

C.2 *Country experience.* Most countries broadly follow the Kyoto Convention guidelines with regard to both wholly produced and substantially transformed goods.<sup>143</sup> However, there is a significant divergence of views regarding details of the application of the guidelines. Which goods can be considered wholly produced in a given country and what kinds of transformations of the goods can be considered substantial remains, in many cases, a matter of trade dispute.

C.3 *WTO Agreement on Rules of Origin and work on harmonization of rules for non-preferential trade.* The WTO Agreement on Rules of Origin was negotiated during the Uruguay Round of multilateral trade negotiations and entered into force on 1 January 1995.<sup>144</sup> The aim of the Agreement is to harmonize non-preferential rules of origin and to ensure that such rules do not themselves create unnecessary obstacles to trade. Since the Agreement came into force, the Technical Committee on Rules of Origin, under the auspices of WCO (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.

C.4 The substantial transformation criteria are elaborated on a product-specific basis and are to be applied to goods when more than one country is concerned in their production. The Agreement envisages the use of those rules, inter alia, for trade statistics, and IMTS2010, incorporates that idea (IMTS2010, para. XX). Those 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.<sup>145</sup>

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<sup>143</sup> See IMTS, Rev.2, para. 6.6-6.9, for current application of the relevant rules of the Kyoto Convention; see Revised Kyoto Convention, Specific Annex K, and annex B, paras. B.11-B.16. In the case of a trading partner being a customs union, in principle the origin may be assigned to the customs union.

<sup>144</sup> See WTO, *The Results of the Uruguay Round of Multilateral Trade Negotiations: The Legal Texts* (Geneva, 1995).

<sup>145</sup> The harmonization work programme was launched by WTO and WCO in 1995. Substantial progress has been made, especially as regards the harmonization of rules of origin for specific products. The technical work has been largely completed, and the templates drawn up by the WCO Technical Committee on Rules of Origin, which set out alternative options of possible solutions, are very useful for dealing with technically unresolved issues as a basis for trade policy considerations by the WTO Committee on Rules of Origin. Additional work is, however, still necessary. The elaboration of definitions of goods wholly obtained is virtually complete, although several issues, such as “products taken from the sea outside a country” and “environmental concerns with respect to the parts recovered from nonrepairable articles”, remain unresolved and need further consideration. Definitions of minimal operations or processes are far advanced but will be subject to further refinement. The Committee on Rules of Origin also notes that

**C.5** *Rules of origin in the case of preferential trade.* Preferential rules of origin are used to establish whether goods are eligible for special treatment under a trading arrangement between two or more countries or customs unions. Preferential (or reduced) rates of duty are applied to goods which are found to be the products or manufacture of a country defined as a preference country. The principal objective of preferential rules of origin is to ensure that benefits are restricted to those goods which originate and are traded within the particular preference area, i.e., whose origin is particular specified countries.

**C.6** Each multinational or bilateral agreement has its own rules of origin. There is no work programme for the harmonization of preferential rules of origin. However, annex II of the WTO Agreement on Rules of Origin (common declaration with regard to preferential rules of origin) provides the general principles and requirements applied to non-preferential rules of origin, which apply to preferential rules of origin as well.

**C.7** Those requirements include notification procedures. All members agree to provide to the WTO secretariat, as soon as possible, their preferential rules of origin, including a listing of the preferential arrangements, judicial decisions and their administrative rulings of general application relating to their preferential rules of origin, including any modification or new preferential rules of origin. In particular, members agree to ensure that: (a) in cases where the criterion of change of tariff classification is applied, such a preferential rule of origin and any exceptions to the rule must clearly specify the subheadings or headings within the tariff nomenclature that are addressed by the rule; (b) in cases where the ad valorem percentage criterion is applied, the method for calculating that percentage shall also be indicated in the preferential rules of origin; and (c) in cases where the criterion of manufacturing or processing operation is prescribed, the operation that confers preferential origin shall be precisely specified.

**C.8** It is advised that if a country's trade statistics are compiled using preferential rules of origin with respect to certain countries, an appropriate explanation be provided in the methodological note to the disseminated data.

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the overall architecture of the harmonized rules of origin (including general rules), section/chapter rules and residual rules still require considerable work. Definitions of the goods being considered as wholly obtained as well as product-specific non-preferential rules of origin on the basis of the use of the criterion of change in tariff classification or other supplementary criteria have been drafted, as well as the general rules.

## **Annex D      Rules on customs valuation as set out in the WTO Agreement on Customs Valuation**

D.1. *Introduction.* This annex reproduces for the convenience of users of this publication Part I of the Agreement on Implementation of Article VII of the GATT 1994 (WTO Agreement on Customs Valuation).<sup>146</sup> It is recommended that countries adopt the WTO Agreement on Customs Valuation as the basis for valuation of their international merchandise trade for statistical purposes (whether a country is a WTO member or not). This recommendation for determining the statistical value applies to all goods flows (imports and exports) (see chapter 4 above).

D.2. The WTO Agreement on Customs Valuation 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.

D.3. 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<sup>147</sup> 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) that there are no restrictions as to the disposition or use of the goods by the buyer other

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<sup>146</sup> 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.

<sup>147</sup> World Trade Organization, *The Results of the Uruguay Round of Multilateral Trade Negotiations: The Legal Texts* (Geneva, 1995), pp. 198 - 207.

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;

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

## **Annex E      Terms of goods delivery**

E.1      *Introduction*. The value (invoice price) of the goods negotiated between traders depends on the agreed terms of delivery. Compilers have to make appropriate adjustments to the invoice price to obtain CIF- or FOB-type value of goods (see chapter 4). The terms of delivery were standardized by the International Chamber of Commerce and first published in 1936 as “Incoterms 1936”. Amendments and additions were later made in 1953, 1967, 1976, 1980, 1990 and 2000.<sup>148</sup> These standard trade definitions are most commonly used in international sales contracts. For the convenience of IMTS compilers and users the main types of terms of delivery are described below.

E.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 or another named place (i.e., works, factory, warehouse, etc.). The seller is not responsible for loading the goods on the vehicle provided by the buyer or for clearing the goods through customs for export, unless the contract of sale clearly so states. All costs and risks involved in taking the goods from the seller's premises are the buyer's responsibility.

E.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. The chosen place of delivery has an impact on the obligations of loading and unloading the goods at that place. If delivery occurs at the seller's premises, the seller is responsible for loading. If delivery occurs at any other place, the seller is not responsible for unloading. This term may be used for any mode of transport, including multimodal transport. If the buyer nominates a person other than a carrier to receive the goods, the seller is deemed to have fulfilled his obligation to deliver the goods when they are delivered to that person.

E.4      *Free Alongside Ship (FAS)*. This term means 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 or of damage to the goods from that moment. The FAS term requires the seller to clear the goods for exports. This term can only be used for sea or inland waterway transport.

E.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 or of damage to the goods from that point. The FOB term requires the seller to clear the goods for exports. This term can only be used for sea or inland waterway transport. If the parties do not intend to deliver the goods across the ship's rail, the FCA term (see para. E.3 above) should be used.

E.6      *Cost and Freight (CFR)*. This term means that the seller's obligation to deliver is fulfilled when the goods have passed the ship's rail in the port of shipment. The seller must pay the costs and

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freight necessary to bring the goods to the named port of destination but the risk of loss or of damage to the goods, as well as any additional costs due to events occurring after the time of delivery, are transferred from the seller to the buyer. The CFR term requires the seller to clear the goods for export. This term can only be used for sea and inland waterway transport. If the parties do not intend to deliver the goods across the ship's rail, the CPT term (see para. E.8 below) should be used.

E.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 required to obtain insurance only 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. If the parties do not intend to deliver the goods across the ship's rail, the CIP term (see para. E.9 below) should be used.

E.8 *Carriage paid to (CPT)*. The seller delivers the goods to the carrier nominated by him but the seller must in addition pay the cost of carriage necessary to bring the goods to the named destination. The risk of loss or of 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 so delivered. 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.

E.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 insurance against the buyer's risk of loss or of 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 required to obtain insurance only on minimum coverage. The CIP term requires the seller to clear the goods for export. This term may be used irrespective of the mode of transport, including multimodal transport.

E.10 *Delivered at Frontier (DAF)*. The seller's obligation to deliver is fulfilled when the goods are placed at the disposal of the buyer on the arriving means of transport not unloaded, cleared for export, but not cleared for import 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. This term may be used irrespective of the mode of transport when goods are to be delivered at a land frontier. When delivery is to take place in the port of destination, on board a vessel or on the quay (wharf), the DES or DEQ terms should be used.

E.11 *Delivered Ex Ship (DES)*. The seller's obligation to deliver is fulfilled when the goods are placed at the disposal of the buyer on board the ship not cleared 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 before discharging. This term can be used only when the goods are to be delivered by sea or inland waterway or multimodal transport on a vessel in the port of destination.

E.12 *Delivered Ex Quay (DEQ)*. The seller's obligation to deliver is fulfilled when the goods are placed at the disposal of the buyer not cleared for importation on the quay (wharf) at the named port of destination. The seller has to bear costs and risks involved in bringing the goods to the named port or destination and discharging the goods on the quay (wharf). The DEQ term requires the buyer to clear the goods for import and to pay for all formalities, duties, taxes and other charges upon import. This term can be used only when the goods are to be delivered by sea or inland waterway or multimodal transport on discharging from a vessel onto the quay (wharf) in the port of destination.

E.13 *Delivered duty unpaid (DDU)*. The seller's obligation to deliver is fulfilled when the goods are placed at the disposal of the buyer, not cleared for import, and not unloaded from any arriving means of transport at the named place of destination. The seller has to bear the costs and risks involved in bringing the goods thereto, other than, where applicable, any "duty" (which term includes the responsibility for and the risks of the carrying out of customs formalities, and the payment of formalities, customs duties, taxes and other charges) for import in the country of destination. Such "duty" has to be borne by the buyer as well as any cost and risks caused by his 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 as well as some of the costs payable upon import of the goods, this should be made clear by adding explicit wording to this effect in the contract of sale. This term may be used irrespective of the mode of transport but when delivery is to take place in the port of destination on board the vessel or on the quay (wharf), the DES or DEQ terms should be used.

E.14 *Delivered duty paid (DDP)*. The seller's obligation to deliver is fulfilled when the goods are placed at the disposal of the buyer, cleared for import, and not unloaded from any arriving means of transport at the named place of destination. The seller has to bear all the costs and risks involved in bringing the goods thereto including, where applicable, any "duty" (which term includes the responsibility for and the risks of the carrying out of customs formalities, and the payment of formalities, customs duties, taxes and other charges) for import in the country of destination. Whilst the EXW term (see para. E.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 explicit wording to this effect in the contract of sale. If the parties wish the buyer to bear all risks and costs of the import, the DDU term should be used. This term may be used irrespective of the mode of transport but when delivery is to take place in the port of destination on board the vessel or on the quay (wharf), the DES or DEQ terms should be used.

## **Annex F. Conceptual differences between IMTS2010 and BPM6<sup>149</sup>**

F.1 *Introduction.* This annex explains the main conceptual differences in the recording of international transactions in goods between IMTS2010 and the BPM6/ 2008 SNA<sup>150</sup> and shows in Table F.1 what adjustments are commonly required to derive the value of ‘Total goods on balance of payment basis’<sup>151</sup> using international merchandise trade statistics (IMTS) based on IMTS2010 as the starting point.<sup>152</sup> Not all adjustments apply to all countries and depending on national practices, additional adjustments might be needed.

F.2 International merchandise trade statistics (trade statistics) is the main source of data on goods for the balance of payments and national accounts. However, there are conceptual differences concerning the coverage, time of recording, valuation and classification of goods transactions between IMTS and the balance of payments which require adjustments to the IMTS data for use in the balance of payments. The main conceptual difference is that international merchandise trade statistics is based on the general principle to record all goods that add to or subtract from the stock of material resources of a country by entering (imports) or leaving (exports) its economic territory (see paragraph 1.2) while the recording of transactions in the balance of payments is based on the principle of change of ownership between residents and nonresidents (see Annex A, paragraph A.9).

F.3 The conceptual differences between IMTS2010 and the BPM6/ 2008 SNA in the recording of international transactions of goods are explained in section A. Section B lists additional conceptual differences between BPM6/ 2008 SNA which existed in respect to the previous revision of the international recommendations on IMTS (IMTS, Rev.2) but have been eliminated in IMTS2010. Section C points out that further adjustments to BPM6 might be required due to national practices in the compilation of IMTS. Section D stresses that as result of the conceptual differences between IMTS2010 and the BPM6/ SNA the figures on goods exports and imports published in the BPM6 Goods and Services Account are expected to be different than the figures compiled and published according to the recommendations contained in this publication.

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<sup>149</sup> Note: This annex will be finalized after the 41<sup>st</sup> session of the Statistical Commission.

<sup>150</sup> *Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual*, International Monetary Fund, 2008, available electronically at the website of the International Monetary Fund at:

<http://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm>. *System of National Accounts 2008*, European Commission, International Monetary Fund, Organization for Economic Co-operation and Development, United Nations, World Bank, available in pdf format at the website of the United Nations Statistics Division at: <http://unstats.un.org/unsd/nationalaccount/sna2008.asp>.

<sup>151</sup> Total trade on balance of payment basis consists of the three items General merchandise on balance of payment basis (hereafter referred to as ‘general merchandise’), Net exports of goods under merchanting and Nonmonetary gold.

<sup>152</sup> BPM6 contains table 10.2 which equally shows the adjustments required to derive the ‘Total goods on the balance of payments basis’ from IMTS. However, this table is based on IMTS, Rev.2 and hence shows a few adjustments which are not required anymore if a country complies with the recommendations contained in IMTS2010 (see para. F.17 – F.20).



## A. List of conceptual differences between IMTS2010 and the BPM6/ 2008 SNA

**Table F.1. Reconciliation between IMTS and total goods on a balance of payment basis**

	Exports	Imports
<b>Merchandise trade statistics as provided in data source</b>		
<b>Adjustments, as relevant:</b>		
For example (with paragraph reference)		
- Goods sent for or returned after processing without a change of ownership (F.3)		
+ Goods acquired from other economies for processing abroad (F.3)		
+ Goods sold abroad after processing in other economies (F.3)		
- Customized recordings on physical media (F.4)		
- Noncustomized recordings on physical media with periodic license fee (F.4)		
- Returned goods (F.5)		
- Migrants' effects (F.6)		
+ Goods entering or leaving the economic territory of a country illegally (F.7)		
+ Goods lost or destroyed after change of ownership but before entering the importing country (F.8)	N/A	
- Goods lost or destroyed before change of ownership (F.8)		N/A
- Goods imported for construction projects by nonresident enterprises (F.9)		
- Goods transferred from or to a buffer stock organization (F.10)		
- Goods which cross borders as a result of transactions between related parties (F.11)		
+/- Non-monetary gold transactions between residents and nonresidents without physical movement (F.12)		
+ Net exports of goods under merchanting (F.13)		
+/- Difference in time of recording i.e. for high value capital goods (F.14)		
- Different valuation for imports (CIF/FOB adjustment) (F.15)	N/A	

### = Total goods on a balance of payment basis

N/A = not applicable.

*F.4 Goods for processing with or without change of ownership.* This item reflects a significant conceptual difference between IMTS2010 and the balance of payments statistics compiled according to the BPM6.<sup>153</sup> The IMTS2010 recommends that goods for processing be recorded when they enter or leave the economic territory, irrespective of whether a change in ownership takes place. However, goods supplied to another economy for processing without a change of ownership and returned to the economy of the owner after processing are not recorded in the balance of payments statistics; further, if the goods are sold to a third economy after processing then the value of the goods (including the value of processing) is recorded as an export of the economy of the owner and an import of the third economy; the value of the processing is recorded as an export of services of the processing economy and an import of services of the economy of the owner (BPM6, para. 10.22(d) and 10.62-10.71).

*F.5 Media, whether or not recorded* is recommended to be included in IMTS, although an

<sup>153</sup> In the previous edition of the Balance of Payments (BPM5) this difference did not exist.

exception for media used for carrying customized software or software written for a specific client or originals of any nature applies (see paragraph 1.18). The BPM6 includes in general merchandise only non-customized packaged software and video and audio recordings, on physical media, such as disks and other devices, with a license for perpetual use (BPM6, para. 10.17(c)).

F.6 *Returned goods* are recommended to be included in IMTS as exports and imports (see paragraph 1.23). The BPM6 recommends that in the case of returned goods revised entries should be made to exports and imports and the transactions be voided, preferably for the period when the goods were initially recorded (BPM6, para. 10.22(i)).

F.7 *Migrants' effects* are recommended to be included in IMTS (see paragraph 1.26). These goods are not recorded as goods transaction in the balance of payments statistics because there is no change in ownership (BPM6, para. 10.22(b)).

F.8 *Goods entering or leaving the economic territory of a country illegally* (this may include legal as well as illegal goods) are recommended to be excluded from IMTS but to be separately recorded (see paragraph 1.59). The BPM6 includes in general merchandise illegal goods as well as smuggled goods that are otherwise legal (BPM6, para. 10.17(i) and 10.17 (j)).

F.9 *Goods lost or destroyed after leaving the exporting country but before entering the importing country and after ownership has been acquired by the importer* are recommended to be excluded from the IMTS of the importing country but to be separately recorded (see paragraph 1.60). The BPM6 includes these as imports (BPM6, para. 10.17(m)). A further difference arises when goods are lost or destroyed after leaving the exporting country but before entering the importing country, when ownership has not been acquired. In this case an export would be recorded in IMTS while no goods transaction would be recorded in BPM6.

F.10 *Goods imported for construction projects by nonresident enterprises* (for example, for use in a construction project) where these operations are not sufficiently substantial to constitute a branch of the enterprise are not recorded as trade in goods in the BPM6 (BPM6, para. 10.22(d)) but in IMTS are recorded as exports and imports.

F.11 *Goods transferred from or to a buffer stock organization* are recommended to be included in IMTS (see paragraph 1.27). The BPM6 excludes goods temporarily exported or imported, such as goods for storage, if no change of ownership takes place (BPM6, para. 10.22(e)).

F.12 *Goods which cross borders as a result of transactions between related parties* are recommended to be included in IMTS, irrespective of whether a change of ownership occurs (see paragraph 1.22). The BPM6 records a trade in goods transaction only if it can be determined that there is a change of ownership (BPM6, para. 10.24).

F.13 *Non-monetary gold* is recommended to be included in IMTS (see paragraph 1.10). Transactions in non-monetary gold between residents and non-residents are recorded in the balance of payments statistics even when there is no physical movement (BPM6, para. 10.50-10.54).

F.14 *Goods under merchanting* are recommended to be excluded from IMTS (see paragraph 1.50). The BPM6 records goods under merchanting separately as a negative export when acquired by a resident from a nonresident, and as an export when sold by a resident to a non resident (BPM6, para. 10.23(a) and 10.41–10.49).

F.15 *Differences in time of recording*: For high value capital goods that are produced over a long time period the BPM6 recommends recording according to the time that the economic ownership is conveyed from the seller to the buyer (BPM6, para. 10.28). The time of ownership change could be a progressive change based on stage payments or in full on delivery. Likewise, goods on consignment (goods dispatched before their sale is arranged) are not recorded in the balance of payments until economic ownership changes (BPM6 para. 10.29). For IMTS it is recommended that all goods be recorded at the time when they enter or leave the economic territory of a country (see paragraph 1.8).

F.16 *Different valuation of imports*: For IMTS it is recommended that the statistical value of exported goods be an FOB-type value and the statistical value of imported goods be a CIF-type value (see para. 4.8). The BPM6 requires that imports and exports be valued at a point of uniform valuation which is at the customs frontier of the economy from which the goods are first exported (BPM6, para. 10.30). Hence, while IMTS recommends CIF-type valuation for imports, the balance of payments / national accounts require a FOB-type valuation for imports.

## **B. Conceptual differences that have been eliminated in IMTS2010**

F.17 Several conceptually differences between the IMTS and balance of payments goods account have been eliminated in IMTS2010;

F.18 *Mobile equipment that changes ownership while outside the country of residence of its original owner* which was previously recommended to be excluded from export statistics but to be recorded separately (IMTS, Rev.2 para. 57) is now recommended to be included (see para. 1.39). The BPM6 stipulates that a transaction be recorded in the goods account only when ownership is then transferred from a resident to a non-resident (BPM6, para. 10.17(g)).

F.19 *Fish catch, minerals from the seabed and salvage*. Such goods sold from national vessels in foreign ports or from national vessels on the high seas to foreign vessels were previously recommended to be excluded from export statistics but to be recorded separately (IMTS, Rev.2 para. 58). The IMTS2010 as well as the BPM6 include these as goods transactions (see para. 1.31 and BPM6, para. 10.17(e)).

F.20 *Bunkers, stores, ballast and dunnage* that are (a) acquired by national vessels or aircraft outside the economic territory of a country or (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 were previously recommended to be excluded from export statistics but to be recorded separately (IMTS, Rev.2 para. 59). The IMTS2010 as well as the BPM6 include these as goods transactions (see para. 1.32 and BPM6, para. 10.17(d)).

### **C. Adjustments due to national practices in the compilation of trade statistics**

F.21 *Adjustments due to the trade system used.* The statistical territory of a country used for the compilation of IMTS might comprise only a particular part of the economic territory, so that certain flows of goods recommended for recording in IMTS are not included in either import or export statistics of the compiling country (see chapter 2). In these cases balance of payment compilers need to use additional sources of data to achieve the coverage of trade transactions for the whole economy (BPM6, para. 10.25).

F.22 *Trade not included in IMTS.* Due to different reasons, certain exports and imports, although recommended to be recorded, might in practice not or not fully be included in IMTS. In these cases balance of payment compilers need to use additional data sources to achieve full coverage of all trade in goods transactions.

### **D. Differences in figures published in trade statistics and the BPM6 Goods and Services Account**

F.23 As described above, the figures for imports and exports of ‘Total goods on balance of payment basis’ in the BPM6 Goods and Services Account are expected, at least for some countries, to be very different from the figures for total imports and exports published in trade statistics, probably often reflecting the role of goods for processing without change of ownership, transactions between related parties and merchanting in countries. Similar differences are expected for the sub-item re-exports. Also, the figure published for nonmonetary gold in the BPM6 Goods and Services Account can and will usually be different from the ones published in IMTS as BPM6 includes and excludes transactions of nonmonetary gold based on the residence of the buyer and seller.