Economic & Social Affairs

# International Merchandise Trade Statistics

*Compilers Manual*

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Department of Economic and Social Affairs
Statistics Division

# International Merchandise Trade Statistics

*Compilers Manual*

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# Part I

# COMPILERS MANUAL

# INTRODUCTION

1. The *International Merchandise Trade Statistics: Compilers Manual* has been prepared in accordance with the recommendation of the United Nations Statistical Commission at its twenty-ninth session, which recognized its preparation as the first priority task in the area of trade statistics.[1] The primary purpose of the *Manual* is to assist United Nations Member States in the implementation of the methodological guidelines adopted by the Commission and laid out in *International Merchandise Trade Statistics: Concepts and Definitions*, *Revision 2* (IMTS, Rev.2).[2] The *Manual* may also serve as a guide to users who wish to understand better the nature of trade data.

2. The *Manual* clarifies a number of basic concepts and identifies compilation practices that promote implementation of IMTS, Rev.2. It also addresses several institutional and administrative issues related to the compilation of trade statistics. It is directed to all institutions which play a role in the collection, compilation and dissemination of trade statistics—the term "compiler" as used in the *Manual* refers to those institutions. The *Manual* is considered to be relevant to all countries, irrespective of size, stage of economic development, level of application of computer processing and extent of electronic recording of customs transactions. It recognizes that customs departments around the world are the primary producers of basic data in trade transactions and many are re-engineering their organizations and approaches to the customs functions. Much of the text is written in respect of individual countries or areas. However, as customs unions have become more prevalent in recent years, specific reference to the practices and specific needs in customs unions has been added in many places.

3. The *Manual* builds upon a number of international conventions and agreements regarding customs procedures and trade policy matters, primarily those worked out by the World Trade Organization (WTO) and the World Customs Organization (WCO). Major provisions of those conventions and agreements relevant to trade data compilation have been incorporated into the text.

4. The *Manual* takes into account data compilation requirements approved by the Statistical Commission regarding national accounts and balance-of-payments statistics. **The *Manual* describes many actions that compilers should take or are advised or encouraged to take, which are printed in bold type.** They represent best and good practices. All of those actions may not be achievable in a given country due to resource, organizational or technical constraints, and should be implemented as far as practical. For ease of reference the full text of IMTS, Rev.2, is reprinted as part II of this publication.[3]

5. The *Manual* largely follows the structure of IMTS, Rev.2. It also covers other topics deemed to be beneficial to trade data compilers; for example, the issue of the treatment of electronic commerce and the use of non-customs sources of data are considered, as requested by the Statistical Commission at its thirty-first session.[4] The *Manual* is intended to deal only with issues directly related to compilation of basic data. For this reason, there are a number of issues relating to trade statistics that have not been dealt with or have been dealt with less extensively than they deserve; in addition, there are some basic data issues that could be given more attention. A list of such issues follows:

(*a*) How to improve relationships between national statistical offices, customs administrations and other institutions involved in trade statistics;

(*b*) Application of value thresholds for data recording and inclusion in trade statistics;

(*c*) Available software systems to assist customs and statistical authorities;

(*d*) Statistical registers—registers of trading organizations;

(*e*) Treatment of confidential data;

(*f*) E-commerce and trade in digital products;

(*g*) Description of the linkages and/or clearer demarcation between goods and services in international trade;

(*h*) Treatment of particular categories of goods, such as shuttle trade (i.e., goods brought in by travellers in excess of minimums specified by national law), undersea communications cables, satellites and their launchers and other products;

(*i*) Index numbers of trade;

(*j*) Seasonally adjusted data.

6. The *Manual* is divided into four sections, covering conceptual and institutional framework (chaps. 1 and 2); data sources (chaps. 3 and 4); data compilation (chaps. 5 to 11); and data dissemination, reconciliation and exchange (chaps. 12 to 14). Several annexes provide supplementary information and include relevant country experiences. **Countries are advised to prepare a "compilers manual" for their own use, documenting their practices**; this would

[1] See *Official Records of the Economic and Social Council, 1997, Supplement No. 4* (E/1997/24), para. 39 (*a*) (i); hereinafter the term "trade statistics" is used as a substitute for "international merchandise trade statistics". For ease of reference, outside of this publication the *Manual* will be referred to as "IMTS:CM".

[2] United Nations publication, Sales No. E.98.XVII.16. The reader may also wish to refer to the *Manual for the Compilation of International Trade Statistics in the ESCAP Region* (ESCAP, 1983); while some of the contents are dated, e.g., references to *International Merchandise Trade Statistics, Revision 1* (United Nations publication, Sales No. E.82.XVII.14) and to the then current commodity classifications used for trade statistics, it does provide useful explanations and advice.

[3] The IMTS, Rev.2, text incorporates minor technical corrections and also reflects revised terms of trade as published in *INCOTERMS 2000* (see para. 193 below).

[4] See *Official Records of the Economic and Social Council, 2000, Supplement No. 4* (E/2000/24), para. 6 (*a*) and (*c*).

ideally be produced as a joint effort by all the components of national administrations involved in trade statistics.

7. The *Manual* was drafted by the United Nations Statistics Division, with input from consultants and international organizations.[5] Outlines and drafts were reviewed by the Inter-Agency Task Force on International Trade Statistics.[6] The first draft was reviewed by an expert group consisting of both country and organizational representatives.[7] The expert group supported major recommendations contained in the draft and proposed certain amendments, most of which have been incorporated in the present text.

[5] Alena Barushka, Head, Foreign Trade Statistics Department, Ministry of Statistics and Analysis, Belarus; Adisa A. T. Odunlami, Assistant Director, Foreign Trade Statistics Branch, Federal Office of Statistics, Nigeria; Valery Orlov, Head, Department of Statistics and Analysis, State Customs Committee, Russian Federation; Kennedy Ray Shoniwa, Assistant Director, External Trade Statistics, Central Statistical Office, Zimbabwe; B. Walter, former Assistant Division Chief, Research and Methodology, Foreign Trade Division, United States Bureau of the Census; Li Yan, Deputy Director-General, Statistical Department, Customs General Administration, China; WTO, the International Monetary Fund (IMF), the Statistical Office of the European Communities (Eurostat), and WCO.

[6] The Task Force considered these matters at meetings held in Vienna from 21 to 23 March 2000, in Washington, D.C., from 8 to 10 March 1999 and in Brussels on 25 and 26 February 1998. The Task Force includes the United Nations Statistics Division, the Economic Commission for Europe (ECE), the Economic and Social Commission for Asia and the Pacific, the Economic Commission for Latin America and the Caribbean, the Economic Commission for Africa, the Economic and Social Commission for Western Asia, the United Nations Conference on Trade and Development (UNCTAD), the Food and Agriculture Organization of the United Nations (FAO), the World Bank, IMF, the Inter-American Development Bank, the International Trade Centre, the Organisation for Economic Cooperation and Development (OECD), Eurostat, WCO and WTO, which is the Convener.

[7] The expert group met in New York from 11 to 15 December 2000. It comprised 13 national experts, seven experts from international organizations and one Consultant. It was chaired by G. Vydelingum of the Central Statistical Office, Mauritius. The list of participants was as follows: A. Bin Ali (Malaysia), G. Durand (Mexico), D. Guédès (France), Y. Li (China), J. Martinez (Mexico), D. Oberg (United States), A. Odunlami (Nigeria), V. Orlov (Russian Federation), P. Pavão (Brazil), B. Santarossa (Canada), J. Sävenborg (Sweden), A. Torrance (Canada), G. Vydelingum (Mauritius); Statistics Division, Department of Economic and Social Affairs of the United Nations Secretariat (A. Civitello, V. Markhonko, R. Roberts), IMF (R. Dippelsman), OECD (A. Lindner), Eurostat (M. Lancetti), WCO (A. Ribeiro) and B. Walter (Consultant).

# CONCEPTUAL AND INSTITUTIONAL FRAMEWORK

## CHAPTER 1. CONCEPTUAL FRAMEWORK

8. The conceptual framework of the present *Manual* is established by the recommendations of the United Nations Statistical Commission and contained in IMTS, Rev.2 (see part II below). IMTS, Rev.2, is closely linked to many concepts and definitions used in other economic statistics or adopted in international conventions dealing with trade or customs matters.

9. *The 1993 SNA and BPM5*. The concepts of goods, services, economic territory, rest of the world, residency and change of ownership as provided in the *System of National Accounts, 1993* (1993 SNA)[8] and the *Balance of Payments Manual, Fifth Edition* (BPM5)[9] are relevant to trade statistics. The use of those concepts in the compilation of trade statistics is discussed in appropriate parts of the *Manual*.

10. IMTS, Rev.2, recommends the use of crossing the border rather than change of ownership as the basic principle for compilation of trade statistics since (*a*) trade statistics compiled on a physical movement basis are required for many purposes, including matters of trade policy and related economic analysis; and (*b*) customs-based data-collection systems run by most countries are unable to apply a change of ownership approach. However, implementation of IMTS, Rev.2, will result in data sets more compatible with the 1993 SNA and BPM5 requirements, and will also result in additional information which will allow compilers of national accounts and balance of payments to better meet their needs.

11. *Statistics of international trade in services*. At its thirty-second session, in 2001, the Statistical Commission adopted the *Manual on Statistics of International Trade in Services*.[10] **That publication should be taken into account by compilers of merchandise trade statistics in order to clarify the boundary between trade in goods and trade in services.**

12. *International conventions and agreements*. The international conventions and agreements most relevant to the compilation of trade statistics include:

(*a*) *The International Convention on the simplification and harmonization of Customs procedures* (Kyoto Convention).[11] The Kyoto Convention attempts to achieve universal harmonization of customs procedures, other than classification and valuation;

(*b*) *The International Convention on the Harmonized Commodity Description and Coding System*.[12] The Convention introduces the classification system for internationally traded commodities;

(*c*) *The United Nations Convention on Contracts for the International Sale of Goods*.[13] The Convention sets out the international guidelines on the content of contracts of sale;

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[8] Commission of the European Communities, IMF, OECD, United Nations and World Bank (United Nations publication, Sales No. E.94.XVII.4).

[9] Washington, D.C., IMF, 1993.

[10] United Nations publication, Sales No. E.02.XVII.11.

[11] See Customs Co-operation Council, *International Convention on the simplification and harmonization of Customs procedures* (Kyoto, 18 May 1973). WCO revised the Convention and adopted it in June 1999; the Covention is currently going through the necessary ratification process by countries prior to its coming into force (see paras. 60-62 below).

[12] See Customs Co-operation Council, *The Harmonized Commodity Description and Coding System* (HS) (Brussels, 1989).

[13] See *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).

(*d*) *General Agreement on Tariffs and Trade, Article VII*.[14] Article VII outlines basic principles to be followed in the valuation of internationally traded goods;

(*e*) *Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994*.[15] The Agreement provides rules on customs valuation of imported goods;

(*f*) *The WTO Agreement on Rules of Origin*.[16] The Agreement outlines basic principles to be followed in harmonization of non-preferential rules of origin.

The provisions of the above-mentioned conventions and agreements relevant to trade statistics will be described in more detail in the appropriate parts of the *Manual*.

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[14] See WTO, *The Results of the Uruguay Round of Multilateral Trade Negotiations: The Legal Texts* (Geneva, 1995), GATT 1947.

[15] Ibid., Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade.

[16] Ibid., Agreement on Rules of Origin.

# CHAPTER 2. INSTITUTIONAL FRAMEWORK

## 2.1 Roles of national statistical offices, customs and other national agencies

### A. *Legal framework for data compilation*

*Legal status of customs records*

13. The national law usually requires that importers and exporters of goods report particulars of their transactions to customs for the purposes of collection of duties and taxes and for health, environmental and/or other control purposes and for statistical purposes. In many countries, a person who fails to lodge the required declaration, or knowingly or recklessly lodges an inaccurate declaration, is liable for an offence. That makes customs records a readily available and generally reliable source of data.[17] The benefits of using customs records include, for example, wide coverage, particularly in the case of imports, minimum reporting burden on traders and relative inexpensiveness (as compared to using possible alternative sources of data, for example, enterprise surveys (see paras. 91-97 below)).

*Legal status of other sources*

14. Compiling agencies are generally authorized, through law or regulation, to collect the documents and data elements necessary to compile trade statistics. The national law or regulations on statistics may require that statistically relevant information in possession of any institution, including information on foreign trade, be made available to authorized governmental agencies (see annex D.6 below). Information regarding any particular transaction used for statistical purposes is normally confidential under national laws and may not be passed on by compilers to unauthorized governmental agencies or to the general public. Generally, only aggregated information may become public.

15. **Compilers should establish a working arrangement with the organizations keeping records relevant to trade statistics** (e.g., records of imports and exports of electrical energy, pipeline shipments of natural gas and crude oil, maintained by specialized governmental agencies). **Compilers should also initiate, whenever appropriate, modifications to national legislation or relevant administrative regulations in order to establish a solid foundation for enhancing the quality and timeliness of trade statistics.** This includes identifying governmental agencies involved in trade statistics and setting up a clear division of responsibility between them.

### B. *Institutional arrangements*

16. *Agencies involved in data compilation*. Compilation and dissemination include activities necessary to ensure the accurate and timely production and distribution of trade statistics. In brief, those activities include the collection of basic records, data editing, database maintenance and dissemination.[18] In most countries, the activities of agencies involved in trade statistics compilation are defined by national law. Each country has its own set of institutional arrangements; however, the arrangements can be grouped into a few categories, depending on the assignment of the responsibilities to various agencies. The main national organizations involved in the compilation of trade statistics are national statistical offices (statistical offices), customs offices and central banks. In some countries, the department of trade or other specialized governmental body may be assigned responsibility. Other governmental agencies (e.g., commodity boards, ministries of commerce/economy, trade development boards etc.) may also play an important role, for example, by providing additional information.

17. *Collection of basic records* includes the extraction of relevant information from customs records and records of other source agencies. It involves active cooperation with those agencies in order to ensure the flow of information and, if needed, a search for additional sources which would complement the established ones. **When developing or amending their data-collection and data-transmission activities, compilers should follow the United Nations layout key for trade documents and the United Nations rules for Electronic Data Interchange for Administration, Commerce and Transport (EDIFACT).**[19] The layout key and interchange rules were developed by ECE, in cooperation with other international organizations and the business community. Any collection process should result in sets of records assembled in a form suitable for editing.

18. *Data editing* comprises a variety of activities that are designed to ensure that statistical requirements are met with regard to the data collected. This includes checking individual transactions for the validity of codes (e.g., for customs procedure, commodity and partner country) and examining the compatibility of calculated unit values with expected values. **If problems are discovered, compilers should request a review of the accuracy of the source documents and make corrections, where necessary.** The edited data would then replace the original data.

19. *Database maintenance and dissemination* refer to activities which ensure the processing of raw data into trade statistics. These include the safekeeping of the data in the computer system; checking completeness of records; the identification of missing data and imputation of certain data parameters; the analysis of data consistency; ensuring conti-

[17] The reliability of customs records may vary depending on the degree of customs control and the cooperation of traders.

[18] For more details regarding data processing and data quality see chap. 11; issues relevant to dissemination are described in chap. 12.

[19] See the following ECE web site addresses for details: *http://www.unece.org/cefact/images/layoutk2.gif*, *http://www.unece.org/cefact/rec/rec01en.htm* and *http://www.unece.org/cefact/trafix/bdy_recs.htm*.

nuity of series; and making those statistics available for internal review and for users by the preparation of generalized and customized reports. Those activities may identify problem areas and suggest possible ways to improve data collection and editing.

20. The most typical institutional arrangements are when the statistical office, customs, or the central bank are responsible for those functions.

21. *Compilation by the statistical office*. This is the most common practice. In this case, the statistical office holds overall responsibility for the compilation, including data editing, database maintenance and dissemination, and the issuance of methodological guidelines. Customs is responsible for collection of the basic records and for supplying the statistical office with those records on a regular basis; normally, customs carry out some editing of records before passing them to the statistical office.[20] The statistical office further edits the customs records and merges them with information received from other (i.e., non-customs) sources.

22. The reliance by the statistical office on data from sources external to itself requires close cooperative relationships with all governmental departments and agencies involved. **The statistical office and the customs agency—the largest data supplier—along with other source agencies, should establish a memorandum of understanding so that the roles and responsibilities of each party with regard to all aspects of the production and distribution of official statistics are clearly defined. The memorandum should be updated, as needed.**

23. *Compilation by customs*. In this case, all compilation activities, from the collection of basic records to dissemination, are the responsibility of customs. **The customs administration should use sources additional to customs documents, if necessary, to obtain full coverage and compliance with the methodological recommendations for trade statistics.** The statistical office is normally responsible for any additional adjustments necessary to publish data in accordance with the SNA/balance-of-payments requirements.

24. Two conflicting requirements that customs face are: (*a*) the need to diminish barriers to the flow of trade, which leads to the simplification and reduction of reporting requirements on traders; and (*b*) increased pressure from users (both government agencies and the business community) to supply more trade data of increased quality and detail within a shorter time frame. **To meet those requirements and ensure that any necessary additional sources of data are being used and that compilation procedures comply with the recommended methodology, customs should cooperate with other agencies, particularly the statistical office** (see para. 22 above).

[20] For example, individual transactions are checked for the validity of the codes for customs procedure, commodity or partner country, or for compatibility of calculated unit values with expected unit values. Edit failures lead to a review of the transaction records by customs. Unlike import transactions, records of exports are often transferred to the national statistical office in an unedited form.

25. *Compilation by the central bank*. In a small number of countries,[21] the central bank is responsible for compilation and dissemination of trade statistics. Under this arrangement, the bank receives the customs records on a regular basis, and compiles and disseminates the trade statistics in a manner similar to that of the statistical office-led compilation described above.

26. Other institutional arrangements based on the administrative structure in a country can be effective in the compilation of trade statistics (see para. 16 above).

27. Any of the above-mentioned institutional arrangements may result in acceptable trade statistics provided that the responsible agency follows internationally recognized methodological guidelines, utilizes all available statistical sources and applies appropriate compilation procedures. **Whatever the institutional arrangement, the responsible agency should periodically review the definitions, methods and the 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.**

28. **In all cases, when publishing data the responsible agency should provide a clear description of the organizational arrangements, the concepts and definitions applied and the compilation methods used.**

### C. *Cooperation among agencies*

29. Cooperation among the agencies involved in the compilation of trade statistics is of paramount importance to produce good trade statistics; it is especially important given resource constraints, confidentiality issues and the growing demand for more current, detailed and accurate statistics. **In response to such competing demands, statistical offices, customs and any other agencies involved in collecting information relevant to trade statistics should maintain a close working relationship in order to ensure that each agency is informed of current and potential developments which could affect the trade statistics** (see para. 22 above concerning establishing memorandums of understanding).

30. The development and maintenance of such close working relationships is essential to ensure that the responsible agency is aware of any changes in policies and procedures of source agencies that might affect the compilation of trade statistics, and that source agencies are sensitized to the needs of the responsible agency. **In such cooperative efforts, all parties should respect legislation concerning the confidentiality of information.**

31. The development and maintenance of such close working relationships may require the commitment of additional resources on the part of both the responsible and the source agency. Source agencies (mostly customs administrations) may benefit from integration into their databases of information collected by statistical offices, central banks and other agencies (such as on prices/unit values), provided that the data are made available in a timely fashion and comply with the established quality requirements.

[21] For example, in Belgium, Chile, Ecuador, Paraguay and Uruguay.

### 2.2 Institutional arrangements in the case of customs unions

32. *Customs unions.* WCO has defined a customs union as an "entity formed by a customs territory replacing two or more territories . . ."[22]

33. *Data compilation on trade with third countries*. **At the time a customs union is being formed, trade data compilers should take steps to ensure the quality and timeliness of data on trade with third countries.** That can be accomplished by supporting and promoting the standardization and streamlining of customs procedures in a manner consistent with the recommendations contained in IMTS, Rev.2. Coordination among the involved institutions, as in the case of individual countries, is essential. In a customs union, there is normally increased use of trade statistics and attention to their reliability by the Governments of the customs union's member States. Such attention and resulting efforts at capacity-building may further benefit the compilation of trade statistics.

34. *Approaches to compilation of statistics of intra-union trade*. Depending on the agreements between member States, intra-union trade may be exempt from customs control and recording, or such control and recording may be substantially reduced. At the same time, statistics of intra-trade are normally required for national policy analysis and for monitoring the performance of the union, which raises the question of data sources. The special circumstances of each union will dictate specific solutions. The following approach, which draws on the approach adopted by the European Union, can be effective:

(*a*) Intra-union movements of goods are to be registered when they arrive in or are dispatched from the statistical territory of member States. In certain cases (e.g., trade in ships and aircraft), the time of recording may be set at the time when ownership changes from a person resident in one member State to a person resident in the other member State;

(*b*) In the absence of customs records, data can be collected from trading enterprises using specially designed forms.[23] Such forms should provide for reporting not only the total trade by value but also the trade in particular commodities, both in value and in quantity units, and by partner country;

(*c*) To reduce the reporting burden, thresholds (value or quantity) should be applied (see para. 69 below);

(*d*) In the event that the collection of exports data is more successful than the collection of imports data due to the non-reporting of imports by the thousands of small trading enterprises and individuals, one member State can use exports data collected by another, with certain adjustments, as a substitute for its own imports data;

(*e*) **If the customs union continues to use goods declarations in their simplified form, compilers should use all the statistically relevant information contained in such forms and should complement such information with data obtained from non-customs sources**;

(*f*) Partner country attribution for exports (dispatches) may be the member State of last known destination of the goods; for imports (arrivals), it should be the member State of consignment of the goods, since the rules of origin are not used in such a case;[24]

(*g*) The valuation of goods should be based on reported invoice prices and on additional information regarding cost of freight and insurance.

35. *Compilation of trade statistics at the customs union level*. **In addition to trade statistics compiled by the member States of a customs union, which cover trade with third countries as well as trade with other member States of the customs union, customs union secretariats are encouraged to compile detailed trade statistics with reference to the statistical territory of the union as a whole.** Those statistics should be compiled on the basis of the relevant recommendations contained in IMTS, Rev.2.

[22] See WCO, *Glossary of International Customs Terms* (Brussels, 1995).

[23] Some types of special forms can be used both for tax collection purposes and as a substitute for customs declarations; see part I, annex A, for examples of customs documents.

[24] In practice, the member State of consignment is frequently approximated by the State from which the goods were originally dispatched.

# DATA SOURCES

## CHAPTER 3. CUSTOMS DECLARATIONS AND RELATED CUSTOMS RECORDS

### 3.1 Provisions in World Customs Organization (WCO) instruments regarding customs declarations and procedures

#### A. *General*

36. *Customs declarations as the most prevalent source of trade data*. Goods are brought into (withdrawn from) the economic territory of a country under various customs procedures with associated declarations that contain many statistically important particulars of such movements. Accordingly, IMTS, Rev.2, treats those customs records as the most prevalent source of data and recommends that statisticians take advantage of it (IMTS, Rev.2, paras. 10 and 11).[25] Customs regimes and practices in different countries, however, may differ regarding details of those procedures and records, thus contributing to differences in country data availability. **Recognizing the need to increase data usefulness for national policy purposes and to ensure their better international comparability, compilers should cooperate with the national customs authorities in promoting the application of international guidelines on customs procedures laid out by WCO.**[26] A summary of terminology and those guidelines is provided below.

37. *The customs (goods) declaration and the declarant*. The declaration is "any statement or action, in any form prescribed or accepted by the customs, giving information or particulars required by the customs".[27] The declarant is "any natural or legal person who makes a customs declaration or in whose name such a declaration is made".[28] The Kyoto Convention notes that a declarant need not be the owner of the goods but may be any person having the right to dispose of the goods (e.g., the carrier, the forwarding agent, the consignee or an agent approved by the customs).[29] The term "customs declaration" includes not only traditional declarations in the form of paper documents but also declarations made through electronic and oral means and actions required on the part of passengers under the dual-channel (red/green) system. The "data content" of those declarations may vary significantly; normally, the most comprehensive data records are provided when goods are cleared for home use or declared for outright exportation (see paras. 41, 42 and 66 below).

#### B. *Customs procedures under the Kyoto Convention*

38. *Customs procedures relevant to trade data collection*. A customs procedure is a "treatment applied by the customs to goods which are subject to customs control".[30] The annexes to the Kyoto Convention (original and revised versions) identify a set of customs procedures, and provide standards and recommended practices regarding those activities. From the statistical point of view, those procedures can be separated into two categories:

(*a*) Procedures covering goods which are to be included in trade statistics;

(*b*) Procedures covering goods which are to be excluded from those statistics.

Countries may have other procedures in addition to those identified in the Kyoto Convention (see para. 63 below). **Compilers should decide on the inclusion/exclusion of customs procedures following the recommendations contained in IMTS, Rev.2.**

39. *Customs procedures under the Kyoto Convention covering goods to be included in trade statistics*. **Goods crossing an international border under the following procedures should be included in trade statistics** (references to both the original Kyoto Convention and the revised Kyoto Convention are made):

(*a*) Clearance for home use (annex B.1 (original)/general annex, chap. 3, and specific annex B, chap. 1 (revised));

(*b*) Outright exportation (annex C.1 (original)/specific annex C, chap. 1 (revised));

(*c*) Reimportation in the same state (annex B.3 (original)/specific annex B, chap. 3 (revised));

(*d*) Customs warehouses (annex E.3 (original)/specific annex D, chap. 1 (revised));

(*e*) Temporary admission for inward processing (annex E.6 (original)/specific annex F, chap. 1 (revised)) (see para. 119 below);

[25] Customs (and other) data from a partner country's imports can be helpful to an exporting country through data exchange (see section 13.2 below).

[26] Most of those procedures are formulated in the International Convention on the simplification and harmonization of Customs procedures, which was signed at Kyoto on 18 May 1973 and revised in June 1999; WCO also has the *Glossary of International Customs Terms* to facilitate uniformity in use of customs terminology (see footnote 22).

[27] See WCO *Glossary* (see footnote 22); see also revised Kyoto Convention, general annex, chap. 2, E19/F8, goods declaration.

[28] See WCO *Glossary* (see footnote 22); see also revised Kyoto Convention, general annex, chap. 2, E14/F7.

[29] See Kyoto Convention, annex B.1, note to standard 5; and guidelines to the revised Convention, general annex, chap. 3, standards 3.6 and 3.7.

[30] See WCO *Glossary* (see footnote 22), and revised Kyoto Convention, general annex, chap. 2, E7/F3.

(*f*) Temporary exportation for outward processing (annex E.8 (original)/specific annex F, chap. 2 (revised)) (see para. 119 below);

(*g*) Free zones (annex F.1 (original)/specific annex D, chap. 2 (revised));

(*h*) Processing of goods for home use (annex F.2 (original)/specific annex F, chap. 4 (revised));

(*i*) Customs formalities in respect of postal traffic (annex F.4 (original)/specific annex J, chap. 2 (revised)) (see paras. 78-82 below);

(*j*) Urgent consignments (annex F.5 (original)/annex deleted in the revised Kyoto Convention but principles were incorporated in the general annex, chap. 3, and specific annex J, chap. 5 (revised)).

40. *Customs procedures under the Kyoto Convention covering goods which are to be excluded from trade statistics*. **Goods crossing an international border under the following procedures should be excluded from trade statistics:**

(*a*) Temporary storage of goods (annex A.2 (original)/specific annex A, chap. 2 (revised));

(*b*) Commercial means of transport (annex A.3 (original)/specific annex J, chap. 3 (revised));

(*c*) Customs treatment of stores (annex A.4 (original)/specific annex J, chap. 4 (revised));

(*d*) Customs transit (annex E.1 (original)/specific annex E, chap. 1 (revised));

(*e*) Trans-shipment (annex E.2 (original)/specific annex E, chap. 2 (revised));

(*f*) Temporary admission subject to re-exportation in the same state (annex E.5 (original)/specific annex G, chap. 1 (revised));

(*g*) Customs facilities applicable to travellers (annex F.3 (original)/specific annex J, chap. 1 (revised)) (but see para.116 below);

(*h*) Carriage of goods coastwise (annex F.7 (original)/specific annex E, chap. 3 (revised)).

For each procedure listed in paragraph 39 and 40, the Kyoto Convention provides certain definitions and requirements; each procedure listed in paragraph 39 above (the procedures to be included in trade statistics) is described in paragraphs 41-50 below. Much of the information recorded in the declarations is essential for the purposes of the compilation of international merchandise statistics and will be discussed in chapters 5 to 10 below.

41. *Clearance for home use and outright exportation*. The Kyoto Convention defines clearance for home use as a customs procedure "which provides that imported goods may remain permanently in the customs territory", and outright exportation as a customs procedure "applicable to goods which, being in free circulation, leave the customs territory and are intended to remain permanently outside it".[31] In both cases, the Convention stipulates that the customs authorities shall require that the goods declaration provide particulars deemed necessary not only for enforcing national laws but also for the compilation of statistics.

42. *Particulars of the declarations when goods are cleared for home use or declared for outright exportation*. The customs declaration lodged when goods are declared for home use (or outright exportation) generally require:[32]

(*a*) Particulars relating to persons:
- Name and address of declarant;
- Name and address of importer (exporter);
- Name and address of consignor (consignee);

(*b*) Particulars relating to transport:
- Mode of transport;
- Identification of means of transport;

(*c*) Particulars relating to the goods:
- Country from which consigned and country of origin (country of destination);
- Description of the packages (number, nature, marks and numbers, kind, weight);
- Tariff description of the goods;

(*d*) Particulars for assessment of import duties and taxes (for each description of goods); particulars for assessment of any export duties and taxes:
- Tariff heading;
- Rates of import (export) duties and taxes;
- Gross weight, net weight or other quantity;
- Dutiable value (value—in the case of exports);

(*e*) Other particulars:
- Statistical item number applicable to each description of goods;
- Area from which the goods were consigned or reference to applicable legal provision (where preferential treatment is claimed);
- Reference to documents submitted in support of the goods declaration;

(*f*) Place, date and signature of the declarant.

43. *Reimportation in the same state*. The Kyoto Convention requires that "goods declaration forms used for reimportation in the same state should be harmonized with those used for clearance for home use".[33] **Compilers should cooperate with the customs administrations in harmonization of those declarations to ensure better availability and comparability of data.** The Convention notes that, instead of declaration forms specially designed for the reimportation procedure, the customs may accept a declaration lodged at the time of goods exportation containing a notification of intended return of the goods. **Where goods are so declared, they are normally regarded as placed under a customs procedure described as "temporary exportation" and should be excluded from trade statistics.**

[31] See Kyoto Convention, annex B.1, definition (*a*), and annex C.1, definition (*a*); see also revised Convention, specific annex B, chap. 1, and specific annex C, chap. 1.

[32] See Kyoto Convention, annex B.1, notes to standard 11, and annex C.1, note to standard 8; and guidelines to the revised Convention, general annex, chap. 3, standard 3.12.

[33] See Kyoto Convention, annex B.3, recommended practice 15; and revised Convention, guidelines to specific annex B, chap. 2, standard 11.

44. *Customs warehousing*. The Kyoto Convention stipulates that national legislation will specify the conditions of lodgement and contents of the declaration. **Compilers should make arrangements with customs to obtain the customs documents or monthly reports on movement of goods (both inward and outward) between such warehouses and the rest of the world**, **and should use them as the basis for the compilation of trade statistics.**

45. *Temporary admission for inward processing*. The Kyoto Convention stipulates that national legislation will specify the conditions of lodgement and contents of the declaration. However, it recommends that national forms used on temporary admission for inward processing be harmonized with those used for goods declaration for home use.[34] In some cases, the authorization granting the procedure and the declaration will be the same. **Compilers should cooperate with the customs administrations in the harmonization of those declarations to ensure full coverage of both import and export flows in trade statistics, as well as better availability and comparability of data.**

46. *Temporary exportation for outward processing*. The Kyoto Convention recommends that when goods are exported for outward processing, the declaration designed for outright exportation can be used. If special forms are introduced by national legislation, they should be harmonized with the declaration for outright exportation.[35] **In customs territories where such special forms are used, compilers should cooperate with customs administrations to harmonize them with the declaration for outright exportation.** The Convention advises that in carrying out that procedure, administrations use, if necessary, an "information document" designed by WCO.[36] The revised Convention refers to the information requirements for the procedure, including the possible granting of an authorization. The information document contains such statistically important indicators as tariff reference number, commercial description, gross weight, net weight, value and country where goods are exported.[37] **Compilers should obtain completed copies of such information documents and use them as a supplementary source of information.**

47. *Admission to free zones*. Lodgement of any documents in respect of goods brought into (removed from) free zones and their content are not regulated by the Kyoto Convention. The Convention recommends only that when a document must be presented the customs "shall not require more than the production of a commercial or official invoice, waybill, dispatch note etc. giving the main particulars of the goods concerned". The revised Convention recommends that "no goods declaration should be required . . . if the information is already available on the documents accompanying the goods".[38] **In that connection, countries are encouraged to assess their needs for statistical information and to include in the relevant legislation, preferably at the time a free zone is established, a provision which would allow compilers access to such documents.**

48. *Admission for processing of goods for home use*. This procedure allows for the import of goods for processing with the intention to declare them for home use. Lodgement of the customs declaration and its content are regulated by the national legislation. **Compilers should be aware that the Kyoto Convention accepts the practice of admitting goods and giving an approval for processing prior to the lodgement of the declaration if the operations involved in processing are relatively simple.**[39] **In such a case, compilers should make efforts to obtain the dates of actual border crossing from non-customs sources.**

49. *Customs formalities in respect of postal traffic*. According to the Kyoto Convention, clearance of goods in postal traffic "shall be carried out as rapidly as possible and customs control shall be restricted to the minimum".[40] It states also that the customs declaration should not be required unless goods are dutiable, taxable or subject to special customs control. **Trade statistics compilers, while collecting data available from customs, should establish permanent working arrangements with the national postal services to obtain information on goods in postal traffic not reflected in the customs records** (see paras. 78-82 below for details).

50. *Admission of urgent consignments*. The Kyoto Convention stipulates that the declarant should be authorized to lodge the goods declaration before the arrival of urgent consignments, and provisions should exist for a simplified goods declaration procedure, including an oral declaration.[41] However, customs may request the subsequent furnishing of more detailed information. **Compilers should systematically collect this detailed information and decide whether to subsequently revise the provisional data obtained from the simplified declarations, and should contact the main recipients of the urgent consignments if such information is not available from the customs information.**

### C. *Verification of the declared information*

51. The Kyoto Convention recognizes the rights of the national customs administrations to ensure the accuracy of the information contained in the declarations by various means, including examination of the goods and any reference documents.

52. *Examination of goods*. Although the detailed examination of goods is considered a prerogative of any country, the Convention recommends that "the customs authorities should in as many cases as possible be content with a sum-

[34] See Kyoto Convention, annex E.6, recommended practice 14.

[35] See Kyoto Convention, annex E.8, recommended practices 9 and 10.

[36] See Kyoto Convention, annex E.8, recommended practices 9 and 10; and revised Convention, specific annex F, chap. 2, standards 4 and 7 and their guidelines.

[37] See Kyoto Convention, annex E.8, recommended practice 13, and appendix I to annex E.8.

[38] See Kyoto Convention, annex F.1, standard 12; and revised Convention, specific annex D, chap. 2, recommended practice 9.

[39] See Kyoto Convention, annex F.2, note to standard 10.

[40] See Kyoto Convention, annex F.4, standard 3; and revised Convention, specific annex J, chap. 2, standard 3, and guidelines to the general annex, chap. 6.

[41] See Kyoto Convention, annex F.5, standards 7 and 9, and note 2 to standard 9; and revised Convention, general annex, chap. 3, standard 25, and specific annex J, chap. 5, on relief consignments.

mary examination of goods declared for home use".[42] In summary examinations, the customs "may carry out some, though not necessarily all, of the following checks—counting the packages, noting their marks and numbers, and ascertaining the description of goods. Detailed examination may be done and involves thorough inspection of the goods to determine as accurately as possible their composition, quantity, tariff heading, value and, where necessary, origin."[43] In many cases, no customs inspection is carried out at all. In most cases, the trade statistician is not aware of whether inspection has been done or not. **Consequently, compilers are encouraged to periodically use non-customs sources to cross-check the reliability of information relevant to trade statistics and to complement any missing or inaccurate information as necessary (this is especially important if the trade statistician is aware that a summary examination or no examination was done).**

53. *Reference documents accompanying customs declarations*. The Convention acknowledges the need for the customs to use reference documents to support or verify statements made in the declarations. The most typical examples of such documents are import licences, documentary evidence of origin, health or phytopathological certificates, commercial invoices and transport documents.[44] **Compilers should make standing arrangements with the customs authorities to have access, as permitted by law, to whichever of those documents are collected, and use them as additional sources of information.**

D. *Lodgement of declarations and data-collection issues*

54. *Time of lodgement and time of data recording*. The Kyoto Convention does not provide strict standards regarding the timing of lodgement. It states only that national legislation should define the time limit for lodgement which will enable the declarant to assemble the particulars needed for making the declaration and to obtain the required supporting documents. Governments are free to select the beginning of the time limit; the Kyoto Convention names, as the examples, the time when goods are unloaded, presented at the customs office or released.[45] It follows that lodgement of the declaration and the actual time when goods cross the border of the economic territory of a country may, in some cases, vary significantly. However, since time of lodgement generally approximates crossing of the border of the economic territory of a country, it is recommended by IMTS, Rev.2, as the time of trade data recording in the case of customs-based systems of data collection (see para. 111 below for discussion of the limitations of time of lodgement).

55. *Lodgement of provisional or incomplete declarations*. If the declarant, at the time of lodgement of the declaration, is unable to provide all the required information, the customs authorities may accept a provisional or incomplete declaration and release the goods under condition that the declarant will provide the missing information afterwards within the specified period.[46] It follows that lodgement of the proper (final) declaration and the time when goods cross the border of the customs territory may be far apart. **Compilers should (*a*) use provisional or incomplete declarations to identify time of lodgement and collect provisional data, and (*b*) use final declarations in order to revise/complete trade data.**

56. *Release of the declaration after release of goods*. Compilers should take into account the use of a standing authority for release of goods before presentation of the declaration. Such authority is given to a growing number of traders in order to enable speedy release of the imported/exported goods without waiting for collection of the documents needed for completion of the declaration.[47] **Compilers should include the data from such declarations in the monthly statistical reports corresponding to the months when the goods actually enter or leave the economic territory of a country; to establish this time compilers are encouraged to use non-customs sources of information if necessary, such as enterprise surveys** (see paras. 91-97 below).

57. *Periodic lodgement of declaration*. When goods are imported (exported) frequently by the same company/person, the Convention recommends that customs allow a single goods declaration to cover all importations (exportations) by that person for a particular reference period.[48] That facility may be granted if the company/person keeps proper commercial records and where necessary control measures can be taken. The Convention recognizes the right of customs to require that the declarant produce, at the time the goods actually cross the border, a commercial or official document, such as an invoice, waybill or dispatch note, giving the main particulars of the concerned consignment. **Compilers should periodically review such documents, if permitted by law, in order to be able to assign the trade to the appropriate month (based on time of crossing the border), especially in cases when trade is significant in value (amount) and/or the reference period of the reporting by the trader does not coincide with a period used for statistical reporting (normally the calendar month).**

58. *Absence of declarations*. In some cases, mostly when duties and taxes are not collected, national law may not require that declarations be lodged. **Compilers are encour-**

[42] The compiler should be aware that "summary examination may be considered sufficient, for example, where goods of the same description are imported frequently by a person known by the Customs to be reliable, where the accuracy of the particulars given in the declaration can be checked against other evidence, or where the import duties and taxes involved are low". See Kyoto Convention, annex B.1, recommended practice 39; and revised Convention, general annex, chap. 6, standard 6.4. See also guidelines to the general annex, chap. 3, standard 3.33, and chap. 6.

[43] See Kyoto Convention, annex B.1, note to recommended practice 38; see also guidelines to the revised Convention, general annex, chap. 3, standard 3.33.

[44] See Kyoto Convention, annex B.1, note to standard 15; and guidelines to the revised Convention, general annex, chap. 3, standard 3.16.

[45] See Kyoto Convention, annex B.1, note 1 to standard 22; and guidelines to the revised Convention, general annex, chap. 3, standard 3.23.

[46] See Kyoto Convention, annex B.1, recommended practice 12; and revised Convention, general annex, chap. 3, standard 3.13 and its guidelines.

[47] See Kyoto Convention, annex B.1, note to recommended practice 24; and revised Convention, general annex, chap. 3, standard 3.25 and its guidelines.

[48] See Kyoto Convention, annex B.1, recommended practice 25, and annex C.1, standard 14; and revised Convention, general annex, chap. 3, transitional standard 3.32 and its guidelines.

**aged to collect from the customs any information which may help to identify shipments of undeclared goods, and to use non-customs data sources to ensure proper coverage of the trade statistics.**

59. In general, for most customs procedures the Kyoto Convention leaves it to national legislation to decide what customs records are to be kept, whether or not a goods declaration should be lodged or what information it should contain. **Compilers of trade statistics should, therefore, cooperate with the customs to design such forms of customs records which, while not adding additional administrative or financial burden to customs and traders, allow the collection of basic data for the purposes of trade statistics.**

### E. *Revision of the Kyoto Convention*

60. The Kyoto Convention underwent a major revision and the revised text was adopted by WCO in June 1999. A major focus of the revision was to include the core principles of customs procedures in a single annex and to ensure its wider application. That has been achieved by the creation of the general annex, which is obligatory for accession. It contains only standards and no reservations can be entered against those provisions. There are 10 chapters in the general annex covering the key principles and provisions applicable to all customs procedures. In addition, there are 10 specific annexes, which include one or more chapters and cover individual customs procedures and practices. They contain standards and recommended practices, and reservations may only be submitted against the recommended practices.

61. For the purposes of the compilation of trade statistics, there is no significant impact of the revised Kyoto Convention, except that the references to specific annexes and chapters will differ from those of the current Kyoto Convention. For the most part, the notes and commentaries to the existing Convention have been incorporated in the guidelines to the chapters of the revised Convention.

62. All provisions of general application in the specific annexes are now incorporated in the general annex and its chapters; a Contracting Party accepting specific annex B, chapter 1, on clearance for home use, for example, will have to apply the provisions of the chapters of the general annex, which contain core provisions relating to the goods declaration, the examination of goods and the payment of duties and taxes, and will have to link the clearance for home use to the procedures and practices in the general annex.

## 3.2 Other customs declarations and procedures

63. *Other customs procedures relevant to trade statistics*. In addition to the customs procedures relevant to trade statistics and listed in the Kyoto Convention (see sect. 3.1 above), countries and customs unions use many other procedures.[49] The following is a sample of the procedures which are usually included in trade statistics:

*Goods on consignment*;

*Border trade* (trade between residents of adjacent areas of bordering countries as stipulated by national legislation);

*Barter trade*;

*International aid* (aid or donations given gratis between Governments or by international organizations);

*Gifts and donations* (to be included if to significant scale as defined by national law);

*Contracting projects* (exports of equipment or materials to be used for construction projects carried out by country residents);

*Goods on lease* (imports or exports under a financial lease arrangement) (see IMTS, Rev.2, para. 35);

*Equipment or materials invested by foreign-invested enterprises* (the import of equipment, parts or other materials by a foreign-invested enterprise as part of its total initial investment);

*Duty-free shop* (the duty-free import of commodities for sale in specific shops to specific individuals according to specific customs regulations);

*Processing in the customs territory*;

*Re-exports*;

*Seizure and subsequent resale by the State*.

64. *Variety of forms and names of goods declarations*. A review of country and customs union practices reveals a variety of forms of goods declarations. Usually, there are several forms of declaration, each of which is applied to a number of customs procedures. The names of declarations may vary from one country or customs union to another even if the forms are applied for similar customs procedures. The list of names include such designations as import/export declaration form, cargo customs declaration, shipper's export declaration, Single Administrative Document, entry/exit summary form, warehouse or free zone entry/dispatch form.

65. A declaration can exist not only as a printed document but also in electronic form. For example, many countries use electronic declarations for a significant percentage of imports. Many developing countries use the Automated System for Customs Data and Management (ASYCUDA), a computerized system developed by UNCTAD.[50] The electronic declarations significantly facilitate the processing of data. **Trade data compilers should cooperate with customs in developing electronic declaration forms and ensure that they contain all statistically significant data fields.**

## 3.3 Information required to complete a goods declaration

66. *Information required to complete a goods declaration*. The information normally required in declaration forms and relevant for compilation of trade statistics (either for in-

[49] The Kyoto Convention lists, inter alia, the most widely used regimes, such as clearance for home use and outright exportation (in some countries up to 90 per cent of all declarations).

[50] ASYCUDA can be configured to suit the national characteristics of individual customs regimes; for further detail, see the ASYCUDA web site at *http://www.asycuda.org*.

clusion into statistics or for verification purposes) includes the following:[51, 52]

*Port of import/export*: the port at which the goods actually enter or leave the customs territory of a country;

*Date of importation/exportation*: for imports, the date on which the carrier transporting the goods arrives at the customs territory; for exports, the date of departure or date of clearance;

*Date of lodgement*: the date on which the customs accepts the declarations submitted by importers, exporters or their agent;

*Importer/exporter*: in general, refers to the party in the customs territory who signed the contract of purchase/sale and/or who is responsible for executing the contract (i.e., the agent responsible for effecting import into or export from a country). Each importer or exporter is usually assigned a unique identification number;[53]

*Nature of transaction* (e.g., purchase/sale, barter, lease, gift);

*Mode of transportation*: the type of carrier which transports the goods into or out of the customs territory (e.g., sea and water, rail, road (truck), air, postal, other);[54]

*Carrier identification*: the name and the voyage/flight/wagon/vehicle number of the carrier actually transporting the goods into or out of the customs territory;

*Bill of lading/airway bill*: the importing or exporting carrier's bill of lading, airway bill number, rail receipt number, post office number;

*Consignee/consignor*: the party to whom goods are consigned/the party who consigns the goods;

*Country of consignment*: the country from which goods were dispatched to the importing country (to which goods were dispatched from the exporting country), without any commercial transactions or other operations which change the legal status of the goods taking place in any intermediate country;

*Customs procedure (regime)*: the type of customs procedure under which imported or exported goods are cleared from customs;

*Licence number*: validated import or export licence number, for goods subject to import or export licence;

*Related party transaction* (i.e., one between parent company or sister company);[55]

*Location of domestic consumer/producer*: Location of domestic consumer refers to the location in the customs territory for which imported goods are destined or where they will be ultimately consumed or utilized. Location of domestic producer refers to the location in the customs territory where the exported goods are produced, manufactured or from which the goods actually start their journey to the port of export, if the origin of production is unknown;

*Port of loading/destination*: "port of loading" means the last foreign port where the imported goods were loaded on the carrier that brought them to the compiling country; "port of destination" means the ultimate foreign port to which the exported goods will be designated;

*Terms of delivery*: the transaction terms of delivery is required to be reported, usually INCOTERMS 2000;

*Freight*: the freight charges;

*Insurance*: the insurance charges;

*Unit value*: the price actually paid for one unit (by quantity unit) of the given commodity when sold for exportation to the compiling country or purchased for importation from it, or the cost of one unit of the commodity if not sold or purchased;

*Total value*: the price actually paid for all units (by quantity unit) of the given commodity (multiply unit price by quantity), or the cost of the commodity if not sold or purchased;

*Customs value*: the value of goods established in accordance with the customs law of a country;

*Type of financial transaction*: an indication of payment method;

*Unit of account*: the currency in which the transaction occurs is required to be reported;

*Statistical value*: the value assigned to goods by a compiler of trade statistics, according to the rules adopted by the compiling country;

*Number and kind of packages*: the number and kinds of packages (bulk, boxes, barrels, baskets etc.);

*Marks*: marks or other identification shown on the packages and the numbers and kinds of packages (boxes, barrels, baskets etc.);

*Commodity code*: usually the HS-based code, where the first six digits are the HS codes and the others are national extensions;

*Commodity description and specification*: a sufficient description of the commodity to permit verification of the classification code or the description and specification as shown on the validated import or export licence;

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[51] Not all types of information are mandatory for many customs procedures.

[52] See examples of customs documentation provided in part I, annex A, below.

[53] For example, China uses a 10-digit ID number structured as follows:

- First five digits: location of the importer or exporter (city, province, special economic zone, bonded area, high-tech industrial development area etc.);
- Sixth digit: category of importer or exporter (State-owned enterprise, Sino-foreign contractual joint venture, Sino-foreign equity joint venture, foreign-owned enterprise, collective enterprise, private enterprise, other);
- Last four digits: serial number.

The ID number and name of the importer or exporter are required to be reported.

[54] The Working Party on Facilitation of International Trade Procedures, a subsidiary body of ECE, developed a one-digit numerical code to represent mode of transport and to specify categories of means of transport according to the mode for which they are intended. It also provided for the possibility of adding a second digit for any subdivision, as required. The definition of the codes (0 through 9) may be found on the Internet at *www.unece.org/cefact/rec/rec19en.htm*.

[55] Many countries do not include this requirement; countries have different criteria for determining whether parties are related.

*Gross weight* (kg): the gross weight of shipments in kilograms, including the weight of moisture content, packings and containers (other than containers, such as cargo vans and similar substantial outer containers used for containerized cargo);

*Net weight* (kg): the net shipping weight in kilograms, excluding the weight of packages or containers;

*Domestic or foreign goods*: specification of whether the good is of domestic or foreign origin;

*Quantity and quantity unit*: report the amount in terms of the unit(s) adopted by national legislation; in many cases, they are based on the standard units of quantity recommended by WCO. The unit of quantity specified in the transaction is also required to be reported if it is other than the customs standard units;

*Country of origin*: as established in accordance with the country's rules of origin;

*Country of destination (also called country of final or ultimate destination)*: the country in which the merchandise is to be consumed, further processed or manufactured; the final country of destination as known to the exporter at the time of shipment; or the country of ultimate destination as shown on the validated export licence. Two- or three-digit (alpha character) International Organization for Standardization (ISO) codes or other codes may also be used.

67. Customs declarations may also contain information which can be used to analyse the structure of trade, not only by parameters recommended by IMTS, Rev.2, but also by other parameters important for a given country or customs union (e.g., identification of goods under export or import controls, province/state within the country from which the goods originate). Such practice is not in conflict with international recommendations. **To the contrary, compilation of additional information needed for a country is encouraged.**

### 3.4 Training in how to complete customs documents

68. The proper completion of customs declarations requires some specialized knowledge. To assist traders and to ensure faster processing, detailed instructions regarding completion of the declarations are normally prepared by customs. Customs usually conducts training for its own staff as well as for the business community. **Compilers should participate in those training efforts to sensitize traders to the statistical needs that are met by the declarations.**

### 3.5 Reporting thresholds and retention of records

69. Certain goods that are not strictly controlled can be declared in less detail or be made exempt from reporting requirements; this can also apply when the value (or quantity) is below a certain customs-defined threshold.[56] Compilers should be aware of those transactions and decide whether and how to include them in the trade statistics to avoid unwarranted loss of coverage. If the value of the trade is considered significant, it should be included in the statistics. **Compilers should develop, in cooperation with the customs administration, adequate data-collection procedures for those transactions.** Those procedures may rely on the use of commercial documents available to the customs or may be based on appropriate non-customs sources of data. Compilers may also establish a threshold for statistical purposes, i.e., set a value below which transactions may not be processed and included in the detailed trade statistics, or may be included in the trade statistics based on a sampling approach. That approach is useful where resources may not be sufficient to process all the transactions on a timely basis. In those cases, clear notes should be included with the statistics, explaining what has been done.

70. National law usually requires that, for control purposes, copies of goods declarations, along with any supporting documentation, be kept for several years.[57] **Compilers should work with customs to develop a retention policy for those documents that support statistical needs.**

[56] For example, in the United States, most import transactions valued at less than $1,500 may be reported "informally", with only minimal information reported.

[57] For example, in the United States, exporters or their agents must maintain copies of shipping documents for three years after exportation.

# CHAPTER 4. NON-CUSTOMS SOURCES OF DATA

71. The non-customs sources of information described below can be useful to supplement customs data and to assist in the cross-checking of customs data; they are not generally recommended as substitutes for customs data.

## 4.1 Foreign shipping manifests

72. Foreign shipping manifests may contain some of the same information that is relevant to trade statistics as that found on customs declarations; they may be of use as a source in cross-checking and/or supplementing information gathered from customs declarations. Quantities in weight and number are usually available, as are information on freight, description of the commodities (but the commodity code may be missing), names and addresses of the parties to the transaction and country of origin or destination. Such other information as labour charges for packing, value of packages and fees for cartage to dock, marine insurance, inland freight and some other commissions may also be available. The main deficiency of foreign shipping manifests is that the value of the goods is frequently missing, and if the value is provided, it may summarize a number of tariff lines, be entered in the currency of the exporting country and be on a free-on-board (FOB) basis.

73. In some countries, port administrations produce certain statistics from shipping manifests for port management purposes. **Those statistics may also be used to cross-check the data collected from customs declarations. Ideally, there should be collaborative agreements between the statistical office, customs and port administrations, aimed at mutual assistance in compilation of trade-related statistics.**

## 4.2 Currency exchange records and records of monetary authorities

74. *International Transactions Reporting System (ITRS)*. Under an ITRS, banks and other financial institutions are required to collect information on all transactions between residents and non-residents which have a corresponding financial flow and which are settled through them. That information is then supplied to the central bank for regulatory and/or statistical purposes. Those records may provide a supplementary source of information and information to cross-check the customs-based trade statistics. **However, in utilizing ITRS data, compilers should be careful to separate merchandise flows from service, income, transfers and financial flows.**

75. Trade data from ITRS differ in nature from those from a customs-based system as a result of being derived from records of financial flows rather than from the documentation of physical flows of merchandise. Although ITRS may be used to provide an early broad estimate of total merchandise trade, commodity or country detail is invariably less detailed. Quantity data may not be covered at all.

76. There may be potential biases in the data if there are exchange controls that may encourage understatement of exports and overstatement of imports; those may be harder to identify because an ITRS does not provide the possibility of inspection. Timing issues also arise for an ITRS since a financial transaction is measured at the time it is handled through the banking system. That may result in a time different from when the goods changed ownership (as required for balance of payments and national accounts statistics) or when the goods were exported or imported (as used in customs-based trade statistics).

77. The advantage of ITRS is that sometimes it can provide more timely total data than a survey or customs system. For example, ITRS may be faster because customs declarations from some border posts may take longer to arrive, or the central bank and/or commercial banks may have computerized systems that are faster than the systems used in the customs and/or statistical offices.

## 4.3 Parcel post and letter post records

78. The treatment of parcel post and letter post shipments by customs offices is governed by the acts of the Universal Postal Union, which is currently composed of 189 member States. The acts, which consist of the Constitution of the Universal Postal Union, the general regulations of the Postal Union and the Universal Postal Convention (UPC), are binding on all member States.

79. Among other matters, UPC deals with the issue of items (letter post, parcels) which are subject to customs control. It provides, for example, that items weighing less than two kg and with the value of their contents less than 300 special drawing rights should bear a special form (CN22). All other items should be accompanied by form CN23. The CN22 form contains a description of content by separate articles, their net weight and value. The CN23 form, usually referred to as a customs declaration, requires additional information; the information should be provided by the sender and should include such statistically important indicators as country of origin of goods, tariff number and customs value. The items and the respective forms are to be presented to customs, which then makes its decision regarding clearance based on the information provided in those forms.

80. **If values declared on the CN22, CN23 or other postal forms exceed the threshold value adopted for trade statistics purposes, then compilers should include those goods in trade statistics in full detail, i.e., commodity classification, value, quantity and partner country. If the value of the transaction does not exceed the threshold, then the transaction should be treated consistently with policy for compiling statistics from other low-valued**

**customs records** (for observations on thresholds see para. 69 above). **The agency responsible for compilation of trade statistics should contact postal authorities in order to ensure that the necessary information is collected and passed to that agency on a regular basis.**

81. The compilation of data with regard to items delivered by private parcel delivery services (couriers, express carriers etc.) should follow a similar pattern, utilizing all information available. **The agency responsible for compiling the statistics should make special arrangements either through the customs or directly with the parcel carriers to ensure that the necessary information is passed to them.**

82. With the rapid expansion of electronic commerce, the international movement of goods by post and by parcel delivery services (both government and privately operated) is becoming more and more important; **the compiling agency should develop a strategy with the aim of developing a compilation procedure which ensures that those merchandise flows are adequately reflected in trade statistics**.

### 4.4 Aircraft and ship registers

83. When aircraft and ships cross the borders of countries as items of trade and the appropriate customs records are created, those records should be used as the main source of information. However, in some countries international trade in aircraft and ships may not be recorded by customs even if they cross borders; also, customs records may be incomplete or non-existent if those items do not cross customs borders. Under such circumstances, many countries use national shipping registers for evidence of a trade transaction using change of ownership as indicated in the register as the basis for compilation of trade statistics. In addition to the use of registers, documented financial leasing agreements may indicate whether a change of ownership has occurred (see para. 121 below on goods under financial lease).

*Aircraft*

84. Various national and international statutory instruments govern civil aviation and the registration of aircraft. Of particular international importance is the Convention on International Civil Aviation, which specifies the principles to be recognized by signatories.[58] This Convention states[59] that aircraft must be registered and shall hold the nationality of the country in which they are registered. It also states that aircraft may not be legally registered in more than one country, and that every aircraft used for international air transport must be marked with its nationality and registration number.

85. At the national level, those global rules mean that every aircraft is entered in the national register when it is licensed for transport. In the case of imported aircraft, registration can occur only upon the applicant's producing appropriate documentation; in particular, the applicant must produce proof of acquisition of ownership, which ensures that the legal condition for statistical recording is satisfied. Also, proof of cancellation or non-registration is required, which ensures that an aircraft has actually been registered in one country only, thus ruling out duplication or incorrect recording.

86. On the basis of the documentation, which should be presented for customs clearance purposes as well as for aircraft licensing, it is possible to ascertain whether any change of ownership is involved between non-residents and residents (purchase/sale); if so, the transaction can be identified as an import or export transaction for foreign trade statistics. The particulars concerning the type and model of aircraft usually provide the information needed to classify it appropriately for the purposes of trade statistics. The register cannot be used as the sole source of all information required for statistics. In principle, it is possible to contact the entity which possesses the additional needed information and to oblige that entity to submit a statistical declaration with the required information, including statistical value.

87. **The statistical authority should use available customs information and aircraft registers for the maximum amount of statistical information possible and, if necessary, should request the owners named on the aircraft register or the leaseholder named on the financial lease to submit separate foreign trade statistics declarations.** The last-mentioned step may have to be dealt with through enacting legislation specifying the obligation of each party (the aircraft registration authority, owners, leaseholders) to provide information.

*Ships*

88. Data compilation in the case of ships is similar to that for aircraft (see para. 87 above and annex D.1 below).

### 4.5 Reports of commodity boards

89. Commodity boards are quasi-governmental or commercial organizations established in some countries that monitor the production and shipment of goods considered economically important for a country; they may also market the products internationally on behalf of the producers. Those boards often issue reports that show the volume of commodities exported during a particular period—monthly, quarterly or yearly. The reports may include details, such as quantity of products sold (e.g., in metric tons), the value of the sales, country of destination of the commodities and (probably) the administrative costs expended. If commodity board reports are consistently available, they may serve as supplementary sources or for cross-checking customs records. **In such a case, compilers are advised to analyse data from those reports and to use them, as appropriate.**

[58] See Protocol Relating to an Amendment to the Convention on International Civil Aviation [articles 48 (*a*), 49 (*e*) and 61], signed at Montreal on 12 December 1956; there are currently 187 Contracting States to the Convention.

[59] Part I, chap. III, article 17.

### 4.6 Administrative records associated with taxation

90. When customs records are not available or are incomplete, it is sometimes possible for administrative records associated with taxation to be used in deriving trade statistics. This is particularly true where value added tax (VAT) systems are in place. The European Union is an example of a group of countries where such a system is in place. Annex D.7 below provides an illustration of the use of tax records to derive trade statistics data.

### 4.7 Enterprise surveys

91. *General*. Enterprise surveys are useful in most countries to obtain information on some transactions which may not be processed through customs, e.g., trade in electricity, ships' stores and bunkers. Enterprise surveys, however, are not extensively applied for the compilation of trade statistics. In customs unions, where customs records may not exist for trade among the members of the union, enterprise surveys are a useful source of information for trade statistics. The carrying out of enterprise surveys requires the commitment of additional resources on the part of national statistical authorities. Once in place, enterprise surveys may have certain advantages. For example, survey forms can be designed to conform to acceptable methodology, satisfy the needs of various fields of statistics and be revised as frequently as necessary.[60] Established contacts may allow compilers to obtain prompt confirmations or corrections from enterprises in the case of doubts about the reliability of the information submitted.

92. *Organization of surveys*. Surveys should be made efficient and effective by applying normal standards and legislation used for surveys in a country (see annex D.7 below on the use of administrative records in the European Union).

93. Special data-collection forms should be designed and sent to the selected enterprises on a regular basis. **The survey forms should request similar information to that contained in customs declarations** (see paras. 66 and 67 above).

94. Enterprises may be required to report cumulative trade from the beginning of the year, with the last month's trade separately identified, and to keep documents confirming their export-import transactions for a certain period of time for verification purposes. Those documents may include copies of contracts, invoices, certificates of origin of goods etc.

95. **It is advised that a simplified form be used for enterprises whose foreign trade turnover does not exceed an established minimum.** Such a form may require that information be provided only on the statistical value of exports or imports for aggregated groups of commodities by partner country.

96. **The use of electronic submission of the completed form, to the extent possible, is advised for all reporters.**

97. *Problems*. Major problems encountered in running a survey include: (*a*) frequent correction by enterprises of data previously submitted, leading to substantial revision in the preliminary data; (*b*) the high cost of implementation; (*c*) the additional reporting burden caused by the survey for the enterprises; and (*d*) the difficulty of ensuring proper completion of the returns and submission of them. It may be helpful for countries at the initial stage of organizing such surveys to take advantage of the experience of other countries through bilateral contacts.

### 4.8 Merging and cross-checking data obtained from customs and non-customs sources

98. *Issues*. Merging customs and non-customs data includes adding non-customs to the customs data and substituting non-customs for the customs data. To merge and cross-check data collected from customs and non-customs sources is quite a complex and time-consuming activity. Compilers should be aware of the following issues that need to be addressed:

(*a*) Different data elements available from different sources;

(*b*) Conceptual differences between sources;

(*c*) Provision of different levels of detail;

(*d*) Delays in data forwarding, and the unsynchronized provision of data;

(*e*) Overlaps in the information provided (e.g., data on goods on consignment supplied by customs, and data on sales of the same reported by the controlling governmental agency);

(*f*) Incompatibility of computer data files, since source agencies may use different computer systems (the use of different hardware and software is a problem in numerous cases);

(*g*) Difficulty in organizing efficient data processing, since source agencies may use various data submission media (hard copies, magnetic tapes, diskettes, e-mail etc.);

(*h*) Additional strain on resources, since data entry from certain sources (e.g., postal forms, passenger manifests) may involve the use of a disproportionate amount of time and resources;

(*i*) The need to cross-check data from complementary sources (e.g., customs and commodity boards) and to assess which sets are of greater reliability.

99. *Possible solutions*. Country experience indicates that certain steps can be taken to alleviate the problems mentioned above. **Compilers are advised to:**

(*a*) Conduct an ongoing campaign to sensitize customs officers and employees of other source agencies to the importance of trade statistics for government and economic policy;

[60] Compilers may find it practical to use the same survey form to collect data on a physical movement basis for consistency with IMTS, Rev.2, recommendations and on a change of ownership basis to obtain information needed for SNA/balance-of-payments statistics.

(*b*) Run training programmes for staff involved in data compilation (both those of the compiling agency and those of the source agencies), particularly on statistical standards and requirements, conceptual standards and the use of appropriate software;

(*c*) Conduct regular meetings between staff of compiling and source agencies (including staff of large importing and exporting enterprises) to establish more stable and efficient working arrangements; complement such meetings by periodic follow-ups by phone and visits;

(*d*) To the extent possible, establish a direct computer link with data suppliers to eliminate data-transmission problems and to allow for better and faster verification of incoming data; use standard classifications and appropriate correlation tables to identify and link the various sets of data;

(*e*) Coordinate the installation of computer hardware and software in the compiling and source agencies to ensure their compatibility;

(*f*) Establish effective controls in the compiling agency to ensure timely replacement of preliminary data from one source by final data obtained from another source (e.g., partner data on a country of consignment basis received from customs may be replaced by data on a country of last known destination basis (for the same goods) received from other governmental agencies, if the latter are judged to be of better quality);

(*g*) Develop estimation and imputation procedures to deal with the issue of missing data fields (e.g., estimates of quantity units for the current month can be based on current values and on the unit value of the previous month).

# DATA COMPILATION

## CHAPTER 5. COVERAGE AND TIME OF RECORDING

### 5.1 Concepts related to definition of coverage

100. *Goods* (IMTS, Rev.2, para. 14, and annex A, para. 1). Goods referred to in the definition of coverage are transportable goods, that is, goods which can be physically moved from one geographical location to another.

101. *Addition to or subtraction from the material resources of a country* (IMTS, Rev.2, para. 14). In general, goods are considered as adding to the material resources of a country when they are placed in its economic territory for future use within this territory (e.g., for consumption or as input into the production process), and subtracting from the material resources of a country when they are removed from its economic territory without expectation of their return.

102. *Criteria for identification of goods being simply transported through a country* (IMTS, Rev.2, para. 14). These are goods entering the compiling country for transportation purposes only. Transportation may involve simple handling operations and temporary storage. Conceptually, goods being simply transported comprise but are not limited to goods placed under an "in transit" or "in trans-shipment" customs procedures.[61] If the goods destination, at the time of crossing the compiling country's border, is another country, those goods are to be treated as being simply transported through the country and are to be excluded from trade statistics. 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. Usually, those movements become part of the trade statistics. **However, compilers are encouraged to identify movements of that kind and reclassify them as transit goods. Compilers are advised to work out arrangements to collect additional information, if necessary** (e.g., country of last known destination at the time when goods enter the compiling country's border, and country of origin when goods leave the country). Such arrangements may involve cooperation with customs in developing suitable forms of recording and/or use of sample surveys.

103. *Criteria for identification of goods temporarily admitted or dispatched* (IMTS, Rev.2, paras. 14, 28 and 44). This category comprises (*a*) goods identified in the Kyoto and Istanbul[62] Conventions as goods covered by the "temporary admission subject to re-exportation in the same state" customs procedure (IMTS, Rev.2, annex B, para. 10) and (*b*) other goods considered as admitted temporarily under criteria established by the statistical authorities. Goods admitted for inward processing or withdrawn for outward processing, which are usually considered as "temporary movements" under the customs law, are included in trade statistics (IMTS, Rev.2, annex B, paras. 6 and 7).

104. Customs records may not cover all the goods adding to or subtracting from the material resources of a country. **Compilers should supplement the customs records, where necessary.** Also, customs records may not adequately reflect all forms of temporary admission or dispatch of goods. For example, customs records may not exist or may not provide enough information to allow reliable identification of simple transportation through customs free zones, or temporary admission to or dispatch from premises for customs warehousing or customs free zones. **Compilers should make efforts to exclude from trade statistics all goods which are being simply transported through the economic territory of a country** (see para. 286 below)**, as well as all temporary admissions or dispatches of goods (e.g., goods that enter a country for temporary storage and subsequent dispatch), by using non-customs sources of information. To ensure data consistency, the statistical authorities should treat goods movements as a simple transportation or temporary admittance or dispatch and exclude them from both imports and exports only if reliable criteria are established. If such criteria or data sources do not exist, compilers are advised to record such goods as imports and re-exports.**

105. *Description of the economic territory of a country* (IMTS, Rev.2, paras. 14 and 64, and annex A, paras. 3 and 4). Trade statistics are to be compiled with reference to the economic territory of a country. **It is advised that compilers, in cooperation with the relevant country authorities, establish a description of economic territory that is detailed enough for the purposes of trade data compilation and compliant with the definition provided in annex A, para. 3, of IMTS, Rev.2, and ensure that the customs records and other data that they use refer to relevant**

[61] Goods being simply transported should not be confused with re-exports, which are goods initially brought into a country for other than simple transportation purposes. Goods in transit are goods "transported under customs control from one customs office to another" (Kyoto Convention, annex E.1, definition (*a*)). Goods under trans-shipment are goods being "transferred under customs control from the importing means of transport to the exporting means of transport within the area of one customs office which is the office of both importation and exportation" (Kyoto Convention, annex E.2, definition (*a*)).

[62] Convention on Temporary Admission, agreed at Istanbul in June 1990 (United Nations, *Treaty Series*, vol. 1762.

**flows into and out of that territory and from the rest of the world.**

106. *Movement of goods between international organizations* (IMTS, Rev.2, para. 46). Such movements are not covered by trade statistics.

107. *Treatment of goods and services in trade statistics*. Merchandise trade statistics deal only with trade in goods; trade in services is covered by international service trade statistics. However, for various reasons it is sometimes difficult to separate trade in goods and trade in services entirely (for examples, see paras. 118, 123, 126 and 127 below). **Compilers of trade statistics should cooperate with compilers of international service trade statistics in order to clarify borderline cases following instructions given in IMTS, Rev.2, the present *Manual* and the *Manual on Statistics of International Trade in Services*.**[63]

### 5.2 Time of recording

108. *Crossing the border* (IMTS, Rev.2, para. 15). The implementation of the guideline that goods be included at the time when they enter or leave the economic territory of a country may require the use of both customs and non-customs sources of information.

109. *Use of date of lodgement of the customs declaration* (IMTS, Rev.2, para. 15). In the case of customs-based compilation systems, IMTS, Rev.2, recommends that the time of recording be the date of lodgement of the customs declaration. **It is advised that the date of lodgement, for both paper and electronic filings, be the date when customs accepts the declaration for processing.**

110. *Time of recording in the case of split consignments*. For convenience of shipment, certain goods may be disassembled into several parts which may, with customs permission, leave the exporting country and enter the importing country at different times and at different exit/entry points. **Since goods exportation/importation is not completed until the last part leaves/enters the country, it is advised that compilers use the date when the last part is declared to the customs of the exporting/importing country.**[64]

111. *Limitations of time of lodgement and use of other dates*. Variations in time of lodgement and appropriate actions by compilers are described in paras. 54-57 above. **However, when the date of lodgement differs considerably from the date when goods cross the border of the economic territory of a country, it is advised that more appropriate dates be identified and used for time of recording** (e.g., the date of arrival/departure of the goods carrier as indicated in the transportation document submitted to customs). The determination of whether or not the deviation warrants such an action is the responsibility of the compiling agency.

112. *Time of recording when non-customs sources are used*. If non-customs sources of information are used the compiling agency should select the date which provides a reasonable approximation of the time when goods enter/leave the economic territory of the country. Possible options include the date when the means of transportation crosses the country's border (obtained from the border guards or through sampling), or the reference month as reported by the supplying/receiving agency (when electric power is supplied/received or when petroleum, gas, water or any other similar product is transported by pipeline). In the latter case, the quantity of goods involved should be established based on meter readings for the first and last day of the reference month.

### 5.3 Data compilation in the case of selected categories of goods to be included in trade statistics

113. *Non-monetary gold* (IMTS, Rev.2, paras. 19 and 42). All gold should be included in trade statistics except for gold classified in HS subheading 7108.20 (monetary gold).[65] Non-monetary gold includes gold coin which does not have an official status as a means of payment and which is to be considered merchandise. **Compilers should make sure that appropriate customs records exist for non-monetary gold and should process them in the same way as for other goods. When data are collected from non-customs sources, if the status of a particular gold shipment is not clear compilers are advised to consult the national monetary authority on whether that shipment represents an exchange between national or international monetary authorities or between authorized banks; if it does, the gold is monetary gold and should be excluded.**[66]

114. *Food and other humanitarian aid* (IMTS, Rev.2, para. 23). Such goods should be assigned an appropriate commodity code, statistical value, quantity and partner country. **Compilers are advised to use available customs records and to periodically survey receiving or donating organizations and agencies in order to obtain more detailed and complete information.** Normally, entities actively involved in such transactions maintain accounting systems that contain most of the necessary information. **It is also advised that information on aid received from international organizations be included in the imports of the receiving country in the same way as any other aid; for attribution of partner country, compilers in the receiving country should use the country where the goods originate and not the country where the international organization or other provider is located.** If the country of origin cannot be determined, then the country from which the goods where consigned or shipped may be used as a proxy. **Goods sent by a country to an international organization for that organization's future use as aid should be included in trade statistics as exports to the country where that international organization is located, and additionally identified by a special code designating international organizations.** Those goods are to be included in the exports of the donor

[63] United Nations publication, Sales No. E.02.XVII.11.

[64] Classification, valuation and attribution of origin or last known destination should also be done at this time and as if the goods had been presented as assembled articles.

[65] By definition in HS, "gold exchanged between national or international monetary authorities or authorized banks".

[66] The treatment of monetary gold in balance-of-payments statistics is similar (see BPM5, para. 438).

country, irrespective of whether the international organization is located in another country or in the donor country itself. The country where the receiving international organization is located should exclude those transactions from its import statistics.

115. *Goods for military use* (IMTS, Rev.2, para. 24). Customs records regarding movements of those goods may be confidential or incomplete. **However, compilers should make full use of the information that those records contain and make efforts to find appropriate non-customs sources, such as departments of defence and treasury, which would allow for inclusion of those goods in country exports/imports even if only at the total level. It is advised that the goods be included in the appropriate commodity categories at as low a level of commodity classification as permitted by national regulations regarding confidentiality.** Military goods sent to national troops stationed abroad for their own use are excluded from trade statistics.

116. *Goods acquired by all categories of travellers, including non-resident workers, to a significant scale as defined by national law* (IMTS, Rev.2, paras. 25 and 48 (*a*)). This category includes so-called "shuttle trade", that is, movements of goods carried by travellers for purposes of sale or barter—goods in excess of amounts allowed to travellers by national legislation. Those goods may be recorded by customs using simplified goods declarations; for goods below a certain customs threshold no documentation may be required. As a result information may not always be available to compilers for inclusion in trade statistics. **Compilers are advised to make permanent arrangements with the customs regarding the systematic collection of such information, and to develop methods for producing reliable estimates of the missing parts of such trade by commodity and partner country.**[67] For example, some countries estimate shuttle trade using the total number of shuttle trade journeys, the average value of goods carried by a traveller on such a journey and information on product mix, as obtained from a limited sample of traders.[68]

117. *Goods on consignment* (IMTS, Rev.2, para. 26). Goods on consignment are goods intended for sale but not actually sold when they cross the frontier.[69] They should be included in both export and import statistics in full detail. However, reliable information for such goods may not be available from customs records. For example, raw materials or other goods sent abroad for sale at auction are normally recorded by customs at their estimated value and using the country where the auction is held as the partner; and those data may not be revised by customs after the auction. **Accordingly, compilers are advised to attempt to revise the data to reflect the actual transaction value of the goods when sold and the country of their last known destination.** The necessary data may be obtained by surveying trading enterprises or government agencies responsible for dealing with such goods.

118. *Goods used as carriers of information and software* (IMTS, Rev.2, paras. 27 and 123 (*b*)). The term "general or commercial use" covers products publicly available to any user. Those products are to be treated as commodities and their statistical value should be based on their full actual price, including cost of materials and software. **Compilers should check with the customs about whether goods declarations lodged in the case of movements of such goods meet statistical requirements.** IMTS, Rev.2, excludes from trade statistics (*a*) diskettes or CD-ROMs with stored computer software and/or data, developed to order, (*b*) audio- and videotapes containing original recordings (i.e., master copies) and (*c*) customized blueprints, all of which are treated as part of trade in services.

119. *Goods for processing* (IMTS, Rev.2, paras. 28 and 123 (*c*)). This includes goods entering/leaving a country's free circulation area and industrial free zones under the inward or outward processing customs procedures, with the exception of goods declared for repair (see para. 131 below).[70] It also comprises goods leaving/entering any part of a country's economic territory for processing and subsequent return/dispatch, but not under the inward or outward processing customs procedure, provided that such processing is not limited to simple handling operations associated with temporary storage and transportation to a destination in a third country. In the case of simple handling operations, goods are to be treated as temporary admissions/dispatches and should not be recorded in the trade statistics. The valuation of goods for processing/dispatch should be on a gross basis.

120. *Goods which cross borders as a result of transactions between parent corporations and their direct investment enterprises (affiliates/branches)* (IMTS, Rev.2, para. 29). Those transactions are to be valued following the same principles as for other transactions, namely, application of the rules on customs valuation as set out in the WTO Agreement on Valuation (IMTS, Rev.2, annex C). **However, because of possible transfer pricing between such enterprises, compilers should review the available customs records and make adjustments if additional information becomes available through analysis of other data from the customs system itself or through non-customs sources (e.g., unit values from other customs records or from companies). Compilers should follow the same IMTS, Rev.2, recommendations on classification, valuation and partner country attribution as in the case of other goods.**

121. *Goods under financial lease* (IMTS, Rev.2, para. 35 and annex A, para. 7 (*c*)). **For internal consistency in national statistics, compilers should identify goods as being under financial lease using the definition accepted in the country's system of national accounts and balance-of-payments statistics. If such a definition is not available, compilers should follow the recommendations contained**

[67] For the IMF recommendation on methods of estimation, see IMF working paper No. BOPCOM98/1/3 ("Shuttle trade"), IMF Committee on Balance of Payments Statistics, Washington, D.C., 21-23 December 1998.

[68] "Tools of trade", which are goods that are used by business travellers in conducting their business and always return with the traveller, should not be included in trade statistics but treated as temporary movements; examples of these types of goods include personal computers, mechanics' tools or equipment and salesmen's samples.

[69] See BPM5, paras. 127 and 218.

[70] One example of this type of inward processing is the *maquiladora* in Mexico, which is an enterprise focused on the transformation and assembling of imported goods with the objective of producing export merchandise (see annex D.4 below).

**in IMTS, Rev.2, para. 35 and annex A, para. 7 (*c*).** IMTS, Rev.2, adopts the definition of financial lease as set out in BPM5.[71] IMTS, Rev.2, also indicates that "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 operational (less than one year)", although BPM5 does not offer this as a criterion. **Compilers should record goods dispatched from a country under financial lease as exports (as imports by the receiving country), and the same goods returned to the country after termination of the lease as imports (as exports by the country from which they are returned). Compilers are advised to cooperate with customs to ensure proper identification in customs records of goods crossing borders under financial lease (and after termination of the lease), possibly as a separate customs procedure. Compilers should use enterprise surveys or other sources of information if customs records do not provide proper information.** Goods crossing borders on operational lease should be excluded from trade statistics.

122. *Ships, aircraft and other mobile equipment* (IMTS, Rev.2, para. 36). If customs records regarding movement of those goods are absent, compilers should use other data sources (see paras. 83-88 above). **It is advised that compilers use the date of change of ownership in this case as an approximation for time of recording.**

123. *Satellites and their launchers*. Treatment of satellites, satellite launchers or their parts may follow an approach as set out in the following examples:[72]

*Example 1*. A satellite which is produced in country A and moved from there to country B for launching without change of ownership 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.

*Example 2*. A satellite launcher is produced in country A and moved to country B for use. This transaction should be recorded as an export of country A, and an import of country B. This recording should be done irrespective of whether the launcher is a one-time or multiple use type. As in example 1 above, the launch itself and any other related activities can be treated as services provided by country B to country A.

*Example 3*. A satellite is produced and launched in country B for use by 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 can be treated as services provided by country B to country A.

124. *Goods in electronic commerce*. For the purposes of the present *Manual*, 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). **It is advised that the value of such goods be included in/excluded from trade statistics in the same way as any other goods purchased by non-electronic means, following the relevant IMTS, Rev.2, recommendations. Compilers are advised to record such goods when they exceed statistical thresholds.** In practice, goods bought electronically and shipped to the buyer via parcel post or courier service may, to a large extent, be less than the statistical threshold in value or quantity and thereby be excluded from trade statistics. **It is advised that when, in the view of the statistical authority, the total value of such excluded goods becomes statistically significant, an appropriate estimate be made and added to totals of exports and imports and as far as possible to commodity and partner details.**

125. The electronic transmission of *any* information (software, blueprints, books, music, engineering plans etc.) from one country to another is outside the scope of trade statistics, since it is generally considered to be a service rather than a good.

126. *Undersea communications cables, power lines and pipelines*. **Compilers are advised to include these goods in exports/imports when they are dispatched from one country for installation in another.** However, goods dispatched from a country for installation in international waters (territory) 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, including the separation of trade in goods and services.**

### 5.4 Goods excluded from trade statistics

127. Certain categories of goods are specifically excluded from trade statistics (IMTS, Rev.2, paras. 42-63); however, the list given in IMTS, Rev.2, is not exhaustive. **Compilers are advised that there can be other items which should be excluded by application of the general definition of coverage** (e.g., goods seized by customs and destroyed).[73]

### 5.5 Data collection for national accounts and balance-of-payments purposes

128. *Practical issues* (IMTS, Rev.2, paras. 55-63). The inclusion of some movements of goods, even those which add to or subtract from the stock of material resources of the countries involved, is not considered practical for detailed trade statistics (IMTS, Rev.3, para. 55). However, the 1993 SNA and BPM5 recommendations require those movements to be included in the trade totals used in national accounts and balance of payments if they involve change of ownership between residents and non-residents.[74] **Com-**

[71] BPM5, para. 206.

[72] Practice as applied in the United States.

[73] If goods are seized but not destroyed (e.g., they are sold after seizure), they should be included in trade statistics.

[74] See 1993 SNA, para. 14.55; and BPM5, para. 196.

**pilers of trade data are encouraged to assist compilers of national accounts and balance of payments in this activity by collecting additional data or by cooperating in preparation of estimates of trade in those goods.** Some of the relevant goods categories as well as possible approaches to data compilation are outlined below.

129. *Mobile equipment that changes ownership while outside the country of residence of its original owner* (IMTS, Rev.2, para. 57). Normally, there should be customs records of temporary dispatch and admittance of such goods, as well as records of change of customs procedure with regard to those goods if they are sold or donated. Such records may be requested from customs on a regular basis and forwarded to compilers of national accounts and balance of payments.

130. *Fish catch, minerals from the seabed and salvage sold from national vessels in foreign ports or from national vessels on the high seas to foreign vessels; bunkers, stores, ballast and dunnage that are: (a) acquired by national vessels or aircraft outside the economic territory of a country; and (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; goods purchased by international organizations located in the economic territory of a host country, from the host country, for their own use* (IMTS, Rev.2, paras. 58-60). In certain countries, some of those activities can be systematic and very important economically. Trade data compilers may assist compilers of national accounts and balance of payments in identifying enterprises involved in this activity for possible surveys.

131. *Goods for repair* (IMTS, Rev.2, para. 61).[75] For the purposes of the present *Manual*, the term "repair" includes any activity that might be referred to as "renovation" or "improvement", unless that activity changes the origin of the goods under repair. Goods for repair are to be excluded from trade statistics. The records of repairs are to be collected and passed to compilers of national accounts and balance-of-payments statistics; the goods for repair are included in the national accounts and balance of payments as repairs to goods in terms of the price of repairs (and not at the gross value of the goods before and after the repairs are made).[76] Goods for repair can be brought into a country under temporary admission for inward processing since national legislation may define that procedure as covering "specified manufacture, processing or repair".[77] **If that is the case, compilers should advise customs to make arrangements for separate identification of goods brought for repair and exported after repair, so that they may be excluded from the statistics. If the activity of "renovation" or "improvement" is such as to change the origin of the goods, the movement of the goods should be included in the detailed trade statistics, following the recommendations in respect of goods for processing** (see para. 119 above). Information regarding replaced parts that retain significant commercial value and should remain in the country where repairs were performed should be collected and passed to SNA/balance-of-payments compilers also, if practical, for possible further adjustment of those statistics.

*Example*. An aircraft is sent from country A to country B for repair and is subsequently returned. Customs in country A would record dispatch of an aircraft (using the appropriate HS code) under the "for repair" procedure, and its subsequent readmittance after repair. Customs in country B would record admittance of an aircraft (using the appropriate HS code) under the "for repair" procedure, and its subsequent dispatch after repair. Those records are not to be included in detailed merchandise statistics of imports and exports of either country but should be passed to compilers of national accounts and balance of payments, together with information regarding the value of the repair, if available.

[75] Construction repairs, computer repairs and maintenance performed in ports and airports on transportation equipment are treated in BPM5 as trade in services (see BPM5, para. 200).

[76] See BPM5, para. 155.

[77] See Kyoto Convention, annex E.6, introduction and definition (*c*).

# CHAPTER 6. TRADE SYSTEMS

132. A detailed description of trade systems is contained in chapter II of IMTS, Rev.2. The additional information and clarifications provided here pertain to selected issues raised in that chapter.

133. *Statistical territory* (IMTS, Rev.2, para. 64). The key concept for determining the type of trade system applied is the statistical territory of a country. **Countries should develop a description of their statistical territory suitable for use by compilers of the detailed trade data, and should make that description available to their trading partners and to international organizations.** Countries should be clear on whether or not the following territorial elements exist, and on whether or not they are included in the statistical territory:

(*a*) Industrial free zones;

(*b*) Commercial free zones;

(*c*) Premises for customs warehousing;

(*d*) Premises for inward processing;

(*e*) Territorial waters;

(*f*) Continental shelf;

(*g*) Offshore and outer space installations;

(*h*) Territorial enclaves of the compiling country in other countries;

(*i*) Territorial enclaves of other countries in the compiling country (exclaves).

134. Among the types of imports and exports covered in IMTS, Rev.2, chapter II, compensating products, re-exports and reimports are given special mention here for clarification purposes.

135. *Treatment of compensating products* (IMTS, Rev.2, paras. 74-85, and annex B, paras. 6 and 7). Goods temporarily imported for inward (exported for outward) processing normally change origin but may not necessarily do so. **It is advised that:**

**(*a*) In the case of inward processing, if origin changes, the compensating products should be considered domestic goods and be recorded as exports; if origin does not change, those products remain foreign goods and should be recorded as re-exports;**[78]

**(*b*) In the case of outward processing, if origin changes, the compensating products should be considered foreign goods and be recorded as imports; if origin does not change, the compensating products remain domestic goods and should be recorded as reimports.**[79]

136. *Treatment of re-exports and reimports*. Under both systems, re-exports and reimports are to be compiled and included in total exports/imports, respectively. Re-exports refer to foreign goods exported from any part of the economic territory of a country in the same state as previously imported. The term "goods in the same state" includes goods which underwent processing that did not change their origin. The scope of re-exports is not restricted to goods identified as re-exports in customs records. Conceptually, it includes, for example, foreign goods that are dispatched from the free circulation area in the same state as originally imported. Sometimes those goods are given a special name (e.g., "nationalized" goods) and are included in exports without being identified as re-exports; such a practice cannot be supported since it does not correctly reflect the structure of a compiling country's total exports. Reimports refer to domestic goods in the same state as previously exported (or having undergone processing that did not change their origin) which re-enter any part of the economic territory of their country of origin (e.g., domestic goods returned after not being sold). Country practices in recording re-exports and reimports vary significantly. **It is advised that compilers make efforts to ensure proper recording of re-exports and reimports and their inclusion in total exports and imports.** Use of a "re-exports/reimports" or a "country of origin" field on the goods declaration (both in the case of exports and imports) or the conduct of sample surveys may be considered. **It is further advised that re-exports and reimports be included in the trade data and clearly identified in the country database, for example, by use of special codes.**[80]

137. *Application of the trade systems*. **Compilers, after deciding which trade system to use (IMTS, Rev.2, recommends the general trade system** (see para. 89)**), should be careful to clearly identify all the flows that are relevant to the chosen system, and to implement data-collection procedures to capture those flows.**

[78] If as the result of inward processing the classification of the goods changed but this did not lead to change of origin (according to national rules), the goods remain foreign and are to be considered re-exports.

[79] If as the result of outward processing the classification of the goods changed but this did not lead to a change of origin (according to national rules), the goods remain domestic and are to be considered reimports.

[80] Goods which enter a country for temporary storage (e.g., in customs warehouses) and leave the country shortly afterwards, or re-enter a country after they were temporarily dispatched from that country, are not to be treated as re-exports or reimports and should be excluded from trade statistics (see paras. 102 and 103 above).

# CHAPTER 7. COMMODITY CLASSIFICATIONS

## 7.1 The Harmonized Commodity Description and Coding System as the primary commodity classification for data-collection purposes

*Description of the Harmonized System*

138. *HS* (IMTS, Rev.2, paras. 94-100). According to the International Convention on the Harmonized System (HS Convention),[81] HS "means the Nomenclature comprising the headings and subheadings and their related numerical codes, the Section, Chapter and Subheading Notes and the General Rules for the interpretation of the Harmonized System".[82] HS is designed as a "multipurpose nomenclature", to be used for transportable goods.[83]

139. *Obligations of Contracting Parties*. HS is a legal instrument. A Contracting Party to the Convention has two main obligations: to bring its customs tariff and statistical nomenclatures into conformity with the Harmonized System, and to make its import and export trade statistics publicly available at the six-digit level or beyond.[84] Fulfilling those obligations requires that Contracting Parties use all the HS headings and subheadings and numerical codes, without addition or modification; that they apply, without modification, the general rules for the interpretation of HS as well as all section, chapter and subheading notes; and that they follow the numerical sequence of HS.[85]

140. *Maintenance of HS*. In accordance with the preamble to the HS Convention, which recognized the importance of ensuring that HS be kept up to date in the light of changes in technology or in patterns of international trade, HS is regularly reviewed and revised.[86] The Convention established the Harmonized System Committee, which is composed of representatives from each of the Contracting Parties and meets twice a year. The Committee is assisted in its work by its Working Party, Review Subcommittee and Scientific Subcommittee. The Committee, inter alia, considers the needs of users, as well as changes in technology and patterns of international trade, and proposes amendments to the Convention based on its considerations; prepares recommendations about and circulates information concerning the application of HS; and gives guidance on matters concerning the classification of goods. To assist users in the implementation of HS, WCO had issued and periodically updates the following supplementary documents: "Explanatory notes to the Harmonized System"; "Alphabetical index to the Harmonized System"; "Compendium of classification opinions to the Harmonized System"; the Harmonized System Commodity Database; "Training modules on the Harmonized System"; "Correlation tables between the Harmonized System and the 1978 version of the CCCN with its SITC, Rev.2, correlation subheadings"; "Correlation tables between the 1988 and 1992 versions of the Harmonized System"; "Correlation tables between the 1992 and 1996 versions of the Harmonized System"; and "Correlation tables between the 1996 and 2002 versions of the Harmonized System" (forthcoming).

141. *The structure of HS*. The 1996 version of HS (HS96) contains 21 sections, divided into 96 chapters and 1,241 headings.[87] Each chapter carries a two-digit code (a leading zero is used with the first nine chapters). The headings are identified by four digits, with the first two digits indicating the chapter in which the heading appears and the second pair of digits referring to the position of the heading within the chapter.

142. Some headings are split into several "one-dash" subheadings. Each such subheading is identified by a six-digit code, where the first four digits represent the heading's code and the latter two digits refer to the subheading's position within the heading. For example, heading 01.04, "Live sheep and goats", is split into two one-dash subheadings: "Sheep" (0104.10) and "Goats" (0104.20).

143. The one-dash subheadings can be further divided into "two-dash" subheadings. In such cases, one-dash subheadings are not coded; codes are assigned only to the two-dash subheadings. For example, heading 01.03, "Live swine", is split into two one-dash subheadings: "Pure-bred breeding animals" and "Other". The former subheading is not further subdivided and is coded (0103.10), while the latter is split into two parts and not coded. Rather, it is sub-

[81] See Customs Co-operation Council, *The Harmonized Commodity Description and Coding System* (Brussels, 1989); see also second edition published by WCO (Brussels, 1996); as of 31 January 2001, there were 102 Contracting Parties to the Convention, and another 78 countries, territories or customs unions which were not contracting parties but were using HS for customs/statistical purposes.

[82] International Convention on the Harmonized Commodity Description and Coding System (IC) (Brussels, 14 June 1983), article 1 (*a*).

[83] HS is used, inter alia, as a basis for customs tariffs, rules of origin and trade negotiations; for the collection of international trade statistics; for transport tariffs and statistics; for the collection of internal taxes; for the monitoring of controlled goods (e.g., endangered species, hazardous wastes, narcotics); and as a vital element in customs controls and procedures.

[84] Developing countries, however, are permitted to apply HS partially, i.e., they may decline, at least initially, to apply all or some of the subheadings and yet fulfil the obligations arising out of article 3.

[85] Article 3 (*a*).

[86] Some minor revisions to the 1988 HS (HS88), which also resulted in the deletion of one six-digit code, were made in 1989 and entered into force in 1992 (HS92). A more comprehensive set of amendments was adopted in 1993, and those amendments entered into force on 1 January 1996 (HS96). They take account of technological progress and trade patterns, provide for clarification of the text to ensure uniform application of HS, provide a legal basis for decisions taken by the Harmonized System Committee, and allow for the adaptation of HS to reflect trade practice. Another revision will come into force 1 January 2002. The Statistical Commission, at its twenty-seventh session, recommended that WCO take fully into account the statistical implications of any changes proposed for HS and the statistical needs and capacities of developing countries. See *Official Records of the Economic and Social Council, 1993, Supplement No. 6* (E/1993/26), para. 162 (*e*).

[87] Chapter 77 is reserved for future use; see paras. 163 and 164 below for information on the 2002 version of HS.

divided into "Other, weighing less than 50 kg" and "Other, weighing 50 kg or more", which are coded 0103.91 and 0103.92, respectively.

144. Headings which do not contain subheadings are treated, for data-processing purposes, as six-digit codes, carrying two zeros as their last two digits, which brings the total number of six-digit codes to 5,113.[88]

145. *The classification scheme*. The HS classification scheme is determined by the requirement that HS should enable customs officers to classify goods presented to them by referring mainly to characteristics that either are directly observable or can be established by the use of scientific instruments. Therefore, many of the HS sections, chapters and headings are defined in terms of the goods' natural origin or material of production. However, natural origin or material of production does not always give goods their essential character. In some cases, goods are normally classified by industry or by main use. For example, the sections "Live animals; animal products" (sect. I), "Vegetable products" (sect. II) and "Mineral products" (sect. V) are defined by natural origin or material of production, while "Products of the chemical or allied industries" (sect. VI) and "Vehicles, aircraft, vessels and associated transport equipment" (sect. XVII) are defined by industry or by main use.

146. Although a higher-level category may be defined mainly by one criterion, its subdivision into lower-level categories can be defined by other(s). For example, leather and articles of leather belong in section VIII but, irrespective of having the same animal origin, they are classified in different chapters to reflect different stages of production (leather in chap. 41, articles of leather in chap. 42); heading 62.06, "Women's or girls' blouses, shirts and shirt-blouses", is divided into five subheadings according to the material from which the blouses are made (silk or silk waste [6206.10], wool or fine animal hair [6206.20], cotton [6206.30], man-made fibres [6206.40] or other textile materials [6206.90]).

147. **Compilers of trade statistics should be aware that subheadings can be separated into two categories: (*a*) subheadings covering goods specifically identified as a part of the heading by indicating one or more specific attributes (e.g., "Corks and stoppers of natural cork" [4503.10]), and (*b*) residual subheadings covering all goods of the respective heading not included in its other subheadings (e.g., "Other articles of natural cork" [4503.90]).** The latter category comprises about 22 per cent of all six-digit codes. Such subheadings may cover quite diverse goods, and their use in the coding of particular items should be undertaken with special care.

*General interpretative rules*

148. HS contains rules, known as the general interpretative rules (GIR), designed to assist users in the interpretation of HS and to provide guidance in the classification of several types of goods.[89] **Compilers should apply those rules when classifying goods not classified by customs.** An overview of the rules and the classification issues to which they apply is provided below.

149. *GIR 1: Role of titles of sections and chapters, and sub-chapters*. The titles of sections, chapters and sub-chapters are provided for ease of reference only; for legal purposes, classification shall be determined according to the terms of the headings and any relative section or chapter notes. There are, however, cases where the texts of the headings and the notes do not, of themselves, determine the appropriate heading with certainty. Classification is then effected by application of the other rules.

150. *GIR 2 (*a*): Incomplete or unfinished articles; unassembled or disassembled goods*. The scope of any heading which refers to a particular article covers not only the complete article but also that article incomplete or unfinished, provided that, as presented, it has the essential character of the complete or finished article. Complete or finished articles presented unassembled or disassembled, usually presented as such due to the requirements or convenience of packing, handling or transport, are to be classified in the same heading as the assembled article.

*Examples of application*

- A machine lacking only a flywheel, a bedplate, calendar rolls, tool holders etc. is classified in the same heading as the machine, and not in any separate heading provided for parts. Similarly, a machine or apparatus normally incorporating an electric motor (e.g., electromechanical hand tools of heading 85.08) is classified in the same heading as the corresponding complete machine even if presented without that motor.
- For convenience of transport, many machines and apparatus are transported in an unassembled state. Although in effect the goods are then a collection of parts, they are classified as being the machine in question and not in any separate heading for parts. The same applies to an incomplete machine having the features of the complete machine, presented unassembled.
- Articles of wood presented unassembled or disassembled are classified with the corresponding complete articles, provided that the parts are presented together. Similarly, accessories or parts of glass, marble, metal or other material presented with wooden articles to which they belong are classified with such articles, whether fitted thereto or not.

151. *GIR 2 (*b*): Mixtures or combinations of materials or substances referred to in one heading*. The scope of any heading covering certain materials or substances also includes goods consisting only partly of such materials or substances, unless another heading refers to them in their mixed or composite state. As a consequence of the rule, mixtures and combinations of materials or substances and goods consisting of more than one material or substance, if, prima

[88] Most countries and some customs unions further subdivide six-digit HS codes in order to better serve the information needs of customs and statistical authorities.

[89] See WCO, *The Harmonized Commodity Description and Coding System*, second edition (Brussels, 1996).

facie, classified under two or more headings, must be classified according to the principles of rule 3.

152. *GIR 3 (*a*): Mixtures, combinations and sets classifiable, prima facie, under two or more headings*. Goods should be classified in the heading giving the most specific description. However, there is a provision that if two or more headings each refer to only one of the materials or substances contained in mixed or composite goods, or to only some of the articles included in a set put up for retail sale, those headings are to be regarded as equally specific in relation to those goods, even if one of them gives a more complete description than the others.

*Examples of application*

- Shavers and hair clippers, with self-contained electric motor, are classified in heading 85.10 and not in heading 85.08 as electromechanical tools for working in the hand or in heading 85.09 as electromechanical domestic appliances with self-contained electric motor.
- Tufted textile carpets, identifiable for use in motor cars, are to be classified not as accessories of motor cars in heading 87.08 but in heading 57.03, where they are more specifically described as carpets.
- Unframed safety glass, consisting of toughened or laminated glass, shaped and identifiable for use in aeroplanes, is to be classified not in heading 88.03 as parts of goods in heading 88.01 or 88.02 but in heading 70.07, where it is more specifically described as safety glass.

153. *GIR 3 (*b*): Classification of goods in equally specific headings*. Covered are such articles as mixed or composite goods, goods consisting of an assembly of different articles and goods put up in sets. According to this rule, goods are classified in the heading applicable to the material or component which gives them their essential character.

*Examples of composite goods which can be classified by reference to rule 3 (*b*)*

- Ashtrays consisting of a stand incorporating a removable ash bowl.
- Household spice racks consisting of a specially designed frame (usually of wood) and an appropriate number of empty spice jars of suitable shape and size.

As a general rule, the components of these composite goods are put up in a common packing.

*Examples of sets which can be classified by reference to rule 3 (*b*)*

- Sets consisting of a sandwich made of beef, with or without cheese, in a bun (heading 16.02), packaged with potato chips (French fries) (heading 20.04): *classification in heading 16.02.*
- Sets, the components of which are intended to be used together in the preparation of a spaghetti meal, consisting of a packet of uncooked spaghetti (heading 19.02), a sachet of grated cheese (heading 04.06) and a small tin of tomato sauce (heading 21.03), put in a carton: *classification in heading 19.02*.
- Hairdressing sets consisting of a pair of electric hair clippers (heading 85.10), a comb (heading 96.15), a pair of scissors (heading 82.13), a brush (heading 96.03) and a towel of textile material (heading 63.02), put up in a leather case (heading 42.02): *classification in heading 85.10.*
- Drawing kits comprising a ruler (heading 90.17), a disc calculator (heading 90.17), a drawing compass (heading 90.17), a pencil (heading 96.09) and a pencil-sharpener (heading 82.14), put in a case of plastic sheeting (heading 42.02): *classification in heading 90.17*.

154. *GIR 3 (*c*): Use of the heading last in numerical order*. This rule takes effect when goods cannot be classified by application of GIR 3 (*a*) or GIR 3 (*b*). It provides that goods should be classified in the heading which occurs last in numerical order among those which equally merit consideration in determining their classification.

155. *GIR 4: Goods which are not specifically covered by any heading*. Goods which are not specifically covered by any heading of the Harmonized System—for example, because they are newly appeared on the world market—shall be classified in the heading appropriate to the goods to which they are most similar.

156. *GIR 5 (*a*): Cases, boxes and similar containers presented with the articles for which they are intended*. These should be classified in the same heading/subheading as the articles for which they are intended. Examples are: camera cases, musical instrument cases etc. This rule does not apply to containers which give the whole its essential character.

157. *GIR 5 (*b*): Packing containers presented with the goods they hold*. These are to be classified in the same heading/subheading as the goods they hold. However, this provision is not binding when such packing materials or packing containers are clearly suitable for repetitive use.

158. *GIR 6: Classification in subheadings*. Classification in the subheadings of a heading must be determined, mutatis mutandis, with reference to the principles applicable to classification in the four-digit headings; in any event, the terms of the subheadings or subheadings notes must be given precedence. This rule also specifies that, for classification purposes, only subheadings of the same level are comparable; this means that, within a single heading, the choice of a one-dash subheading may be made only on the basis of the texts of the competing one-dash subheadings; similarly, selection of the appropriate two-dash subheading, where necessary, may be made only on the basis of the texts of the subdivisions within the applicable one-dash subheading.

159. The rules establish classification principles which, unless the texts of headings, subheadings or section or chapter notes otherwise require, are applicable throughout the Harmonized System nomenclature.

160. Moreover, the rules clearly provide a step-by-step basis for the classification of goods within the Harmonized System, so that in every case a product must first be classified in its appropriate four-digit heading, then in its appropriate one-dash subdivision within that heading and only thereafter in its appropriate two-dash subheading within the predetermined one-dash subdivision, at each step no ac-

count being taken of the terms of any lower-level subdivisions. This principle applies without exception throughout the Harmonized System.

161. *Settlement of classification disputes*. Where a dispute arises between two or more Contracting Parties regarding the interpretation or application of the Harmonized System, the parties concerned should, in the first instance, endeavour to reach agreement among themselves. However, classification disputes which cannot be settled by direct negotiation are referred through the WCO secretariat to the Harmonized System Committee, which after examination makes appropriate recommendations for their solution. If the Committee is unable to settle a dispute, it refers the issue to the WCO Council for a recommendation on the question. In either event, the parties to a dispute may agree in advance to accept the recommendation of the Committee or the Council as binding.

162. **Compilers should have a close dialogue with customs on implementation of HS, and should familiarize themselves with HS so that they can review classification assignments made by customs and assign appropriate HS codes to commodities not labelled by customs.**

*HS 2002 and beyond*

163. On 25 June 1999, at its ninety-third and ninety-fourth sessions, the WCO Council adopted a recommendation amending HS, followed by acceptance under the provision of article 16.3 of the HS Convention. The new version of HS (HS02) will come into force on 1 January 2002. HS02 contains some 400 changes, some of which reflect user needs but many of which were made at the request of other international organizations seeking to be able to identify trade in sensitive goods, including other hazardous materials.

164. HS02 retains the same structure, classification scheme and general interpretative rules described above (see paras. 148-162 above). However, HS02 amendments, apart from editorial amendments, include those identifying municipal and clinical wastes (including sewage sludge), waste organic solvents, ash residues containing toxic metals and their compounds, waste petroleum oils and pharmaceuticals, waste and scrap of toxic metals, species and products covered by the Convention on International Trade in Endangered Species of Wild Flora and Fauna (CITES), and military goods. Other amendments reflect new technology or industry practice, the separate identification of information technology products and the subdivision of the heading for petroleum oils. **It is advised that compilers familiarize themselves with the changes in HS02, contact customs and work closely with it on implementing the changes, and make the necessary arrangements to ensure timely implementation of HS02 in their data-processing and reporting activities.**

### 7.2 Selected issues of HS application

165. *Measures to ensure proper classification*. The proper classification of goods is a legal obligation of the Contracting Parties to the HS Convention. HS, when incorporated in the national tariff, becomes a national law. Entering wrong codes in the goods declaration may entail legal consequences. **Compilers of trade statistics should cooperate with customs administrations in efforts to increase awareness of the business community of the importance of proper goods classification.**

166. One important measure is the establishment of customs laboratories. The technical nature of classification work often demands laboratory analysis of certain products to enable their correct HS classification. Customs laboratories are able to establish an efficient system within which samples of goods for analysis are sent to the laboratory, prompt and relevant analyses of such samples are performed and results are expeditiously reported. WCO has prepared a *Customs Laboratory Guide*[90] to serve as a practical handbook for the establishment or improvement of customs laboratories in developing countries.

167. The training of customs officers and statisticians is another way of ensuring more reliable classification. **It is advised that statistical offices, in cooperation with customs, develop appropriate training programmes.**

168. **It is also advised that trade data compilers periodically undertake special efforts to assess the accuracy of classification.** Such efforts may include case studies focusing on the most frequently exported/imported goods or on traders with a significant share in total country exports/imports.

169. *Use of HS chapters 98 and 99*. HS considers chapters 98 and 99 to be reserved for special use by Contracting Parties. In practice, there is a tendency for countries to reserve chapter 98 for goods which can be classified at the chapter level of HS and to use chapter 99 for recording special transactions and commodity categories not classified according to HS (e.g., postal packages not classified according to kind). **It is advised that that practice be followed by all countries. Compilers are encouraged to code items attributed to chapters 98 and 99 by applying the formats "98hh" (where "hh" is the code of the HS chapter where goods could have been classified) and "99xxxx" (where "xxxx" is a sequence of digits chosen by a country to code a particular transaction).**

170. *Reuse of codes*. Whenever revisions are made to HS, items are added by the creation of new headings (four-digit codes) or subheadings (six-digit codes). In order to accommodate users who maintain data in different versions of HS, codes for commodities which have been deleted are not reused.

171. *Frequency of revision*. It has been the policy of WCO to undertake a new revision of HS every five years, since changes in volume of trade cause some goods to fall below the monetary threshold set for the establishment of a code (currently US$20 million), and changes in technology give rise to new commodities and make others obsolete. Work has already begun on the next revision of HS, which is scheduled to enter into force on 1 January 2007. **Trade statistics compilers should work with the customs administrations concerning proposals to revise HS to meet emerging statistical needs.**

[90] Brussels, 1996.

172. *Measures to improve the quality of classification decisions*. As part of the technical assistance programme of its Nomenclature and Classification Sub-Directorate, WCO periodically conducts regional training seminars to enhance the classification skills of local customs personnel. At such seminars, classification principles are reviewed and practice is given in classifying sample goods. Unresolved classification questions raised during such seminars may be forwarded to the WCO secretariat, which prepares an answer. If the Contracting Party does not agree, it can ask that the matter be referred to the Harmonized System Committee for resolution. WCO has also assisted customs offices in establishing customs laboratories to which goods may be sent when technical data are required for proper classification. In addition, representatives of intergovernmental organizations and other international organizations are often invited to be present at Committee meetings, where they are able to make the Committee aware of the need for new elements in the classification, of industry practices which affect classification (e.g., of the use of an unusual form of measurement or a particular means of distinguishing quality, with regard to a given commodity) and of difficulties traders have with classifying certain goods.

### 7.3 Analytical classifications (for use) in international merchandise trade statistics

173. *History and structure of the Standard International Trade Classification (SITC)*. The original SITC was issued in 1950 and came as a result of discussions begun during the League of Nations era concerning methods for promoting greater comparability of foreign trade statistics.[91] The Revised SITC (1961)[92] was issued to show links between SITC and the Brussels Tariff Nomenclature, a customs tariff nomenclature then in use in Europe and elsewhere. In the next decade, further changes in patterns of trade, as well as technological advances, led to the development of SITC, Revision 2.[93] In 1986, SITC, Revision 2, was replaced by SITC, Revision 3.[94] SITC, Revision 3, consists of 3,118 basic headings and subheadings broken down into 261 groups, 67 divisions and 10 sections. It is defined in terms of the 1988 Harmonized System. Although consideration was given to issuing a further revision of SITC after the introduction of the 1996 Harmonized System, the Statistical Commission, at its twenty-eighth session (27 February–3 March 1995), decided against a fourth revision, given the minor nature of the changes that would be reflected in it.[95]

174. *National and international practices in use of SITC*. In response to a survey conducted by the United Nations Statistics Division in 1997, almost 100 countries reported using some version of SITC, either for coding basic international trade transactions or for converting into SITC data collected using another classification, usually HS (such conversions would ordinarily be done for the purpose of continuing a time series). Although seven countries still report only trade data in some version of SITC, for a majority of countries time-series data converted to SITC are available.[96]

175. *Review of other international classifications related or relevant to trade statistics*. Trade statistics are building blocks for many kinds of economic analysis. The need for trade data to be used in other types of economic analysis has led to the development of several other United Nations classifications. The *Classification by Broad Economic Categories* (BEC)[97] groups SITC, Rev.3, headings into 19 basic headings which reflect the end use of the commodities, allowing for analysis of broad headings, such as primary commodities mainly for industry, parts and accessories for capital goods and consumer non-durable goods. The *Central Product Classification* (CPC)[98] classifies products based on the physical characteristics and industrial origin of goods or on the nature of the services rendered (CPC sections 0-4 contain all the HS and SITC groupings). The *International Standard Industrial Classification of All Economic Activities* (ISIC, Rev.3)[99] arranges economic activities so that entities can be classified according to the activity they carry out. A correspondence with SITC, Rev.3, exists as well.

176. Other international bodies have developed similar classifications. The European Union (EU), taking the six-digit HS as its starting point, has created an eight-digit classification called the Combined Nomenclature (CN), which it uses in its internal accounts; the EU also maintains an activity classification called the *Nomenclature statistique des activités économiques dans la Communauté européenne* (NACE, Rev.1)[100] and another called the *Classification statistique des produits associée aux activités dans la Communauté économique européenne* (CPA).[101] Countries of the Andean Group made use of HS in creating the *Nomenclatura Arancelaria Común de los Países Miembros del Acuerdo de Cartagena, basada en el Sistema Armonizado* (NANDINA).[102]

177. **Compilers should consult with users to establish the classifications in which users would like international trade statistics to be made available.**

### 7.4 Correlation tables between different classifications

178. *Concept and types of correlation*. A correlation between two classifications (e.g., A and B) is a description of

[91] United Nations publication, Sales No. E.51.XVII.1.

[92] United Nations publication, Sales No. E.61.XVII.6.

[93] United Nations publication, Sales No. E.75.XVII.6.

[94] United Nations publication, Sales No. E.86.XVII.12.

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

[96] The results of the survey are available at: *http://unesis.un.org/unsd/tradereport/*.

[97] United Nations publication, Sales No. E.89.XVII.4.

[98] United Nations publication, Sales No. E.98.XVII.5.

[99] United Nations publication, Sales No. E.90.XVII.11.

[100] Commission Regulation (EC) No. 2031/2001 of 6 August 2001, amending annex 1 to Council Regulation (EEC) No. 2658/87 on the tariff and statistical nomenclature and on the Common Customs Tariff; and Commission Regulation (EC) No. 761/93 of 24 March 1993 amending Council Regulation (EEC) No. 3037/90 on the statistical classification of economic activities in the European Community.

[101] Council Regulation (EEC) No. 3696/93 of 29 October 1993 (*Official Journal* 342 of 31 December 1992).

[102] The most recent version was published as an annex to decision 507 (22 June 2001) and is recorded in the *Official Gazette*, No. 682 (3 July 2001); it enters into force on 1 January 2002.

the relationship between the scope of their headings. That relationship can be established by means of two tables: the table correlating headings of A to B and the table correlating headings of B to A. Each table defines the scope of the headings of one classification in terms of the scope of the headings of the other. If the scope of a given heading of classification A coincides with the scope of a single heading of classification B (a "one-to-one" relationship), the correlation of that heading to classification B is definite. If the scope of a given heading of classification A is distributed among several headings of classification B (a "one-to-many" relationship), the correlation of that heading to classification B is split. Correlation tables usually contain both definite and split correlations.

179. *Policy regarding preparation and dissemination of correlation tables*. Although various users of classifications often prepare correlation tables for their own internal purposes, official versions are generally issued by the organization which maintains one or both of the classifications involved.

180. Whenever successive versions of the same classification are produced, a correlation table between the headings of the revised and original versions is issued. A reverse table, showing the correlation between headings of the original and revised versions, is also frequently produced. Correlation tables enable users to express data in various versions of a classification in order to obtain a continuous time series. However, if the scope of a heading of one version is split between several headings of the other version, an exact correlation becomes impossible and there is a discontinuity in the corresponding statistical series. For data-processing purposes, it may be desirable to substitute a split correlation by an approximate but one-to-one correlation. Such approximations are warranted if the scope of the correlated headings is quite similar. However, differences in scope between certain basic headings may be so great that no meaningful one-to-one correlation is possible at that level. In such a case, a correlation can only be established between basic headings of one version and the higher-level headings of the other version. All approximate correlations and correlations with the headings at a higher level should be documented.

181. *Correlation tables between different revisions of HS*. WCO (then known as the Customs Cooperation Council) produced the first version of HS in 1988 (HS88). At the same time, it issued a publication, *Correlation Tables between the Harmonized System and the 1978 version of the CCCN*, to link HS with the Brussels Nomenclature (CCCN). This was a two-way correlation, that is, from HS to CCCN, and from CCCN to HS. When HS is revised, WCO issues new correlations between the new and preceding versions of HS.

182. *Correlation tables between HS, SITC and other classifications*. The United Nations Statistics Division has created correlation tables between various versions of HS and SITC, Revision 3, so that it can maintain its time-series data on trade. In 1996, it issued "Correlation between the Harmonized System 1996 and Standard International Trade Classification, Revision 3",[103] which was a one-way correlation (i.e., HS96 to SITC, Rev.3). The Division also maintains correlations between SITC and BEC, CPC and ISIC.

183. *Correlation tables with non-HS national commodity classifications*. **If a country compiles data in terms of a non-HS classification (provided that the said classification is quite detailed, with criteria similar to the ones applied in HS), compilers are advised to develop a correlation table between the non-HS classification and HS, and to make it available to the interested users.**

184. *Uses of the correlations*. The main uses of correlation tables in trade statistics include: (*a*) maintenance of comparable data series when the classification used in compilation is revised; (*b*) reconciliation of data obtained from various sources (and expressed in different classifications); and (*c*) recompilation of trade data for another purpose (e.g., to analyse trade in terms of broad categories of goods or by various economic activities).

185. **Compilers should do correlations using the most detailed level of their classifications. If compilers need to recompile their data from one classification to another, they should check with WCO or the United Nations Statistics Division about available correlations; this saves resources and enables the use of standardized correlations.**

[103] United Nations Statistics Division, working paper, New York, 10 September 1996.

# CHAPTER 8. STATISTICAL VALUE OF GOODS

## 8.1 Statistical value and its components

186. In order to compile trade statistics a value has to be established for each goods transaction that is to be included in the trade statistics, irrespective of whether or not the goods were sold, exchanged or provided without payment. To achieve that goal, compilers may need to use both customs and non-customs sources of information.

187. *Statistical value and customs value*. Statistical value is the sum of the transaction value of goods and the value of the services performed in delivering the goods to the border of the exporting or importing country (largely freight and insurance), which are not included in their transaction value (see IMTS, Rev. 2, paras. 114-116). In most cases, the customs value of goods is also normally the transaction value including the value of the services performed to deliver the goods to the border of the exporting or importing country. **Whenever that is the case, the customs value should be accepted as the statistical value; in all other cases, compilers should make the necessary adjustments to available customs values as set out in article 8.1 of the WTO Agreement on Valuation** (see para. 188 below)**, including for insurance and freight. If the required information is not available or does not exist (e.g., where goods cross the border without being sold, as with food and other humanitarian aid), the statistical value should be estimated using the valuation principles set out below** (see paras. 188-195).

188. *Transaction value*. The concept of transaction value adopted for the purposes of trade statistics is based on the provisions of article VII of the General Agreement on Tariffs and Trade 1994 (GATT 1994) and on the Agreement on Implementation of Article VII of General Agreement on Tariffs and Trade 1994 (the WTO Agreement on Valuation).[104] Transaction value is defined as the price actually paid or payable for goods when sold for export to the country of importation; that price is to be calculated as "the total payment made or to be made by the buyer or for the benefit of the seller for the imported goods"; payments can be monetary or in the form of specified goods or services.[105] To obtain the transaction value some elements of cost may need to be added to the price paid. Those elements are specified in article 8.1 of the Agreement.

189. *Transaction value and the invoice price of goods*. These are two different concepts. The invoice price represents an expected direct monetary payment to the seller and may not take account of other payments which should be included in or excluded from the transaction value. The invoice price is usually a starting point in the derivation of the transaction value. However, it may not be acceptable for that purpose if the conditions of article 1 of the WTO Agreement on Valuation are violated (e.g., the buyer is precluded by the seller from reselling the goods), in which case the transaction value should be determined on another basis provided for in the Agreement.

190. *The value of services*. The services rendered in the delivery of goods to the border of the exporting or importing country include, for example, loading/unloading of the goods, fulfilling the customs formalities, transportation and insurance. There is no international agreement on the valuation of such services. **It is advised, therefore, that compilers apply generally accepted accounting principles which would allow the establishment of the value of the services, broadly following the definition of the transaction value of goods as provided in the WTO Agreement on Valuation. It is further advised that the 1993 SNA and BPM5 guidelines on valuation of services be taken into account, whenever appropriate.**

## 8.2 Compilation of the statistical value of imported goods

191. *Use of customs value as the statistical value*. If customs value is determined in conformity with the WTO Agreement on Valuation, the statistical value of imported goods is either equivalent to the customs value or can be derived from it by adding the cost of certain services as per article 8.2 of the Agreement, which states that:

> "each Member shall provide for the inclusion in or the exclusion from the customs value, in whole or in part, of the following (services):
>
> "(*a*) The cost of transport of 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".[106]

The consequence of this provision of article 8 is that the customs value of imported goods may or may not cover the value of all the services required for inclusion in the statistical value of imported goods, e.g., may or may not include insurance and freight. If a country chooses to include all the required cost items in the customs value, then the customs value will be the statistical value. If not, compilers need to

[104] See WTO, *The Results of the Uruguay Round of Multilateral Trade Negotiations: The Legal Texts* (Geneva, 1995); the payments by the buyer not to the benefit of the seller are not included in the transaction value.

[105] Ibid., annex 1, note to article 1 and general introductory commentary, para. 1.

[106] Ibid., article 8.2; it is important to note that article 8 prohibits any other additions so that, for example, cost of transportation of the goods inside the country of importation, the costs of their installation and the taxes and duties in the country of importation are not allowed to be included.

add the costs (possibly estimated) of those services to the customs value to obtain the statistical value.

192. *Use of customs value if the terms of delivery are CIF or CIP*. **The customs value for imports**[107] **should be accepted as the statistical value without any adjustments if:**

**(*a*) The transaction value was established in accordance with articles 1-8 of the Agreement;**

**(*b*) The terms of goods delivery are CIF (Cost, Insurance and Freight . . . at the border of the importing country), or CIP (Carriage and insurance paid to . . . at the border of the importing country), and none of the exclusions from the customs value allowed in article 8 (2) were made.**

Since the invoice prices of goods dispatched under CIP terms reflect the costs of their delivery to the border of the importing country, they are similar to the invoice price of goods delivered under CIF terms. Those two prices are referred to as "CIF-type prices" and their use in valuation is referred to as "CIF-type valuation".

193. *Use of the customs value if the terms of delivery are other than CIF/CIP*. The terms of goods delivery may be other than CIF or CIP (for various terms of delivery as standardized by the International Chamber of Commerce, see *INCOTERMS 2000*).[108] **In those cases, the customs value should be accepted as the statistical value, provided that the appropriate adjustments were made by the customs or the trader to the invoice price.**[109] **Compilers should ascertain that, if the terms of delivery are other than CIF/CIP, the customs value includes the value of the services covered by the definition of statistical value and that it excludes any other costs.** An outline of the required adjustments is contained in annex table B.1 below.

194. It is the responsibility of the customs to ensure the proper calculation of the customs value. To ensure accuracy, many countries require the importer to complete a special form—the declaration of the customs value—which identifies the cost components that are included in the customs value, depending on the terms of delivery. **If such a declaration is available, it is advised that compilers compare the cost components listed in it with the cost components of the statistical value in order to decide whether or not any adjustments to the customs value are necessary. It is also advised that compilers cooperate with the customs in efforts to improve the reliability of the valuation procedures.**

195. *Compilation of the statistical value in the absence of the customs value.* **If the customs value deviates from the requirements of the Agreement or if there is no customs value, compilers should derive or estimate the statistical value following the principles of the Agreement.** The Agreement is reproduced in IMTS, Rev.2, annex C.

### 8.3 Uses of free on board value of imported goods and collection of data on costs of insurance and freight

196. *Uses of FOB value of imported goods*. Free on board (FOB) imports data are useful for a number of analytical and compilation purposes. Such data provide an alternative perspective of overall trade balances. FOB presentation also assists in reconciling import data with the corresponding export data from the country of origin, since the valuation basis is the same. In particular, it results in bilateral trade balances that are much more comparable with the bilateral balance measured from the other partner's perspective.

197. FOB imports data are required for balance-of-payments statistics, which record both exports and imports on an FOB basis. One reason that this valuation is used is that some freight and insurance is supplied by residents of the importing country. Such costs need to be excluded from imports, since the purpose of the balance of payments is to record transactions between residents and non-residents. A second reason is that even when the freight and insurance are both supplied from abroad, compilers of balance-of-payments statistics need to distinguish between goods and services for analytical reasons, so that the total CIF value of imports needs to be allocated between merchandise and the service component. Further, the classification of services seeks to separate different types of service coming from different activities, so freight and insurance are each shown separately. The compilers of national accounts statistics also require FOB imports for a reconciliation with CIF imports used in supply tables.[110]

198. FOB imports data can also be useful in the process of administering the customs system and checking trade data. FOB valuation assists in reconciling the record of a particular import with the corresponding export record from the originating country and therefore helps to identify misreporting. Separating the underlying price of the product from the costs of its delivery may also assist in clarifying the validity of the prices used, hence identifying understatement or other errors.

199. *Collection of data on costs of insurance and freight*. **If imports are collected on a CIF basis, as recommended in IMTS, Rev.2, the insurance and freight costs should be reported separately so that FOB values can be determined. A few countries use FOB valuation as the primary or sole basis for imports data; in those cases, freight and insurance should be collected so that CIF values can be determined.** Alternatively, both CIF and FOB values may be requested in declarations.

[107] For the valuation of exports, see paras. 202-209 below.

[108] ICC No. 560 (New York, ICC Publishing, 1999); the preambles to all Incoterms, as well as basic information and background, may be viewed in read-only format on the official Incoterms web site at: *www.incoterms.org*.

[109] Under the CIF and CIP terms of delivery, the seller bears the costs associated with delivery of the goods to the port or place of importation. It is assumed, therefore, that those costs are included in the invoice price. Use of other terms of delivery may entail different costs to the seller. Such costs should be identified and added to or subtracted from the invoice price, as the case may be.

[110] Balance-of-payments statistics require the separation of the CIF/FOB adjustment into freight and insurance, each broken down between domestic and non-resident suppliers. Since those splits will not usually be available from a customs declaration, supplementary information obtained by questionnaire from a sample of imports would need to be sought by balance-of-payments compilers. Alternatively or additionally, aggregate information from freight providers and insurers may be used. Specific information on freight and insurance rates may also assist.

200. In cases where FOB values are not available from the primary trade data source, they still need to be derived for balance of payments and other purposes. That is best done using actual or estimated freight and insurance costs for transactions provided by traders on declarations, supplemented by information on freight and insurance rates from providers of those services. CIF/FOB adjustment factors could be obtained from a sample of imports by supplementary questionnaires to importers. The sample could be selected from the imports declarations, with information on importers' names and contact addresses being the basis for the survey. Another possibility is to obtain information on the exported value in cooperation with authorities in the exporting countries, if processing systems and confidentiality rules allow declarations to be accessed.

201. The allocation of work in this area between trade statistics and balance of payments compilers will depend on national circumstances, but the interlinked nature of the work means that there should be close cooperation. As freight and insurance costs vary with such factors as the commodities involved, mode of transport, size of consignment and distance between ports, adjustment factors should be derived in some detail, for example by country, product and mode of transport. To the extent that the costs vary over time and with the mix of products, they will need to be updated frequently. For adjustment factors from samples, the degree of detail is likely to be considerably less than is possible with complete coverage from customs declarations. Adjustment factors are usually expressed as percentages of trade values, but this is only an approximation, since some costs relate to weight or volume rather than to value. In addition, the relative prices of the good and its transport costs may change in different ways (for example, if metal prices fall, there is no reason to expect that freight costs would also fall). The insurance companies that insure goods when they leave countries are possible sources of information on insurance.

### 8.4 Compilation of statistical values of exported goods

202. *Use of customs value as the statistical value*. The customs value and the statistical value of both imported and exported goods should be consistent. In that connection, IMTS, Rev.2, recommends that countries adopt the WTO Agreement on Valuation as the basis for valuation of all goods flows (IMTS, Rev.2, para. 114). This approach builds on article VII of GATT, which requires that the same principles of valuation apply to valuation of both imported and exported goods.[111] However, there is no international agreement on the implementation of article VII of GATT with respect to the customs value of exported goods. IMTS, Rev.2, recommends that an FOB-type valuation be used for the statistical value of exports.

203. Customs administrations are free in their interpretation of how the customs value of exported goods should be determined. In general, customs requires that actual prices paid for the goods and costs of delivery to the border be declared so that an FOB-type customs value can be established. In the absence of price information, customs may require certain substitutes, such as the prices of identical or similar goods. The degree of verification of accuracy of the information provided by declarants depends in part on whether or not customs values are used for assessing export duties and other related charges. Countries may also have different interpretations of costs of delivery to the border of the exporting country. For example, some countries do not include in that item the cost of inland insurance.

204. **It is widely assumed that, in general, the customs valuation of exported goods is less reliable than the valuation of imported goods;[112] therefore, it is advised that compilers make special efforts to assess the compatibility of customs valuation practices with statistical requirements. It is further advised that if customs values of economically significant shipments of goods are established with a clear deviation from those requirements, those customs values be replaced by values derived from non-customs sources or by estimated values (if deemed more accurate). Compilers are encouraged to contact exporters of major commodities and, if necessary, to conduct special studies to determine statistical value on the basis of cost of production, including cost of materials, compensation of employees and other relevant information.**

205. *Use of the customs value if the terms of delivery are FOB, FCA or DAF*. The customs value for exports[113] should be accepted as the statistical value, without adjustment, if:

(*a*) The transaction value was established in accordance with articles 1-8 of the Agreement; and

(*b*) Provided that the terms of delivery were:

(i) "Free on board" (FOB) at port on the frontier of the exporting country (for goods dispatched by sea or inland waterway);

(ii) "Free carrier" (FCA) at terminal on the frontier of the exporting country (for goods dispatched by means of transport to which FOB is not applicable);

(iii) "Delivered at frontier" (DAF) of the exporting country (for goods dispatched by means of transport to which FOB and FCA are not applicable, e.g., when goods are exported by railroad or pipeline).

206. Since the invoice prices of goods dispatched under FCA and DAF terms reflect the costs of their delivery to the border of the exporting country, they are similar to the invoice price of goods delivered under the FOB term. Those three prices are referred to as "FOB-type prices", and their use in valuation is referred to as "FOB-type valuation" (IMTS, Rev.2, para. 118).

207. **If the customs valuation procedures comply with the statistical requirements and customs values are established on the basis of FOB-type prices, those values**

[111] See WTO, *The Results of the Uruguay Round of Multilateral Trade Negotiations: The Legal Texts* (Geneva, 1995).

[112] There are circumstances in which that may not be the case; see para. 203 above and para. 270 below.

[113] For valuation of imports, see paras. 191-195 above.

**should be taken by compilers as the statistical value of exported goods.**

208. *Use of the customs value if the terms of delivery are other than FOB, FCA or DAF.* **In such cases, the customs value should be accepted as the statistical value, provided that appropriate adjustments were made to the invoice value.**[114] **Compilers should ascertain that, if the terms of delivery are other than FOB, FCA or DAF, the customs value includes the value of the services covered by the definition of statistical value and that it excludes any other costs.** An outline of the required adjustments is contained in annex table B.2 below.

209. The appropriate valuation of exported goods is very important for the accuracy of trade statistics and subsequent economic analysis. **Compilers should make every effort to ensure that that valuation is as reliable as possible.**

### 8.5 Valuation of selected categories of imported and exported goods

210. Certain international transactions present difficulties in determining the valuation of the goods involved. Some of those are covered in IMTS, Rev.2, para. 123; **for some additional transactions, it is advised that compilers establish values using the following guidelines:**

(*a*) *Goods under financial lease*. **Goods which are part of a financial lease should be reported using a value equivalent to the price of the goods if offered for sale.** Any value reflecting services supplied under the lease (training, maintenance 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 (see also para. 121 above).

(*b*) *Products mixing goods and services*. Often, contracts between residents or entities in two different countries provide a mix of goods and services (e.g., the construction of facilities in one country by a firm located in a different country). **It is advised that the goods part of such contracts be included in trade statistics, valued at the actual price of the goods only. Trade data compilers are encouraged to cooperate with compilers of trade in services to deal with those kinds of transactions.**

(*c*) *Waste and scrap*. The transaction value of waste and scrap should be assessed as the full payment by the importing country to the country of exportation. If such payment does not exist or if the exporting country reimburses the importing country for accepting its waste and scrap, that waste and scrap should be excluded from the merchandise trade statistics of both countries but separately recorded, using appropriate quantity units.

### 8.6 Issues of currency conversion

211. Rules for currency conversion of transactions to the national currency are established in most countries by customs. In general, the conversion is done by customs or the declarants according to the rules set by customs. **Compilers are advised to review those rules and their application to assess their compliance with the recommendations contained in paras. 126-130 of IMTS, Rev.2. Compilers should cooperate with customs to ensure compliance. If values are not converted by customs or declarants according to the requirements, compilers should conduct the currency conversion themselves or adjust values to comply.**

[114] Under FOB, FCA or DAF, the seller bears the costs associated with delivery of the goods to the port or place of exportation. It is assumed, therefore, that those costs are included in the invoice price. Use of other terms of delivery may entail different costs to the seller. Such costs should be identified and added to or subtracted from the invoice price, as the case may be.

# CHAPTER 9. QUANTITY MEASUREMENTS

## 9.1 WCO STANDARD UNITS OF QUANTITY

212. WCO recommended a single standard unit of quantity for each HS six-digit heading;[115] standard units of quantity are recommended for use for statistical purposes by IMTS, Rev.2 (IMTS, Rev.2, para. 133). The use of standardized units of quantity greatly facilitates the collection, comparison and analysis of trade statistics based on the Harmonized System. **Compilers should pay special attention to the quantity information recorded in customs declarations and should review it; supplementary documents, such as invoices and shipping documents, should be used if quantity data are not on the declarations or if the quantity data appear unreasonable.**

## 9.2 CONVERSION FACTORS FROM NON-STANDARD TO STANDARD UNITS OF QUANTITY

213. *Converting units of quantity*. There are basically two ways of converting reported units of quantity to standard HS units of quantity, namely, (*a*) mathematical conversion of the reported units to the standard units, and (*b*) converting from one unit to another unit using the specific gravity of the commodity or commodities involved.

214. *Mathematical conversion*. Annex table C.1 below gives examples of conversion (multiplication) factors with which specific non-standard units can be converted to standard HS units of quantity. The table contains mostly units of quantity of the United States and United Kingdom systems of measurement. Those factors are applied by the United Nations Statistics Division to convert volume measures into weight for a number of HS and SITC headings. Such conversion factors are very general and will necessarily be inaccurate in specific cases. If national or subnational conversion factors for certain HS headings are available, then those factors will give more accurate estimates. **Countries should establish a comprehensive list of conversion factors and that list should be published and circulated to all agencies involved in the collection of trade statistics.** There are other country-specific units of measurement, many of which apply to a single commodity; commodity boards and other organizations publish conversion factors for some of those.[116] Other reference materials gather many of those commodity-specific sources together.[117] Still other references deal with smaller groups of commodities.[118]

215. *Specific gravity*. The use of specific gravity to convert, for instance, litres of a certain commodity into kilograms of that commodity is much more complicated, since it is based on empirical rather than mathematical principles. HS headings often contain a multitude of products which can all differ in, say, weight per volume or weight per unit. Even such seemingly homogeneous commodities as crude oil or milk will have different weight-per-volume indices depending on country of origin and, for example, on the sweetness (for crude oil) or the concentration of fat or time of collection (for milk) (for examples of the various conversion factors, see annex table C.2 below).

216. The best conversion of volume into weight or of pieces into weight is done at the national or even subnational level. For instance, in the case of sawnwood, FAO applies the following country-specific conversion factors:

> "For Canada and the United States, in converting the volume of sawnwood reported in 1,000 board feet to cubic metres ($m^3$), the nominal conversion factor 2.36 $m^3$ per 1,000 board feet has been applied. Sawing conventions in those countries generally result in the volume being less than the nominal volume. For example, it is estimated that for the United States, taking coniferous and non-coniferous data together, the actual average volume of rough green sawnwood would be 3 per cent less than the nominal volume, while the weighted average for surfaced dry coniferous and rough dry non-coniferous sawnwood would be 27 per cent less than the nominal volume".[119]

217. Broad-based conversions at the national or international level are inaccurate by definition and can only serve the purpose of making quantity (especially weight) estimates for general trade or transport analyses. Some examples given by FAO are:

(*a*) "When countries record coconuts in number instead of weight, amounts are converted to weight on the average basis of 1,000 nuts = 1 metric ton, unless official conversion factors are available."

(*b*) "Refined sugar is converted to raw sugar equivalent using the factor 1.087 for all countries."

(*c*) "Wine, vermouth and similar beverages. Quantities are expressed in weight; for countries recording their statistics in volume, it is assumed that 1,000 litres = 1 metric ton."[120]

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[115] The WCO standard units of quantity can be found in the Harmonized Commodity Description and Coding System, second edition (Brussels, 1996), annex II. The standard units of quantity recommended by WCO are not obligatory for national customs administrations, which are free to use any other units. The recommendation allows for other units of quantity to be retained or used in statistical nomenclatures for collecting trade data and for other purposes.

[116] See, for example, *Quarterly Bulletin of Cocoa Statistics*.

[117] See, for example, *The Economist Desk Companion: How to Measure, Convert, Calculate and Define Practically Anything* (New York, John Wiley and Sons, 1998).

[118] See, for example, *Weights, Measures, and Conversion Factors for Agricultural Commodities and Their Products*, special report (Washington, D.C., United States Department of Agriculture, June 1992).

[119] See the FAO web site (*www.fao.org*).

[120] Ibid.

# CHAPTER 10. PARTNER COUNTRY ATTRIBUTION

## 10.1 Country of origin and its use in import statistics

218. *Use of "country of origin" and its implications* (IMTS, Rev.2, paras. 139 and 146-151, and annex B, paras. 16-18). The use of country of origin for imports and re-exports requires the customs administration/statistics compiler to establish the origin of goods in each consignment on the basis of the definition of the statistical territory of its trading partners (IMTS, Rev.2, para. 151). **However, if that definition excludes certain parts of the economic territory (e.g., an industrial free zone located in a country using the strict version of the special system of trade), it is advised that the partner country be determined on the basis of the economic territory.**

219. *Country experience*. Most countries broadly follow the Kyoto Convention guidelines with regard to both wholly produced and substantially transformed goods.[121] 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 (see annex D.2 below for some aspects of practice in China).

220. *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.[122] 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.

The substantial transformation criteria are elaborated on a product-specific basis and are to be applied to a good when more than one country is concerned in its production. The Agreement envisages the use of the those rules, inter alia, for trade statistics, and IMTS, Rev.2, incorporates that idea (IMTS, Rev.2, para. 150 and footnote 80). 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.[123]

221. *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.

222. 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.

223. 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 deci-

[121] See IMTS, Rev.2, para. 139, for current application of the relevant rules of the Kyoto Convention; see Kyoto Convention, annex D.1, and IMTS, Rev.2, annex B, paras. 16-18. In the case of a trading partner being a customs union, in principle the origin may be assigned to the customs union.

[122] See WTO, *The Results of the Uruguay Round of Multilateral Trade Negotiations: The Legal Texts* (Geneva, 1995).

[123] 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 non-repairable 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 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.

sions 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.

224. 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.

### 10.2 Country of last known destination and its use in export statistics

225. *Identification of the country of last known destination using customs records* (IMTS, Rev.2, paras. 137, 144, 145 and 150). **It is advised that the country of destination, as recorded by customs, be used as the partner for the purposes of export statistics, provided that customs rules require exporters to identify, as far as it is known to them, the country to which goods are to be ultimately delivered** (see para. 218 above for definition of partner country statistical territory). The country of destination may be taken as the country of last known destination if, at the time of exportation, no additional information is available regarding further movement of the goods. **It is also advised that compilers cooperate with customs in developing and disseminating to exporters clear instructions regarding the reporting of such information.** Compilers should be aware, however, that customs is not normally engaged in systematic verification of the correctness of information about the destination of most goods.[124]

226. *Use of non-customs sources*. **In the absence of customs records or if compilers deem them not reliable, it is advised that non-customs sources be examined.** For example, the country of destination may usually be found in the terms of delivery contained in the contract of sale or may be derived from shipping or other commercial documents. Compilers may use enterprise surveys and reports of commercial banks and monetary authorities. Information contained in the markings on outer packaging of the goods may also be helpful.

227. *Change of origin and the country of last known destination*. **During the delivery of export goods from one country to another the goods may enter a third country and undergo processing that will confer on them a new origin. It is advised that, in such a case, the exporting country record that third country as the country of last known destination.**

228. *Use of partner country's data*. In some cases, trading partners imports data may be helpful in identification of the final destination. Compilers may find partner country statistics to be useful in cross-checking and possibly making adjustments ex post facto. Such adjustments may be applicable at least at global levels (annual aggregate exports by partner country) if there is evidence that, to a large extent, a country of transit has been indicated by a declarant as a country of destination (e.g., Hong Kong Special Administrative Region of China, Netherlands). The systematic and continuous use of such methods may noticeably improve the statistics. Care should be taken to avoid double counting and to adjust for mark-ups in the partner country values (see chap. 13 on data reconciliation and exchange).

### 10.3 Country of consignment

229. **Compilers are advised to make necessary arrangements to implement the IMTS, Rev.2, recommendation that imports by country of consignment be collected as additional information** (IMTS, Rev.2, para. 150)**. In particular, compilers should ensure that the relevant customs records are collected, processed and incorporated in the trade statistics database. If such records do not exist or are not complete, non-customs sources should be used to the extent possible. Countries which do not already compile country of consignment information in the case of exports are encouraged to study the feasibility of such compilation, since it is valuable for various analytical purposes** (see IMTS, Rev.2, para. 144).

### 10.4 Definitions of partner for intra-trade in customs unions

230. The partner attribution in the case of intra-union trade depends on the requirements of member States regarding the nature of their trade statistics. Those statistics may continue to be based on the same criteria as in trade with third countries, that is, on country of origin for import statistics and country of last known destination for export statistics. That attribution is easier to follow if customs controls of movements of goods between member States are not entirely removed and customs records require the identification of the country of origin and country of destination. If such customs records do not exist, compilers need to use non-customs sources to compile trade statistics, including the identification of country of origin and country of last known destination.

231. If member States are considered as one economic territory and information regarding origin and last known destination is not required for national use, the statistics of intra-union trade may apply another definition of partner (e.g., country of arrival/country of dispatch). The country of arrival is the member State to which goods are consigned from another member State. The country of dispatch is the member State from which goods were consigned to the

[124] According to the Kyoto Convention, "The Customs authorities shall not require evidence of the arrival of the goods abroad as a matter of course" (annex C.1, standard 21) unless such evidence is deemed necessary to ensure collection of internal duties and taxes or if goods are subject to special controls (e.g., military goods).

member State of arrival. In practice, however, consignment is frequently approximated by shipment.

232. Trade statistics compiled by customs union secretariats and member States will not be directly comparable if different criteria for partner attribution are used.[125] Data on a member State basis will be needed for various purposes, such as the analysis of the performance of individual economies. The statistics compiled on a union basis will be more appropriate for some other purposes, such as analysis of trade flows between different regions of the world.

### 10.5 Country definitions and codes for statistical purposes

233. *Statistical territories* (IMTS, Rev.2, para. 151). The United Nations Statistics Division recently issued *Statistical Territories of the World for use in International Merchandise Trade Statistics*, a publication that contains country responses to a questionnaire sent to countries regarding composition of their statistical territory.[126] **Compilers should consult that publication in order to better attribute import and export flows to their country's trading partners.**

234. The United Nations Statistics Division has also issued a related publication, *Standard Country or Area Codes for Statistical Use, Revision 4*.[127] It contains names of countries or areas, together with the three-digit numerical codes used by the Division for data-processing purposes and the two- and three-digit alphabetical codes assigned by the International Organization for Standardization (ISO); provides 12-character abbreviations of country or area names; and lists and gives codes for a number of geographical regions and economic, trade and other groupings of countries or areas. **Compilers are advised to take note of that publication and consider using the coding system described in it for data-processing and reporting purposes if it suits their systems.**

235. *National compilation and reporting practices in international merchandise trade statistics*. The United Nations Statistics Division has created (and periodically updates) a database on country compilation and reporting practices. The database provides a wealth of information on such issues as coverage, trade system, commodity classification, valuation, partner country and dissemination.[128]

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[125] In the case of the European Union, that phenomenon is known as the "Rotterdam effect". For example, Japanese goods are released for free circulation in the Netherlands and then dispatched to Germany. The following records of trade flows will be made:

(*a*) For Community statistics, three operations are recorded: import of goods originating in Japan (with the Netherlands as the declaring member State, since the customs declaration is made there); dispatch (intra) from Netherlands to Germany; and arrival (intra) in Germany;

(*b*) For national statistics of the Netherlands, no trade is recorded, since the import from Japan and dispatch to Germany are regarded as transit;

(*c*) For national statistics of Germany, goods originating in Japan are entered as imports; Germany records Japan as the country of origin. Such information is considered statistically more relevant at the national level.

[126] United Nations publication, Sales No. E.01.XVII.30.

[127] United Nations publication, Sales No. E.98.XVII.9.

[128] The most recent survey data may be examined on the United Nations web site at *http://unesis.un.org/unsd/unsd.*

# CHAPTER 11. ISSUES OF DATA QUALITY CONTROL

236. The improvement of data quality remains an important challenge for compilers of trade statistics. Problems exist in both import and export statistics. However, import statistics are usually judged to be more reliable than export statistics.[129]

## A. Registration errors

*Problem areas*

237. The major causes of registration errors are related to treatment of low-value transactions; failure to file the required documentation, including smuggling and other unregistered cross-border trade; errors and missing or incomplete information; and intentionally incorrect reporting to avoid tariffs or quotas.

238. *Treatment of low-value transactions*. When the threshold for considering low value transactions is kept low, more complete and higher quality trade statistics are possible but only at the expense of a larger data-processing load. **Whatever the threshold, estimates of trade below the threshold level should be made.** Benchmark estimates (on which current estimates are based) should be updated to reflect recent shifts in trade patterns, such as those resulting from sales over the Internet, which mainly involve small transactions, and the use of air express couriers. In a number of countries, shipments below a certain threshold value are completely excluded from the official trade statistics, which is not a desirable practice (for more advice, see paras. 69, 80, 116 and 124 above).

239. *Failure to file the required documentation*. This is a long-standing problem, particularly for overland and parcel trade. It is very difficult to collect paper documentation for overland truck and rail movements, particularly in open border situations where there are few customs formalities. In addition, smaller traders may be less knowledgeable about reporting requirements.

240. *Errors and missing or incomplete information*. Transactions information inevitably contains errors. Errors in paper documentation in general exceed those in electronic records. Most involve missing, invalid or incorrect commodity classification codes, and missing or incorrect quantities or shipping weights. Those errors may not affect trade totals but can significantly affect detailed commodity and transportation analyses.

241. *Intentionally incorrect reporting to avoid tariffs or quotas*. There are cases where intentionally incorrect reporting takes place to circumvent tariffs or quotas. Commodities may be intentionally misclassified or goods may be undervalued, especially in cases where a relationship exists between the buyer and the seller. Since the classification of goods is subject to interpretation, there will be cases where the importer and customs officials disagree. In such cases, it may be a court which decides on the final classification of the goods and the associated duties.

*Quality control by customs*

242. **Countries should undertake efforts to improve the quality of their data by the application of adequate measures.** Some of those measures will require either additional resources or regulatory changes and may include (*a*) implementation of a system for automated submission of required documentation; (*b*) increased customs enforcement of filing requirements; (*c*) increased outreach and education of traders and their agents; and (*d*) working with insurance companies.

243. *Implementation of a system for automated submission of required documentation*. The direct electronic submission of documentation to the customs can be the single most important step for improving data quality. This can have benefits for better covering low value transactions and for combating failure to file and missing and incomplete information. First, the burden and resources for the collection and processing of all transactions, including small-value ones, are simplified and even reduced. Second, it eliminates the logistical problems of collecting paper documents, particularly from trucks and trains. Third, it allows for the validation and other editing of the data as they are received, so that the reporting party can correct incomplete or incorrect information (see para. 65 above and paras. 258-260 below for the role of ASYCUDA and Eurotrace software products for the capture and processing of trade transactions and statistics).

244. Such a system normally has a good chance of success since it benefits traders and their agents by simplifying the reporting process. If the system is designed to meet the reporting requirements of most government agencies, it can reduce the total reporting burden in a country.[130] Private service companies may be involved in operating the system. For example, traders may complete electronic forms and submit them to a private service centre via the Internet, which will then pass them on to the agency responsible for trade statistics in a country.

[129] For instance, the United States Census Bureau believes that there is no evidence of significant errors in the United States import data but that exports data are understated by 3-10 per cent (see "Understatement of export merchandise trade data", Foreign Trade Division note of July 1998, United States Census Bureau); the Bureau has, however, indicated that it does not have adequate information to develop estimates of understatement by country or by product.

[130] Many countries already get most or all of their export documentation electronically, often with exceptions for small filers or small ports; one country (Mexico) is understood to have mandatory electronic filing for both imports and exports.

245. An additional advantage of the implementation of a system of electronic filing is that customs may allow traders the option of reporting transactions at the level at which their company records are kept, instead of aggregating by product as is frequently required when paper submissions are used. Many companies may choose that option since it reduces their reporting burden; it may also significantly improve the capture of low-value transactions in trade statistics.

246. Customs and statisticians may screen and approve applicants who wish to use a system of detailed electronic submission. Periodic verifications must be part of that activity to ensure a minimal keying error rate.

247. *Increased customs enforcement of filing requirements*. Although an automated system may eliminate the under-coverage that occurs because of logistical problems (for example, where the exporter prepared the proper documentation but the truck driver did not submit it), it will not ensure compliance with reporting requirements from companies that either are unaware of the reporting requirements or intentionally violate them. Therefore, additional enforcement efforts are essential for improving statistics. For instance, customs may improve enforcement by matching the electronic data for transactions with the information contained in air and vessel manifests. It is recognized that the customs may not systematically enforce export reporting requirements if no taxes or tariffs are involved. **Trade data compilers should cooperate with customs so as to make customs officers more aware of the importance of customs reporting for statistical purposes.**

248. Increasing volumes of transactions have rendered transaction-by-transaction reviews increasingly ineffective and impractical. Consequently, periodic audits involving the comparison of company records with summaries of documentation submitted may better ensure that the required information has been reported correctly. Countries may consider conducting periodic audits at major ports. Besides checking for undocumented export shipments, such audits may help to assess the enforcement of export filing requirements. Because of the different filing requirements for each mode of transport, each of them requires different audit procedures. The primary purpose of the audits is to correct many traders' reporting patterns or habits so that future transactions will be reported correctly.

249. *Outreach and education*. Outreach to and education of the trading community are essential. Those activities may include running an intensive education programme for customs officers and traders. Examples of outreach and education programmes may include:

(*a*) Briefings for customs staff to increase awareness of their role in the collection of trade statistics; such briefings may lead to improvements in customs processes;

(*b*) Conducting educational seminars for traders and their agents, with a focus on preparing documentation which satisfies statistical requirements;

(*c*) Targeting traders with frequent reporting errors, contacting them by telephone and discussing those errors, mailing educational sets consisting of educational materials and samples of defective documents, and tracking traders' subsequent performance;

(*d*) Operating automated sites to assist traders and their agents in understanding reporting requirements, classifying goods, reporting quantities correctly and resolving other reporting problems.

Outreach and educational activities must be continuously maintained.

250. *Quality control by insurance companies*. Another actor in the control of customs documentation may be the insurance company. Such companies may check goods at the moment when they are exported. A well coordinated effort between customs and insurance companies could improve the registration of both export and import documents. It is obviously important for insurance companies to ensure that the classification and valuation of the goods shipped is accurate, which is also in the interest of customs.

## B. Processing errors

*Problem areas*

251. Processing error in trade statistics involves errors in coverage, time of recording, commodity classification, valuation, quantity measurement and partner country. In the following paragraphs, some checking devices are proposed that should help to reduce the number of processing errors (and also identify registration errors).

*Quality control by code validation*

252. A basic tool in the processing of trade statistics is the validation of codes on the customs document against a standard code list. Automated systems for the entry of customs documents have built-in standard code lists against which the entered information is checked. It is very important for such systems to ensure that the standard code lists at the various ports of entry/exit of a country are always aligned. In the case of frequently changing tariff line codes, that might pose a logistical problem.

253. For all documents which are still entered manually from paper forms, computer validation programs are necessary. Codes for customs regimes, partner countries, ports of entry/exit, quantity units and commodities all need to be verified.

254. If possible, some cross-checking procedures for the validation of codes should be implemented, which can involve combinations of quantity units and commodities or a three-way combination of customs regime, partner country and port of entry. For instance, imports of goods into the port of Abidjan (Côte d'Ivoire) are not likely to come from Burkina Faso, because goods from Burkina Faso are normally trucked into Côte d'Ivoire on the north border of the country.

*Quality control by validation of value and quantity*

255. A more difficult but no less important validation of trade statistics is the checking of values and quantities. Customs procedures include a check on the reasonable value of the goods being imported (especially for trade between related enterprises). This means that lists of unit values for a large number of goods are available. Statisticians could do

the same checks and could in addition include some time-series trends on the unit value of the goods. Large deviations should then be traced back to the customs documents for correction.

*Quality control by data reconciliation and data exchange*

256. Experience indicates that reconciliation of data and subsequent data exchange improve the quality of trade statistics of countries (for a more in-depth discussion of data reconciliation, see chap. 13 below).

*Macrolevel checks*

257. In addition to checks on elements of the transactions (microlevel checks), macrolevel checks can also be done. These involve checking growth rates and composition of aggregates for reasonableness and checking against other available non-customs statistics for certain products, such as domestic production.

*Software to assist in registration and quality control*

258. Two of the software products that are available and in wide use in countries to support customs administrations and to help in the compilation of international trade statistics are the Automated System for Customs Data and Management (ASYCUDA), developed by UNCTAD (see para. 65 above), and Eurotrace, developed by Eurostat.[131]

259. ASYCUDA is a computerized customs management system which also covers foreign trade procedures. It handles manifests, customs declarations, accounting procedures, warehousing, licences and transit, and generates reliable and timely basic transactions data for trade statistics. It is useful for automated entry of documents and for checking of data.

260. The Eurotrace system is software which is able to take basic transactions data generated by ASYCUDA or any other computerized system (including a data set compiled from keying in data from customs records) and integrate it into a database to facilitate in-depth analysis and checking of the data and production and dissemination of international trade statistics.

[131] For more information on Eurotrace, contact Department Manager, CESD-Communautaire, 3 rue Wenceslas, L-2724 Luxembourg; see "*www.cesd.lu*" for further information.

# DATA DISSEMINATION, RECONCILIATION AND EXCHANGE

## CHAPTER 12. DATA DISSEMINATION

### 12.1 Dissemination practices

261. *Problems and approaches to solutions* (IMTS, Rev.2, paras. 154-157). Countries vary markedly in their dissemination practices due to differences in institutional and legal arrangements and the availability of resources. Some countries have established effective systems of data dissemination (see annex D.3 below for a description of United States practices). Others, however, have not been so successful due to the lack of adequate infrastructure, staff, financing and intra-governmental cooperation. Improvement in data dissemination is highly dependent upon the concrete country circumstances. **However, countries should consider the application of the following general approaches**:

(*a*) *Timely release of data*. Release data in a timely fashion; this increases the usefulness of the data and raises user interest in the data. There is always a relationship between releasing data in a timely fashion and the need to issue revised data as more information becomes available; specific advice cannot be given on the best "balance" between the two. Users respond well to quickly available information of "adequate" reliability for early decision-making, but in the long term want high-quality data. **When revisions are issued, the reasons should be well explained.** Compilers are referred to provisions in the IMF General Data Dissemination System and Special Data Dissemination Standard for further details;[132]

(*b*) *Formulate a clear dissemination policy and make it public*. Establish, publicly announce and honour the release schedules for new (as well as revised) data;

(*c*) *Cooperate with other governmental bodies*. Keep other governmental bodies aware of the nature of the data compiled and its usefulness to their operations. This may help to increase their interest in the uses of trade statistics for policy planning and execution, thereby supporting allocation of adequate resources to the compilation and dissemination of trade data;

(*d*) *Improve data presentation*. Make data releases an important and interesting event. Use more visual/graphical ways of presentation. Provide short analytical summaries. Give clear explanations about how users can get what they need;

(*e*) *Cooperate with mass media*. Enter into working arrangements with major country news agencies for dissemination of the data as news items;

(*f*) *Clarify the types of data issued*. Where several government departments are involved in dissemination of trade statistics, make clear to users the nature and relationships among the data that each issues, so that users can select the best source for their needs;

(*g*) *Introduce modern electronic means of dissemination*. Reallocate some resources from the printing of hard copies to the creation of web sites containing downloadable files and the electronic transmission of data to institutional users (e.g., national accounts compilers and central banks); this can improve the speed with which data are made available. One useful approach is to use web sites for the dissemination of general and aggregated data and published reports or tailored extractions (with or without charge) for more detailed data. The experience of other countries, and of regional and international organizations, can also be useful;

(*h*) *Cooperate with users*. Identify major user groups and consider conducting periodic meetings with them. Such meetings may help to identify more clearly present and future user needs and may suggest ways in which dissemination could be improved. They can also raise user awareness of the benefits of using trade statistics and can increase the usefulness of the data;

(*i*) *Cooperate with compilers of national accounts and balance-of-payments statistics*. Develop coordinated dissemination polices. Pull together resources (e.g., consider the issuance of joint releases of data; make users aware of the interrelationship between the data and explain how to use it effectively).

### 12.2 Provision of data to compilers of national accounts and balance-of-payments statistics

262. Trade statistics provide an important input to compilers of national accounts and balance-of-payments statistics where trade is analysed in the context of other international flows and the whole economy (see also paras. 303-308 below).

263. Because economic analysis increasingly takes an integrated view of the whole economy, there has been a trend to use harmonized concepts across different kinds of statistics. Substantial harmonization of concepts was achieved with the completion of the 1993 SNA and BPM5. The underlying concepts and definitions of those statistical systems are now generally consistent, although there are some differences in presentation resulting from differing priorities. Some basic concepts and definitions used in trade statistics are also

[132] See *http://dsbb.imf.org*.

harmonized with national accounts/balance-of-payments statistics. However, the definition of coverage in trade statistics is based on a concept of physical flows of goods which add to or subtract from material resources of the countries, while the national accounts and balance-of-payments statistics strive to represent flows of goods resulting from change of ownership between residents and non-residents (a list of items with conceptual differences in the coverage of flows of goods between IMTS, Rev.2, and national accounts/balance-of-payments statistics is provided in annex E below).

264. To assist the national accounts and balance-of-payments compilers in meeting their methodological requirements, IMTS, Rev.2, recommends that the trade data compilers collect several categories of additional information (see paras. 128-131 above). **In the case of large transactions (e.g., a particular piece of heavy equipment, a ship or an aircraft), trade data compilers are advised to undertake additional efforts to identify the time of change of ownership and to provide it to national accounts/balance-of-payments compilers.**

265. It is desirable that national accounts and balance-of-payments statisticians, while publishing data on imports and exports of goods, also describe adjustments made to the data provided by trade data compilers. For example, it is highly desirable that a bridge table, which would identify adjustments to trade statistics in a transparent way, be produced and published.

266. Cooperation and mutual understanding between the compilers working on trade, national accounts and balance-of-payments statistics will improve the production and use of all those statistics. Because various statistical systems have different orientations and are sometimes compiled by separate organizations, there is a need to account for different perspectives. **Compilers of all those statistics should conduct periodic meetings to discuss common issues and to work out mutually satisfactory solutions.**

# CHAPTER 13. DATA RECONCILIATION AND EXCHANGE

## 13.1 Data reconciliation

267. *Reconciliation* provides an explanation of the discrepancy between the import and export statistics of trading partners by identifying conceptual reasons for them and explaining differences in data collection and processing.[133]

268. In general, reconciliation may include the following activities: (*a*) setting the objectives for the project and reaching agreement on basic procedures; (*b*) establishing a common conceptual framework for reconciliation purposes; (*c*) conversion of official published data to the common framework; (*d*) examination of the differences in data; (*e*) making necessary data adjustments to achieve mutually agreed sets of trade figures; and (*f*) formulation of conclusions of the reconciliation study. An individual study could be limited to the activities described in (*a*), (*b*) and (*c*) above.

269. *Objectives of reconciliation and basic procedures*. A short-term aim may be limited to the identification of major differences in the statistics of the two countries. **That process may reveal systematic measurement errors and gaps, which should be corrected immediately.** On a larger scale, the aim may include assessing the causes of differences and making adjustments to various data components. **It is advised that a reconciliation study cover trade for a full year, and that a reconciliation table that identifies all additions and subtractions which need to be performed in order for the trade data of one partner to appear the same as the trade reported by the other be prepared as one of the outputs.** The longer-term objective can be viewed as the harmonization of the conceptual framework of two sets of statistics, which could lead to the revision of certain procedures and definitions and, in some cases, could suggest the use of alternative data sources. At the policy level, a reconciliation exercise will portray a common perception of the facts and thus might facilitate the development of bilateral economic negotiations and international cooperation.

270. The success of reconciliation is dependent on the full cooperation of trading partners from the very beginning and on clear identification of procedures to be followed at all stages of the process, from the initial exchange of the requisite information to the mutual agreement on the final results. The agencies conducting the reconciliation study should examine not only the various organizational aspects of the proposed study but also its legal implications (for example, in certain cases an exchange of data at the level of transactions may involve an issue of confidentiality). At the beginning of a reconciliation exercise, both parties have to agree on which data should be used as the benchmark for a specific category of goods. Import data are normally used as a benchmark for the comparison of most commodities since, in general, those data are considered to be of better quality than export data because imports are reported in sufficient detail to allow customs to apply duties, taxes or other regulatory controls. However, for certain commodities and in some countries, export data can be more accurate for the same reasons.

271. The results of reconciliation can help each partner to better understand bilateral trade flows. The reconciled data do not represent any change to the officially published trade figures of either partner country. Reconciliation adjustments normally include a series of estimates which are not sufficiently precise to permit modifications to officially published data.[134] At the same time, experience gained during a reconciliation study can serve as a basis for recommending changes in the definitions and data compilation procedure which might improve the overall quality of foreign trade data.

272. *A common conceptual framework and conversion of data to that framework*. Establishing the common conceptual framework involves an exchange and comparison of methodologies and compiling practices, and adopting the same definitions and classifications for use in the reconciliation study. Issues to be considered at this stage are: what are the major conceptual differences; whether information is available on country of origin/last known destination or other basis; whether there are significant differences in compilation procedures (such as for the suppression of confidentiality or low-value trade) that will affect bilateral comparability; and whether there are certain transactions (such as processing trade) for which there are streamlined reporting provisions that could affect comparability, among others. The common framework serves as a practical working tool to facilitate comparison of data between the two countries; it does not replace official methodologies of the countries involved. The partners must also decide on such issues as the working currency for the study, and whether currency conversion should be done on a monthly or an annual basis (if exchange rates are fluctuating significantly, annual conversion could create additional discrepancies).

273. *Reasons for differences in data.* Even where both partners comply with United Nations guidelines for trade statistics, there can be differences between partner data. In fact, some of the discrepancies are a direct result of following those guidelines (see footnote 134 to para. 271 above for an example). In order to identify conceptual reasons for discrepancies the following areas should be reviewed: (*a*) coverage; (*b*) trade system applied; (*c*) time of recording; (*d*) in-

[133] Sometimes it is assumed that exports of country A to country B should be equal to imports of country B from country A; this is theoretically possible only if both countries compile data using a special set of methodological principles and if no mistakes are made in the process.

[134] For example, many countries' import data are valued at CIF prices, that is, including insurance and freight charges, which must be removed during reconciliation since the partner country's exports are usually valued on an FOB basis; however, estimates of insurance and freight charges are usually derived indirectly and do not necessarily reflect their true amount.

terpretation and application of the commodity classification; (*e*) valuation; (*f*) partner country attribution; and (*g*) other sources of discrepancy.

274. *Coverage*. Specific goods or types of transactions may be defined differently, and may be included in trade statistics by one partner but excluded by the other (e.g., leased goods, military goods, goods imported or exported for or after repair). Countries usually have different provisions for treatment of low-value shipments, which may be excluded from statistics, reported in less detail or estimated instead of compiled.

275. *Trade systems*. If one partner uses the special system of trade and the other the general system, goods moving between premises for customs warehousing and customs free zones of those countries will not be accounted for by the country using the special system.[135] To facilitate reconciliation, countries should clearly define their statistical territories, specifying any particular inclusions and exclusions.[136]

276. *Timing of recording*. Many factors contribute to timing differences, including the bringing of shipments to the point from which the international carrier will depart; warehousing while waiting for international transport; arriving at the point of destination; warehousing while waiting to clear customs formalities; and the filing and recording of various documents at different stages and having them recorded on the basis of different conventions. For example, in one country the trade flow may be attributed to the time period in which the invoice is received in the importing country, while another country may attribute the transaction to the time period in which the amounts owed to the customs administration are paid. As a result, a given import may be recorded as having occurred in a different month/year from the corresponding export.

277. There may also be differences resulting from reporting practices in the two countries, such as the deadline for reporting statistical information, the use of summary reporting, the definition of the reporting period and the procedures for handling late or incorrect records. Such timing differences can be significant, particularly in the case of monthly data or where the level of trade in a given commodity has changed extensively (so that effects of timing differences between the study period and the preceding and succeeding periods are not equivalent).

278. *Interpretation and application of the commodity classification*. All major trading countries have adopted the Harmonized System for commodity classification. Despite that significant achievement there are differences in interpreting and applying HS, both within the same country and among different countries. In order to reconcile trade in particular commodities, an analysis of uniformity of the HS application is very much advisable. Differences and errors in classification normally affect only the distribution of the goods among different classes; however, they may sometimes lead to differences in total trade. The reasons for this include the use of different threshold values for various commodities so that, depending on where a particular commodity is classified, it may or may not be included in the statistics.

279. *Valuation*. Since exports are normally recorded on an FOB basis and imports on a CIF basis, CIF imports would exceed the counterpart export value by the value of international insurance and freight charges even if there were no other sources of difference. Where such charges have been included, a negative adjustment is made to remove them, for comparison to FOB export values. If the actual freight charges are not known, estimates may be derived from unit value differences or other approaches, such as the application of general CIF/FOB ratios.

280. Although the determination of the customs value of imported goods is regulated by the WTO Agreement on Valuation, there are no internationally accepted recommendations regarding the customs value of exported goods (see IMTS, Rev.2, paras. 114 and 116, and para. 202 above, for a recommendation on statistical value of exported goods). Therefore, even after adjustment for the cost of international freight and insurance, the statistical value of the same goods in export and import statistics of partner countries may be different because of different valuation decisions in the exporting and importing countries.

281. There can also be specific reasons for valuation differences. In such cases as charitable/relief shipments, barter trade or related party transactions, since products are not actually bought and sold their value in export and import records can be estimated differently. The valuation of commodities which have a high service component (e.g., computer software or repair transactions) may vary considerably and requires a detailed knowledge of the partner country's practices to develop compensating adjustments.

282. Currency conversion practices may also cause discrepancies between one country's import value and the counterpart export value, particularly when the exchange rate between the partners fluctuates rapidly. The use of differing procedures by the customs services for converting the values of goods invoiced in foreign currencies, as well as the procedures used in the reconciliation for expressing both sets of statistics in the same currency for comparison purposes, can also create discrepancies.

283. *Partner country attribution*. Attribution of imports to the country of origin and exports to the country of last known destination can explain many significant differences between the statistics of trading partners in cases when goods move from the country of origin to the country of destination via third countries. Suppose goods were produced in country A, sold and shipped to country B and afterwards resold and dispatched to country C. In such a case, the trade statistics of country B will show exports to country C, but statistics of country C will not attribute its imports to country B; they will indicate that goods were imported from country A.

284. If countries have different rules of origin, the trade flows will be differently recorded also. Consider the follow-

[135] Where both countries use the special system of trade, goods moving between customs free zones will not be recorded by any country and will not affect their export and import totals.

[136] For example, Puerto Rico and the United States Virgin Islands are part of the statistical territory of the United States; therefore, exports to/imports from those territories should be recorded as trade with the United States in any reconciliation study involving the United States.

ing example. Goods are produced in country C, imported by country A, undergo certain processing and are exported to country B. If countries A and B have different rules of origin, the processed goods dispatched from country A to country B may be considered (in country A) as a domestic export to country B but as an import from country C in country B (if the rules of origin adopted by country B do not recognize that processing in country A as origin-conferring). The reverse situation may arise if country A does not consider processing as origin-conferring and does not include those goods in its exports (e.g., it may treat them as goods for temporary admission and dispatch) while country B treats the same processing as a substantial transformation and records such goods as imports from country A. Those examples illustrate the necessity of developing harmonized rules of origin.[137]

285. *Partner attribution in the case of re-exports and reimports*. Consider the case of goods originating in country A, exported, and returning to country A from country B without being substantially transformed while abroad. Some countries record such goods as reimports from country B, while others treat them as imports from themselves. In the latter case, there would be a discrepancy between exports of country B to country A, which would include those goods, and imports of country A from country B, which would not.

286. *"Through trade" operations*. With the lowering of tariffs, "through trade" operations are increasingly taking place. That is, goods are exported from country A to country B but are shipped through country C. Instead of being declared in transit, they are declared for home use in country C and then re-exported to country B. If the exporter in country A has properly reported the country of final destination (country B), such a practice will create a discrepancy between the export data of country A and the import data of country C, as well as in the export data of country C and the import data of country B. As more and more tariffs are reduced or eliminated, that reason for discrepancy in trade statistics is likely to increase (see paras. 102 and 104 above).

287. In some cases, the country of destination may not be known at the time of export. For some products shipped by vessel, such as petroleum and some chemicals, the ship may sail before the goods are sold and be directed to the final destination en route. In reconciliation, those kinds of transactions should be identified and the trade flows followed through with exporters to identify final destination.

288. *Other sources of discrepancy*. A considerable discrepancy between import and export statistics may exist since import documentation is normally more complete than export documentation. Differences in data-collection procedures may also noticeably contribute to data divergences (e.g., export statistics compiled using sampling techniques might be quite different from imports data derived from customs records). Reporting errors may in some instances seriously affect the comparability of data sets as well.

289. *Adjustments to data to achieve mutually agreed sets of trade figures*. The preparation of analytical tabulations comparing import and export data for various groupings and at various levels of details helps to identify and assess the disparities. Once the analytical tables are completed, a series of adjustments[138] may be applied to align data as closely as possible. Depending on the reconciliation methodology and procedures agreed upon, adjustments are applied at either high-level aggregates or detailed product levels. Adjustments at high-level aggregates include adjustments for differences in commodity coverage and trade system definition; varying procedures of valuation, insurance and freight, and timing; and under-reporting; country definition; indirect trade, re-exports and reimports. In some cases, it may be necessary to investigate discrepancies in transaction-level data and make use of information supplied by declarants, trade associations and other government agencies or obtained by means of special investigations.[139] Classification adjustments may also be applicable, especially if items shown in chapters 98 and 99 of HS are not included in the total trade. In such cases, they should be distributed at least to the chapter level and investigated for possible reclassification and inclusion. There may be cases where discrepancies are identified but remain unresolved because it is difficult to establish which data are more reliable for adjustment purposes without involving unreasonable amounts of time and resources. Depending upon the information available, it may or may not be possible to estimate the effect of every identified difference and agree on an appropriate adjustment.

290. Difficulties in the preparation of adjustments may lead to further reconciliation activities, such as analysis of the differences at a more detailed commodity level and calculation of the residual adjustment (referred to as "other") by subtracting the adjusted export value from the agreed-upon adjusted import value.

291. *Conclusions of the reconciliation study*. The partners must decide at what point to consider the study to be "done". They must also decide how to present the results—whether to compute a "reconciled" value for each direction of trade or simply to present an explanation of why the two data sets differ. The reconciliation study may be concluded by a summary statement of its major results and a set of an-

[137] Inconsistency in application of country of origin concept leads to additional difficulties; although IMTS, Rev.2, recommends use of country of origin for imports, in one country the transaction may be credited, not to the country where the product was grown, extracted or manufactured, but to the one where the invoice was issued, while in another the residence of the seller may determine the country assignment.

[138] There are three broad categories of adjustment: (*a*) systematic adjustments affecting all products in a detectable way (e.g., inclusion of the cost of freight and insurance, and differences in timing); (*b*) known adjustments, which are needed at all times but are more difficult to track and may affect only selected commodities when countries record imports of special commodities separately and do not include them in regular official statistics (however, those amounts must be incorporated to balance the trade for the relevant commodity group; e.g., trade in military aircraft should be included in total trade in aircraft); and (*c*) irregular adjustments, that is, adjustments which may change over time (e.g., coding and processing errors). Adjustments may be based on supplementary information or derived by a series of estimates.

[139] For example, for the Mexico–Canada–United States trade data reconciliation, Mexico's National Institute of Statistics, Geography and Informatics, with the support of the Ministry of Commerce, undertook a special survey of *maquiladora* trade (similar to inward processing trade) which identified and quantified a major source of discrepancy. Generally, confidentiality requirements will restrict each partner to examination of its own data. Frequently, the partner that has the highest value may have greater success in investigating the discrepancy, since that partner can examine the detail for transactions that may not exist in the other partner's data.

nexes detailing specific findings. It is unlikely that all significant discrepancies can be resolved. Although reconciliations between partner countries are usually unique for each set of countries, common kinds of major adjustments have typically been applied to arrive at reconciled trade flows (see annex D.4 below for a description of the United States–Canadian–Mexican experience).

### 13.2 Data exchange

292. In some circumstances, particularly where non-reporting or errors in collected data are prevalent, a data exchange[140] between partners can improve data quality and reduce the burden on traders and statistical compilers; exchanges could cover all transactions or only a subset of transactions thought to involve special problems. Exchange may be a permanent arrangement or may be limited to a specific time frame to deal with a temporary situation.

293. Before undertaking a data exchange, it is important to do detailed trade data reconciliation studies to fully understand the differences between the two partners' statistics and the adjustments which will be needed to derive each partner's export data from counterpart import statistics. Because of the greater customs scrutiny paid to imports, it is usually more feasible to derive exports from counterpart imports.

294. *Classification schedules*. A detailed analysis of each partner's export commodity codes against the other partner's import codes must be done to determine what codes should be added to each partner's import classification to meet the other partner's export data needs. Such changes can be extensive.[141] However, it will probably not be feasible to make the import and export classifications identical. The partners must then develop recording procedures to convert import classifications to the counterpart export codes.

295. *Units of quantity* must also be compared and, where different, the partners must either agree to use the same unit or develop appropriate conversion or estimation procedures (practical differences in this area are recognized, and quantity data in imports are sometimes non-existent and unreliable, since customs may pay less attention to quantities than to values).

296. *Currency conversion*. For each flow, the partners must determine which exchange rates should be used to convert the import data to the partner's currency.

297. *Adjustments*. Based on trade data reconciliation results, partners must determine what adjustments will be needed. The major adjustments likely to be applied include those for trade involving third countries (importers will need to report both the country of shipment and the country of origin to permit the adjustment) and valuation. Coverage needs to be made identical or data sources must be identified for any export transactions not included in the counterpart import data. Each partner may need to add some data elements to meet the other partner's data needs (e.g., ports used for shipment).

298. *Processing and release schedules*. The partners will need to agree on a set of release dates for the monthly and annual trade statistics and a schedule for exchanging data files. They will also have to develop procedures for review of transactions that failed the exporting country's edits.

299. *Legal issues*. Appropriate changes will be needed to authorize the exchange of data and, once the data exchange is working smoothly, to eliminate the requirement for filing export documents destined to the other partner. The confidentiality requirements of a partner need to be respected.

300. *Coordination*. Close cooperation between the partners will be essential, probably on several levels; such cooperation may include informal communication between the working-level staff responsible for data review and publication and the creation of a monitoring body comprised of the customs and statistical agencies of both countries. A monitoring body could address issues that arise and could exchange information on upcoming changes in either country's system.

301. *Advantages*. Data exchange can substantially reduce reporter burden and improve data quality, particularly if exports of a partner have a significant portion which may not have been reported. It can also foster greater communication and cooperation between the customs and statistical agencies in the two countries.

302. *Disadvantages*. The exchange may increase the burden on importers if they have to report additional data elements to meet the exporting partner's needs, and may reduce each partner's flexibility to modify its classifications and processes. Because of the need to align classification and processing schedules, it would be difficult to implement data exchanges with multiple trading partners. It may also be difficult to implement a data exchange when there are significant amounts of trade transiting one partner en route from the other to a third country, or with distant partners where timing differences may be lengthy.

[140] A data exchange usually involves the use of one country's imports data as a substitute or input into another country's exports data.

[141] For example, Canada added roughly 3,000 commodity codes in order for the United States–Canada data exchange to take place.

# CHAPTER 14. INTERNATIONAL MERCHANDISE TRADE STATISTICS, NATIONAL ACCOUNTS AND BALANCE-OF-PAYMENTS STATISTICS

303. *Conceptual relationship*. Data compilation of international flows of goods is carried out by three major statistical systems: trade statistics, national accounts and balance-of-payments statistics. Those statistical systems were created and are maintained in order to address various needs of national and international users. The methodologies of national accounts and balance-of-payments statistics were harmonized recently and are now virtually identical. The adoption of IMTS, Rev.2, has moved trade statistics closer to the 1993 SNA/BPM5 framework in several important areas (see IMTS, Rev.2, para. 162). However, the compilation of data suitable for the main uses of trade statistics requires retention in trade statistics of a number of concepts and definitions different from those adopted in national accounts/balance-of-payments statistics.[142] An overview of the main divergences between the approaches adopted in trade statistics and in national accounts/balance-of-payments statistics, as well as a perspective on the direction of future efforts to ensure better comparability of data compiled by those systems, is set out below (see also paras. 262-266 above).

304. *Coverage*. Although trade statistics cover the physical movements of goods which add to or subtract from the material resources of countries, national accounts and balance-of-payments statistics attempt to represent flows of goods resulting from change of ownership between residents and non-residents.[143] To improve trade statistics and make them more compatible with the needs of national accounts and balance of payments statistics, IMTS, Rev.2, recommends the use of crossing the border of the economic territory (as defined in the 1993 SNA) as a general criterion for the time of recording of trade in goods (see para. 10 above). It should be noted that the change of ownership principle is used by trade statisticians to resolve some borderline issues (e.g., time of recording of trade in ships and aircraft).

305. In data-compilation practices in the three fields of statistics, the differences in coverage are rather small. For example, the national accounts and balance-of-payments statistics assume that, in general, trade statistics approximate change of ownership fairly closely. In certain cases when movements of goods add to or subtract from the material resources of countries without a transfer of ownership rights (e.g., goods for processing, goods moving between a parent company and its subsidiary located in another country and goods on financial lease), trade statistics include such movements as a matter of definition, while national accounts and balance-of-payments statistics include them as exceptions to the change of ownership principle.[144]

306. National accounts and balance-of-payments statistics need to be comprehensive. If there are known areas of undercoverage, such as goods entering or leaving the country illegally or fish sold from national vessels in foreign ports, compilers of balance-of-payments statistics and national accounts need to make estimates to fill the gaps. Normally, such estimates are made at a quite aggregated level and their reliability could be questionable. Such estimates are not recommended for inclusion in trade statistics; however, their use in national accounts and balance-of-payments statistics is justified, as they help to obtain a more complete picture of trade flows. Therefore, provision of any additional information to compilers of national accounts and balance-of-payments statistics is an important activity.

307. *Valuation*. FOB-type values of exports are adopted for both trade statistics and national accounts/balance-of-payments statistics. However, the approaches to valuation of imports are different. The CIF-type values of imports are recommended by IMTS, Rev.2, while the 1993 SNA/BPM5 require compilation of FOB-type values. CIF-type values of imports satisfy many analytical needs, but FOB-type values of imports are also required for several important purposes (see IMTS, Rev.2, paras. 120 and 121).

308. *Partner country*. IMTS, Rev.2, recommends country of origin (for imports) and country of last known destination (for exports), while balance-of-payments statistics promote the use of country of consignment/destination as a close proxy to the change of ownership principle and promote its application.[145] Recognizing the importance of trade data by country of consignment, IMTS, Rev.2, recommends the compilation of such data for imports as additional information. Many countries have positive experience in collecting exports by country of consignment as well; that practice is supported by the present *Manual*.

[142] The compilers of balance-of-payments statistics and national accounts take the merchandise trade statistics and adjust them for input into the balance-of-payments statistics and national accounts.

[143] See 1993 SNA, para 14.55; and BPM5, paras. 13 and 111.

[144] See 1993 SNA, paras. 14.57-14.64; and BPM5, paras. 197, 205 and 206.

[145] See IMF, *Balance of Payments Compilation Guide* (Washington, D.C., 1995), para. 825.

## Annex A

## EXAMPLES OF CUSTOMS DOCUMENTS

Among the various types of customs documents in use are the Single Administrative Document (SAD), used in the European Community and other countries, the Shipper's Export Declaration (SED), used in the United States, and those used internationally, such as the forms of the Universal Postal Union (i.e., forms CN22 and CN23). Compilers may wish to take note of the types of forms in use by other countries and customs unions, examples of which may be found on the Internet.[a]

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[a] For information on SAD, see *http://www.eur-export.com/anglais/apptheo/logistique/douane/declarationa.htm* and *http://www.asycuda.org/sad.htm*.
For a downloadable copy of SED, see *http://www.census.gov/foreign-trade/regulations/forms/index.html.*
For samples of other countries' forms see, for example, *http://www.mend.com/html/download.html* (Canada) and *http://www.customs.govt.nz/commhome/formhome.htm* (New Zealand) (see also the World Customs Organization link to member administrations customs offices at *http://www.wcoomd.org/netscape/frmpublic_en.htm*).
For examples of postal customs forms, see *http://pe.usps.gov/cpim/ftp/manuals/imm/immc1.pdf*.

## Annex B

## ADJUSTMENTS TO INVOICE PRICE TO OBTAIN A CIF- OR FOB-TYPE VALUE OF GOODS, DEPENDING ON THE TERMS OF DELIVERY

1. The cost items included in the invoice of goods vary, depending on the terms of delivery, and may not coincide with the cost items covered by the definition of a CIF- or FOB-type value. Such items should be identified and appropriate adjustments made, as necessary, if not done by customs at the time when the customs value of the goods is established.

2. Tables B.1 and B.2 provide a guideline on adjustments needed to obtain CIF- and FOB-type values for each of the 13 terms of delivery.[a] Those terms are: ex works (EXW), free carrier (FCA), free alongside ship (FAS), free on board (FOB), cost and freight (CFR), cost, insurance and freight (CIF), carriage paid to (CPT), carriage and insurance paid to (CIP), delivered at frontier (DAF), delivered ex ship (DES), delivered ex quay (DEQ), delivered duty unpaid (DDU) and delivered duty paid (DDP).[b] Terms of delivery are shown in the top row of each table.

3. Cost items are listed in the left-hand column. The list of cost items is indicative and may not be applicable in all cases. The content of a cost item as well as its inclusion in/exclusion from the invoice price may be different from one transaction to another, depending on national legal requirements and the contractual agreements between the parties. The CIF column of table B.1 and the FOB column of table B.2 identify cost items which are covered by the definition of the CIF- or FOB-type value, and which are assumed to be normally included in the invoice price of imported/exported goods when delivered under those terms (marked with the letter Y (Y)). Other columns of each table indicate whether a cost item is assumed to be (*a*) included in the invoice price when goods are delivered under those terms, with no adjustment needed (marked with an asterisk (*)); (*b*) excluded from the invoice price and to be added to it (marked with a plus sign (+)); or (*c*) included in the invoice price and to be subtracted from it (marked with a minus sign (–)). A blank indicates that the item is assumed to be excluded from the invoice value and, therefore, from the CIF- or FOB-type value as well. If in a particular case an assumption regarding inclusion/exclusion of any cost item in the invoice price is not correct, that item should be subtracted/added, as appropriate.

4. The use of the tables in annex B can be illustrated as follows. If, for example, goods are imported under the DDP term (delivered duty paid to buyer's warehouse) (see table B.1), then the insurance while in international transport should be added, but the cost of customs clearance at importation, including import duties and other charges, cost of transportation in the importing country and cost of insurance while in transport in the importing country, and unloading at the buyer's warehouse, should all be subtracted from the invoice price to obtain a CIF-type value as recommended for import statistics. In the case when goods are exported under the CIF term (see table B.2), then the costs of international carriage to the border of the importing country, insurance while in international carriage and cost of unloading at the port of importation should all be subtracted from the invoice price to obtain an FOB-type value as recommended for export statistics.

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[a] Adjustments are in addition to any other adjustments required by article 8.1 of the WTO Agreement on Valuation.

[b] See part I, footnote 108, above, for the address of the ICC web site on which terms of delivery are described; the compiler should be aware that it is possible for the terms of delivery to be modified by agreement between the seller and the buyer.

**Table B.1. Adjustments to invoice price to obtain CIF-type value of imported goods**

| Cost items | Terms of delivery | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *CIF* | *EXW* | *FCA/x* | *FAS* | *FOB* | *CFR* | *CPT* | *CIP* | *DAF/x* | *DES* | *DEQ* | *DDU* | *DDP* |
| *Costs in exporting country* | | | | | | | | | | | | | |
| 1. Cost of loading on internal transport . . . . | Y | + | * | * | * | * | * | * | * | * | * | * | * |
| 2. Cost of transportation from seller's warehouse to main carrier . . . . . | Y | + | * | * | * | * | * | * | * | * | * | * | * |
| 3. Cost of insurance to border of exporting country . . . . . | Y | + | * | * | * | * | * | * | * | * | * | * | * |
| 4. Contract of carriage, trade documents in exporting country . . . . . | Y | + | * | + | * | * | * | * | * | * | * | * | * |
| 5. Cost of loading on main carrier . . . . . | Y | + | + | + | *[a] | * | * | * | * | * | * | * | * |
| 6. Cost of customs clearance at exportation, including any export duties and other charges . . . . . | Y | + | * | + | * | * | * | * | * | * | * | * | * |
| *Main carriage* | | | | | | | | | | | | | |
| 7. Cost of international carriage to border of importing country . . . . . | Y | + | + | + | + | * | * | * | + | * | * | * | * |
| 8. Insurance while in international carriage . . . . . | Y | + | + | + | + | + | + | * | + | + | + | + | + |
| *Costs in importing country* | | | | | | | | | | | | | |
| 9. Cost of customs clearance at importation, including import duties and other charges | | | | | | | | | | | – | | – |
| 10. Cost of unloading at the port of importation . . . . . | Y[b] | + | + | + | + | * | * | * | + | + | * | * | * |
| 11. Cost of transportation in the importing country . . . . . | | | | | | | | | | | | – | – |
| 12. Cost of insurance while in transport in the importing country . . . . . | | | | | | | | | | | | – | – |
| 13. Cost of unloading at the buyer's warehouse . . . . . | | | | | | | | | | | | – | – |

*Key*: FCA/x = FCA, border of exporting country
DAF/x = DAF, border of exporting country

[a] Under the FOB term, the cost of loading on board a ship may be divided between seller and buyer and may be only partially included in the invoice value of the goods; since the loading of goods on board a ship is required if goods are to be made available to the buyer in the importing country, its cost should be included in the statistical value of imported goods in full.

[b] Under the CIF term, the cost of unloading in the port of importation may be divided between seller and buyer and may be only partially included in the invoice value; since the unloading of goods in the port of importation is required if goods are to be made available to the buyer in the importing country, its cost should be included in the statistical value of imported goods in full.

**Table B.2. Adjustments to invoice price to obtain FOB-type value of exported goods**

| Cost items | Terms of delivery | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *FOB* | *EXW* | *FCA/x* | *FAS* | *CFR* | *CIF* | *CPT* | *CIP* | *DAF/x* | *DES* | *DEQ* | *DDU* | *DDP* |
| *Costs in exporting country* | | | | | | | | | | | | | |
| 1. Cost of loading on internal transport | Y | + | * | * | * | * | * | * | * | * | * | * | * |
| 2. Cost of transportation from seller's warehouse to main carrier | Y | + | * | * | * | * | * | * | * | * | * | * | * |
| 3. Cost of insurance to border of exporting country | Y | + | * | * | * | * | * | * | * | * | * | * | * |
| 4. Contract of carriage, trade documents in exporting country | Y | + | * | + | * | * | * | * | * | * | * | * | * |
| 5. Cost of loading on main carrier | Y[a] | + | + | + | * | * | * | * | * | * | * | * | * |
| 6. Cost of customs clearance at exportation, including any export duties and other charges | Y | + | * | + | * | * | * | * | * | * | * | * | * |
| *Main carriage* | | | | | | | | | | | | | |
| 7. Cost of international carriage to border of importing country | | | | | – | – | – | – | | – | – | – | – |
| 8. Insurance while in international carriage | | | | | | – | | – | | | | | |
| *Costs in importing country* | | | | | | | | | | | | | |
| 9. Cost of customs clearance at importation, including import duties and other charges | | | | | | | | | | | – | | – |
| 10. Cost of unloading at the port of importation | | | | | – | –[b] | – | | | | – | – | – |
| 11. Cost of transportation in the importing country | | | | | | | | | | | | – | – |
| 12. Cost of insurance while in transport in the importing country | | | | | | | | | | | | – | – |
| 13. Cost of unloading at the buyer's warehouse | | | | | | | | | | | | – | – |

*Key*: FCA/x = FCA, border of exporting country
DAF/x = DAF, border of exporting country

[a] Under the FOB term, the cost of loading on board a ship may be divided between seller and buyer and may be only partially included in the invoice value of the goods; since it is necessary for goods to be loaded on board a ship if they are to be made available to the buyer in the importing country, this cost should be included in the statistical value of exported goods in full.

[b] Under the CIF term, the cost of unloading in the port of importation may be divided between seller and buyer and may be partially included in the invoice value; since it is unnecessary for goods to be unloaded in the port of importation in order for them to be made available to the buyer at the border of the exporting country, this cost should be excluded from the statistical value of exported goods in full.

# Annex C

## CONVERSION FACTORS[a]

**Table C.1 Conversion factors for mathematical conversion**

| *Reported units of quantity Name (abbreviation)* | *WCO standard units of quantity Name (abbreviation)* | *Conversion factors from the reported unit to the WCO unit of quantity* |
|---|---|---|
| Barrel (BBL) | litres (l) | 159.000 |
| Board foot (BFT) | cubic metres ($m^3$) | 0.00236 |
| Cubic foot (CF) | cubic metres ($m^3$) | 0.02832 |
| Cubic yard (CYD) | cubic metres ($m^3$) | 0.7646 |
| Cord (CD) | cubic metres ($m^3$) | 2.550 |
| Centimetre (CM) | metres (m) | 0.010 |
| Cubic centimetre (CC) | litres (l) | 0.001 |
| Cubic metre (CBM) | litres (l) | 1000.000 |
| Dozen (DOZ) | thousands of pieces/items (1,000u) | 0.0120 |
| Dozen (DOZ) | pieces/items (u) | 12.000 |
| Foot (FT) | metres (m) | 0.3048 |
| Gallon (GAL) | litres (l) | 3.785 |
| Gram (GM) | kilograms (kg) | 0.001 |
| Gross (GR) | pieces/items (u) | 144.000 |
| Hundredweight (CWT) | kilograms (kg) | 45.360 |
| Linear feet (LFT) | metres (m) | 0.3048 |
| Long ton (LTN) | kilograms (kg) | 1016.000 |
| Litre (LTR) | cubic metres ($m^3$) | 0.001 |
| Metric ton (TON) | kilograms (kg) | 1000.000 |
| Number (NO) | thousands of pieces/items (1,000u) | 0.001 |
| Ounces (OZ) | kilograms (kg) | 0.02835 |
| Pound (LB) | carat (carat) | 2268.000 |
| Pound (LB) | kilograms (kg) | 0.4536 |
| Pair (PR) | dozens (12u) | 0.1667 |
| Square centimetre (SCM) | square metres ($m^2$) | 10000.000 |
| Square feet (SFT) | square metres ($m^2$) | 0.0929 |
| Square inch (SQT) | square metres ($m^2$) | 0.0006452 |
| Square yard (SYD) | square metres ($m^2$) | 0.8361 |
| Short ton (STN) | kilograms (kg) | 907.200 |
| Thousand metres (THM) | metres (m) | 1000.000 |
| Thousand (THS) | pieces/items (u) | 1000.000 |
| Thousand board feet (MBF) | cubic metres ($m^3$) | 2.360 |
| Thousand square feet (MSF) | square metres ($m^2$) | 92.900 |
| Troy ounce (TOZ) | kilograms (kg) | 0.03110 |
| Wine gallon (WG) | litres (l) | 3.785 |
| Yard (YD) | metres (m) | 0.9144 |

[a] See IMTS, Rev.2, chap. V, for further discussion of units of quantity.

**Table C.2 Factors used by the United Nations Statistics Division to convert volume (V) and number/units (N) to weight (W) for selected HS codes**

| *HS code* | *From* | *To* | *HS heading* | *Conversion factor* |
|---|---|---|---|---|
| 040110 | V | W | Milk not concentrated, < 1% fat | 1.03 |
| 040120 | V | W | Milk not concentrated, 1-6% fat | 1.01 |
| 040130 | V | W | Milk and cream not concentrated | 0.99 |
| 040291 | V | W | Milk and cream unsweetened | 0.99 |
| 040299 | V | W | Milk and cream other sweetened | 0.97 |
| 040310 | V | W | Yogurt concentrated or not | 0.97 |
| 040390 | V | W | Buttermilk, curdled milk | 1.02 |
| 040410 | V | W | Whey whether or not concentrated | 1 |
| 040490 | V | W | Products consisting of whey | 1 |
| 040700 | N | W | Eggs, bird, in shell | 0.000058 |
| 040811 | N | W | Egg yolks dried | 0.000244 |
| 040819 | N | W | Egg yolks other | 0.000073 |
| 040891 | N | W | Eggs, bird, not in shell, dried | 0.000244 |
| 040899 | N | W | Eggs, bird, not in shell, other | 0.000073 |
| 200911 | V | W | Orange juice, frozen | 1 |
| 200919 | V | W | Orange juice, other | 1 |
| 200920 | V | W | Grapefruit juice | 1 |
| 200930 | V | W | Citrus fruit juice, other | 1 |
| 200940 | V | W | Pineapple juice | 1 |
| 200950 | V | W | Tomato juice | 1 |
| 200960 | V | W | Grape juice | 1 |
| 200970 | V | W | Apple juice | 1 |
| 200980 | V | W | Fruit & vegetable juice, other | 1 |
| 200990 | V | W | Mixtures of juices | 1 |
| 210500 | V | W | Ice cream | 0.7 |
| 220110 | V | W | Mineral & aerated waters | 1 |
| 220190 | V | W | Ice & snow & potable waters | 1 |
| 220210 | V | W | Waters, containing sugars | 1 |
| 220290 | V | W | Non-alcoholic beverages | 1 |
| 220300 | V | W | Beer made from malt | 1 |
| 220410 | V | W | Grape wines, sparkling | 1 |
| 220421 | V | W | Grape wines, other, in bottles | 1 |
| 220429 | V | W | Grape wines, other | 1 |
| 220430 | V | W | Grape must, other | 1 |
| 220510 | V | W | Vermouth, in bottles | 1 |
| 220590 | V | W | Vermouth, other | 1 |
| 220600 | V | W | Fermented beverages, other | 1 |
| 220820 | V | W | Spirits obtained by distillation | 0.925 |
| 220830 | V | W | Whiskies | 0.925 |
| 220840 | V | W | Rum and tafia | 0.925 |
| 220850 | V | W | Gin and genever (Geneva) | 0.925 |
| 220860 | V | W | Vodka | 0.925 |
| 220870 | V | W | Liqueurs and cordials | 0.925 |
| 220890 | V | W | Other spirits with alcohol <80% | 0.925 |
| 240220 | N | W | Cigarettes containing tobacco | 0.000001 |
| 270600 | V | W | Tar distilled from coal | 1 |
| 270710 | V | W | Benzole | 0.88 |
| 270720 | V | W | Toluole | 0.88 |
| 270730 | V | W | Xylole | 0.88 |

**Table C.2 Factors used by the United Nations Statistics Division to convert volume (V) and number/units (N) to weight (W) for selected HS codes** *(continued)*

| *HS code* | *From* | *To* | *HS heading* | *Conversion factor* |
|---|---|---|---|---|
| 270740 | V | W | Naphthalene | 0.735 |
| 270750 | V | W | Aromatic hydrocarbon mix | 0.735 |
| 270760 | V | W | Phenols | 0.735 |
| 270791 | V | W | Creosote oils | 0.735 |
| 270799 | V | W | Oils, other, of coal tar | 0.735 |
| 270810 | V | W | Pitch | 1.14 |
| 270820 | V | W | Pitch coke | 1.14 |
| 270900 | V | W | Petroleum oils, crude | 0.86 |
| 271000 | V | W | Petroleum oils, other than crude | 0.86 |
| 271210 | V | W | Petroleum jelly | 0.8 |
| 271220 | V | W | Paraffin wax containing < 75% oil | 0.8 |
| 271290 | V | W | Mineral waxes, other | 0.8 |
| 271311 | V | W | Petroleum coke, not calcined | 1.14 |
| 271312 | V | W | Petroleum coke, calcined | 1.14 |
| 271320 | V | W | Petroleum bitumen | 1.01 |
| 271390 | V | W | Residues of petroleum oil | 1.01 |
| 271500 | V | W | Bituminous mixtures based on natural asphalt | 1.04 |
| 340311 | V | W | Lubricating oils for treatment of leather and textiles | 0.9 |
| 340319 | V | W | Lubricating oils, other | 0.9 |
| 340391 | V | W | Lubricating grease for treatment of leather and textiles | 0.9 |
| 340399 | V | W | Lubricating grease, other | 0.9 |
| 440110 | V | W | Fuel wood | 0.725 |
| 440121 | V | W | Wood in chips, coniferous | 0.7 |
| 440122 | V | W | Wood in chips, non-coniferous | 0.7 |
| 440130 | V | W | Sawdust and wood waste | 0.7 |
| 440200 | V | W | Wood charcoal | 0.4 |
| 440310 | V | W | Poles, treated or painted | 0.7 |
| 440320 | V | W | Logs, poles, coniferous | 0.7 |
| 440341 | V | W | Tropical wood logs, Meranti | 0.75 |
| 440349 | V | W | Tropical wood logs, other | 0.75 |
| 440391 | V | W | Logs, oak | 0.75 |
| 440392 | V | W | Logs, beech | 0.75 |
| 440399 | V | W | Logs, non-coniferous, other | 0.75 |
| 440610 | V | W | Railway sleepers, not impregnated | 0.78 |
| 440690 | V | W | Railway sleepers, other | 0.78 |
| 440710 | V | W | Lumber, coniferous | 0.6 |
| 440724 | V | W | Tropical lumber, mahogany etc. | 0.7 |
| 440725 | V | W | Tropical lumber, meranti, red | 0.7 |
| 440726 | V | W | Tropical lumber, meranti, white | 0.7 |
| 440729 | V | W | Tropical lumber, other | 0.7 |
| 440791 | V | W | Lumber, oak | 0.7 |
| 440792 | V | W | Lumber, beech | 0.7 |
| 440799 | V | W | Lumber, non-coniferous | 0.7 |
| 440910 | V | W | Lumber, coniferous, continuously shaped | 0.6 |
| 440920 | V | W | Lumber, non-coniferous, continuously shaped | 0.7 |
| 450110 | V | W | Natural cork, raw | 0.24 |
| 450190 | V | W | Natural cork, other | 0.24 |
| 450200 | V | W | Natural cork, roughly squared | 0.24 |

# Annex D

# COUNTRY EXPERIENCE

## Annex D.1

### Use of shipping registers to track transfers of vessel ownership: the experience of Germany

1. The practice in Germany may be fairly typical of many countries. In Germany, ocean-going ships owned by Germans must be recorded in the national register. In addition, all German owners with a residence in Germany must fly the German flag on their ships; German owners resident in a foreign country may do so as well. Proof of entitlement to fly the German flag is represented by the ship's certificate, which is issued or withdrawn following an entry in or deletion from the shipping register, i.e., a ship must be included in the register in order to fly the flag. Changes in ownership between a resident and non-resident must be recorded in the register; such changes in ownership have always been defined as the decisive event triggering the recording of ocean-going ships in trade statistics. In Germany, shipping registers are affiliated with local courts. If a change of ownership takes place, it leads to a registry entry or cancellation and the local court informs the customs agency. The customs agency then requests the resident contracting party to submit the prescribed import (registration) or export (cancellation) declaration, a copy of which is then normally passed on by the customs agency to the Federal Statistical Office.

2. If a participant in the transaction refuses to supply the information, the customs agency hands the matter over to the Federal Statistical Office, which then initiates all subsequent action, including imposition of a fine, if necessary. No use is made of the register particulars themselves for the purpose of generating a statistical declaration. Instead, a register change acts as the catalyst triggering the conventional declaration procedure.

3. The procedure described above, in operation without problems since 1956, can be called highly reliable. In principle, the rules on flags and proof of entitlement to fly the flag (combined with a ban on flying other national flags), and the rule that ships may be entered on only one register, guarantee full statistical coverage of ocean-going ships changing hands between a resident and a non-resident. Double-counting must be considered unlikely.

4. It is not possible to use the register alone as an alternative data source since it does not contain all the necessary statistical elements; however, the register should be seen as an essential instrument for tracking change in ownership. It has been helpful to have legal backing for the special rules concerning the register since those who are required to provide information often fail to see why they should submit statistical declarations on ships which never enter or leave their own data-collection area.

## Annex D.2

### Assignment of country of origin: the experience of China

1. In China, the country of origin is the country or region where the goods were grown, mined, manufactured or substantially transformed. The criterion for substantial transformation is either a change in four-digit tariff heading or a 30 per cent or higher value added. Some of the special cases of origin attribution in China are as follows:

(*a*) Accessories, spare parts and tools for use with a machine, appliance, apparatus or vehicle shall be deemed to have the same origin as the machine, appliance, apparatus or vehicle, provided that they are imported therewith and correspond in kind and number to the normal equipment thereof. If they are imported separately, the origin of the accessories, spare parts or tools shall be determined individually;

(*b*) Complete sets of components and parts of a machine, appliance or apparatus, unassembled (i.e., completed knocked down (CKD) or semi-knocked down (SKD)), shall be considered as originating from the country of origin of the component(s) which confer the essential character of the set as a whole, provided that they are imported together and classified under the same tariff subdivision;

(*c*) The origin of goods processed under the outward processing customs regime shall be the country where the processing takes place.

If the country of origin cannot be ascertained, the imports will be recorded as "country unknown".

## Annex D.3

### Dissemination of data: the United States perspective

1. In the United States, there is a legal mandate to compile and disseminate trade statistics. Title 13, chapter 9, of the United States Code directs the dissemination of the trade data on a monthly and cumulative basis. The primary legal mandates and government resource provisions for disseminating trade statistics have always been to support federal government requirements. Among these, the most important are:

(*a*) Creation of aggregate-level data for use in creating balance of payments and national accounts data to measure the United States economy;

(*b*) Dissemination of product trading by partner data for use in economic, fiscal and trade policy formulation and monitoring.

2. The dissemination of the trade statistics, however, draws very close attention from the non-federal and private sectors. Those sectors, in turn, provide additional resources to support the compilation of other specialized data outputs. Among these are:

(*a*) Detailed product/trading partner data for use by industry in market share and market penetration studies and by the financial sector in determining fiscal policies;

(*b*) Transportation flow data for use by the transportation sector, in market share analysis and in the critical area of anticipating the need for and design of future facilities and equipment;

(*c*) Statistical local-area data for use in state and regional economic planning and promotion.

3. Monthly release dates for one year's period are usually published several months before the beginning of that year. With regard to the release schedule, there are several issues:

(*a*) At one time, United States trade in merchandise and services was released on separate timetables. The trade data were released monthly and the balance of payments data, including trade in services, were released quarterly. As United States trade in services became larger, the difference between merchandise trade totals released monthly and the balance-of-payments totals that included services trade, released quarterly, became very large, creating confusion among data users. In order to address that problem, in 1995 the United States began monthly releases of merchandise and services trade data on a balance-of-payments adjusted basis;

(*b*) Also, since 1990 the United States and Canada have exchanged detailed monthly import data as a substitute for collecting and compiling national data on exports. Each country disseminates statistics that utilize a significant part of the partner data (United States imports represent 75 per cent of total Canadian exports; Canadian imports represent 25 per cent of United States exports). Because of this, the two countries agreed early in the exchange planning to the coordination, dissemination and release of monthly trade data on the same day.

4. In order to address those issues, the United States agencies releasing the monthly trade statistics, in consultation with their Canadian counterparts, have settled on a dissemination schedule with monthly release dates that are 45 to 50 days after the close of the subject month.

5. On the scheduled release day, at exactly 8.30 a.m., the current month's merchandise and services trade data are released, along with revised prior month's and cumulative year-to-date data. The information in that first "press release" dissemination is made available on the following basis:

(*a*) A textual discussion of the monthly data which points out the areas of greatest change at an overall level and by broad commodity and country;

(*b*) In graphic form, showing overall imports, exports and trade balance;

(*c*) In tabular form, showing the following:

- Monthly merchandise totals for imports, exports and trade balance for the current year's months and for two prior years (seasonally adjusted);
- Monthly imports, exports and trade balance totals for petroleum and non-petroleum end-use categories for the current year's months and for one prior year (seasonally adjusted, in constant United States dollars);
- Imports, exports and trade balances by selected countries and geographic areas for the current month, prior month and year to date, for the current year and for one prior year (not seasonally adjusted);
- Monthly imports and exports by seven principal national accounts end-use categories for the current year's months and for one prior year (seasonally adjusted);
- Merchandise and service imports, exports and trade balance totals for the current year's months and for two prior years (seasonally adjusted);
- Imports and exports of merchandise by principal SITC grouping, for the current month, prior month and for the current and prior year (not seasonally adjusted);
- Imports, exports and trade balance for advanced technology products, monthly for the current year and for two prior years (not seasonally adjusted);
- Imports of energy: related petroleum products, including crude petroleum, monthly and for the current and prior year (not seasonally adjusted);
- Imports and exports of motor vehicles and parts by selected countries, monthly and for the current and prior year (not seasonally adjusted);
- An explanation of data-collection and compilation methods and other issues;

(*d*) A monthly supplemental report can also be obtained on a subscription basis, including information on the following bases:

- Exports of goods by the state in which the exporter is located, by North American Industry Classification System (NAICS) product groupings, for the current month and for year to date (not seasonally adjusted);
- Exports of goods by the state from which the goods originated, by NAICS product category groupings, for the current month and for year to date (not seasonally adjusted);
- Imports of crude petroleum by individual country of origin, for the current month and for year to date (not seasonally adjusted);
- Exports, imports and trade balance by individual country of origin, for the current month, for year to date and for the current and prior year (not seasonally adjusted);

(*e*) In addition to these tables, other information is available on a subscription basis in a range of details and presentations, including:

- The full merchandise trade import and export databases that include HS product detail, country of destination or origin, quantity and value information;

- Transportation information that includes exports by broad product category and by United States region of origin/United States port of exit;

(*f*) Methods of dissemination include the following:

- Internet web site;
- E-mail;
- CD-ROM;
- Fax;
- Printed material;

(*g*) Adjustments to the merchandise data include:

- Seasonal and working-day variations. Goods are initially combined from the reported HS into approximately 140 exports and imports end-use categories used as the basis for computing the seasonal and working-day adjusted data. The seasonal adjustment procedure is based on a model which estimates the monthly movements as percentages above or below the general level of each end-use series (unlike other methods that redistribute the actual series values over the calendar year). Imports of petroleum and petroleum products are adjusted for the length of the month;
- Adjustments for price change. Merchandise data are also adjusted on a constant dollar basis (1996 = 100). This adjustment for price change is done at the lowest end-use level possible and is then summed to the six published end-use aggregates. The deflators are primarily based on monthly survey-generated price indices, using techniques developed for the national income and product accounts;
- Balance of payments adjustment data. Merchandise trade data are adjusted to bring the data in line with the concepts and definitions used to prepare the balance of payments and national accounts. Broadly, the adjustments include changes in ownership that occur without goods passing into or out of the customs territory of the United States. Those adjustments are necessary to supplement coverage based on the customs-collected data to eliminate duplication of transactions recorded elsewhere in the international accounts, and to value transactions according to a standard definition;

(*h*) Revisions to the merchandise data. The revision policy is as follows:

- Each month, totals for the current month and revised totals for the month immediately preceding the current month are released. The current month's data include the actual month's transaction as well as a small number of late transactions for previous months. Each month, the United States revises aggregate seasonally adjusted (current and constant dollar) and unadjusted export, import and trade balance data, as well as end-use totals for the prior month. The prior month adjustment reflects the timing adjustment when the data are recompiled to reflect the correct month;
- Annual revisions for the months of the previous year are made in June to reflect all corrections and records received subsequent to the normal monthly revision;

(*i*) United States trade data are released jointly by the United States Census Bureau, which compiles the merchandise trade data, and the Bureau of Economic Analysis, which compiles the services trade data. Both agencies are part of the United States Department of Commerce.

## Annex D.4

### Merchandise trade reconciliation: the experience of Canada–Mexico–United States, 1996-1997

1. The participants in the project were the International Trade Division of Statistics Canada; the Mexican Working Group on Foreign Trade Statistics, which comprises the Secretariat of Treasury and Public Credit, the Bank of Mexico, the Secretariat of Commerce and Industrial Development, and the National Institute of Statistics, Geography and Informatics; and the United States Customs Service and the Foreign Trade Division of the United States Bureau of the Census.

*Mexico-Canada trade reconciliation*

2. The 1996 and 1997 official trade statistics of Canada and Mexico given in table D.4.1 showed significant differences, with the import statistics of each country exceeding counterpart exports.

**Table D.4.1 Official trade statistics of Canada and Mexico, 1996 and 1997**

(*Millions of Canadian dollars*)

| | *Southbound trade* | | | *Northbound trade* | |
|---|---|---|---|---|---|
| | *1996* | *1997* | | *1996* | *1997* |
| Mexican imports . . . . | 2 377 | 2 725 | Mexican exports . . . . | 2 962 | 2 986 |
| Canadian exports . . . | 1 258 | 1 328 | Canadian imports . . . | 6 035 | 7 019 |
| Difference . . . . . | 1 119 | 1 397 | Difference . . . . . | (3 073) | (4 033) |

**Table D.4.2 Official trade statistics of Mexico and the United States, 1996 and 1997**

(*Millions of United States dollars*)

| | *Southbound trade* | | | *Northbound trade* | |
|---|---|---|---|---|---|
| | *1996* | *1997* | | *1996* | *1997* |
| Mexican imports . . . . . | 92 334 | 113 799 | Mexican exports . . . . . | 110 032 | 130 685 |
| United States exports . . . | 77 436 | 98 837 | United States imports . . . | 101 304 | 118 998 |
| Difference . . . . . | 14 898 | 14 962 | Difference . . . . . | 8 728 | 11 687 |

3. The reconciliation study identified indirect trade as the main source of discrepancy between Canada and Mexico in both directions of trade. The research has shown that record filers frequently treat shipments as destined for the intermediate country rather than the country of final destination. For example, Canadian goods shipped to Mexico via the United States may be recorded as exports to the United States in the Canadian trade statistics, while in Mexican statistics those imports are recorded as originating in Canada. The estimation of that source of discrepancy was derived from Mexican import data and provides an explanation of the largest discrepancy in the period of the study.

4. The results of the Canada-Mexico trade reconciliation study explained a large portion of the original statistical discrepancies.

*Mexico–United States trade reconciliation*

5. The 1996 and 1997 official trade statistics of Mexico and the United States given in table D.4.2 above showed significant differences, with Mexico's published import and export statistics both exceeding the corresponding import and export statistics of the United States.

6. The reconciliation study concentrated on southbound trade because that trade flow showed the greater discrepancy. Although no specific research was conducted regarding northbound trade, it was possible to narrow the discrepancy through the examination of geographic coverage, classification, conceptual framework etc.

7. In order to help quantify the sources of discrepancy, the following field research was carried out:

(*a*) The Mexican working group surveyed Mexican *maquiladoras*[a] to obtain an estimate of their imports that were misattributed to the United States. Because the *maquiladoras* account for most of Mexico's trade with the United States, the effect was significant, accounting for close to half of the discrepancy between the statistics of the two countries in the study period.

(*b*) United States and Mexican representatives made field visits to the customs offices in Long Beach, San Diego and Tijuana to investigate the documentation and customs procedures at border crossings in both countries. The investigation included interviews with customs officials in both countries, with United States foreign trade zone operators and with representatives of several *maquiladoras*.

[a] See part I, footnote 70 to para. 119 above, for the definition of *maquiladora*.

8. The reconciliation study on southbound trade identified the following main sources of discrepancy:

(*a*) *Geographic coverage*. The United States includes trade with Puerto Rico and the United States Virgin Islands in its merchandise trade statistics, but Mexico treats them as separate trading partners. That coverage difference resulted in a relatively minor difference in the trade statistics of the two countries, accounting for $262 million and $335 million dollars in 1996 and 1997, respectively;

(*b*) *Partner country attribution*. The Mexican customs import document, or *pedimento*, only allows the reporting of one country of origin. When more than one country of origin is involved, as is common on summary declarations filed by *maquiladoras* and certain other manufacturing or assembly plants, the country accounting for the largest value is credited with the total value. Consequently, some imports into Mexico are misattributed as coming from the United States. According to Mexico's survey, the estimated value of imports misattributed to the United States by *maquiladoras* was $6.3 billion in 1996 and $6.9 billion in 1997, or 45 and 49 per cent of the original differences between the southbound trade statistics of the two countries, respectively;

(*c*) *Non-filing of United States exports*. United States export regulations require the reporting of all export transactions valued over US$ 2,500. Some companies, however, do not submit all the required declarations, especially those companies exporting out of foreign trade zones. The reconciliation could not quantify the total effect of non-filing on United States exports to Mexico; however, it could account for a large part of the residual differences between the southbound trade statistics of the two countries.

*Final considerations*

9. The results of the reconciliation study have been useful to the three countries involved in the evaluation of their trade statistics, and have allowed the identification of areas for further quality improvement.

10. *Canada*. It has been previously noted that the main source of the difference between Canadian export statistics and Mexican import statistics has been the result of the recording of indirect shipments as trade with the intervening country. In response to that phenomenon, Statistics Canada has been working closely with the United States Bureau of the Census to explore possible solutions to the problem.

11. The reconciliation project has also been useful in confirming that a certain portion of Canadian exports to

Mexico are not reported correctly. In conjunction with the Canada Customs and Revenue Agency and the United States Bureau of the Census, steps are being undertaken to explore various methods of correcting the problem. In particular, a new method of electronically reporting exports to non–United States destinations is being actively promoted to the exporting community.

12. Finally, the utility of the study in identifying reporting errors has resulted in the agreement among the three countries to explore the possibility of undertaking more detailed reconciliation work.

13. *Mexico*. In the case of Mexico, the results of the study have been taken into account in the design of a new customs system. The new system will improve recording of the countries of origin and destination for merchandise trade. The new system tackles one of the main sources of statistical discrepancy between Mexican statistics and those of the United States and Canada.

14. *United States*. The United States is pursuing several courses of action to improve the reporting of its export statistics. Special outreach and education programmes at various customs ports throughout the United States are being conducted to ensure that United States customs officers, exporters, freight forwarders and foreign trade zone directors are aware of export reporting requirements and how to report correctly. In addition, both the United States Bureau of the Census and the United States Customs Service are strongly marketing automated reporting of all export shipments, especially along the southern border. Because of the edits and controls in the system, increased electronic filing is expected to significantly reduce reporting errors and non-filing associated with United States export statistics.

15. A more detailed presentation of the results of the study, as well as explanatory notes and a description of the methodology used in the reconciliation of the foreign trade statistics, is set out below.

16. The following are Canada-Mexico southbound trade explanatory notes (see table D.4.3):

(*a*) *Re-exports*. Mexico's import data are based on the country of origin principle, in which only goods grown, extracted or produced in Canada are considered as merchandise trade with Canada. However, the published Canadian export information includes both goods of Canadian origin and goods of foreign origin that have entered Canadian consumption and have been subsequently sold to Mexico without any substantial transformation occurring in Canada. That type of transaction is recorded separately in Canadian statistics; consequently, the amount attributed to that difference has been obtained from Canadian export data;

(*b*) *Low-value transactions*. Canadian exports to Mexico are not required to be reported if the total value of the shipment is less than Can$ 2,000. However, Mexican import statistics include all transactions regardless of value. That estimate was obtained from Mexico's import data, which allows identification of the total value of small transactions;

(*c*) *Indirect trade*. Frequently, Canadian exporters are unaware, at the time of shipment, of the country of final destination or consumption of goods shipped from Canada. Research has shown that there is a tendency to record the intermediate country or countries involved in the transportation of goods to the final destination as the country of final destination. For example, in the case of Canadian goods moving through the United States en route to Mexico, goods are frequently not recorded as Canadian exports to Mexico because of the perception that the United States is the final destination. Shipments continuing to Mexico therefore cause a discrepancy between Canadian and Mexican statistics because Mexico records them as imports originating in Canada while Canada does not record them as exports to Mexico. An estimate for such indirect trade was derived from Mexican import data. Mexico records both the country of origin and the country of seller (i.e., the country in which the goods were invoiced). The comparison of those two data sets permitted the derivation of the amounts that, in all probability, have been recorded as Canada/other country trade rather than Canada/Mexico transactions;

(*d*) *Partner country attribution*. As previously noted, Mexico's published import data are based on the country of origin principle. Since the Mexican *pedimento* does not provide for the reporting of imports from more than one country (see annex D.4, para. 8 above), some goods from other countries were included in Mexico's reported imports from the United States. The Mexican Working Group on Foreign Trade Statistics surveyed import firms to determine the proportion of goods attributed to the United States that were in fact of Canadian or other country origin. Those proportions were then used to obtain estimates of the annual value of misattributed trade and the results were added to Mexico's imports of Canadian goods;

(*e*) *Residual differences*. That is the remaining unexplained difference between Canadian and Mexican statistics. The sources of that discrepancy may include, among others, additional differences in attribution of partner country; over- or underestimation of reconciliation estimates; revisions; and the non-filing of Canadian export declarations.

**Table D.4.3 Reconciliation of 1996-1997 merchandise trade statistics: Canada-Mexico southbound trade**

(*Millions of Canadian dollars*)

| *Current customs basis* | *1996* | *1997* |
|---|---|---|
| Mexican published imports | 2 377 | 2 725 |
| *Differences attributed to:* | | |
| Re-exports | 40 | 109 |
| Low-value transactions | (35) | (48) |
| *Indirect trade:* | | |
| Via United States | (633) | (1 012) |
| Via other countries | (77) | (80) |
| Partner country attribution | 279 | 411 |
| Residual differences | (693) | (777) |
| Canadian published exports | 1 258 | 1 328 |

*Source:* Statistics Canada/INEGI.

*Note:* negative numbers are shown in parentheses; the published data used at the commencement of this study may have been subsequently revised.

**Table D.4.4 Reconciliation of 1996-1997 merchandise trade statistics: Mexico–United States southbound trade**

(*Millions of United States dollars*)

| *Current customs basis* | *1996* | *1997* |
|---|---|---|
| Mexican published imports | 92 334 | 113 799 |
| *Differences attributed to:* | | |
| Geographic coverage | 262 | 335 |
| Partner country attribution | (6 286) | (6 925) |
| Low-value transactions | (1 556) | (1 689) |
| Electricity | (71) | (66) |
| Residual differences | (7 247) | (6 617) |
| United States published exports | 77 436 | 98 837 |

*Source:* United States Bureau of the Census/INEGI.

*Note:* Negative numbers are shown in parentheses; the published data used at the commencement of this study may have been subsequently revised.

17. The following are Mexico–United States southbound trade explanatory notes (see table D.4.4 above):

(*a*) *Geographic coverage*. The United States includes the foreign trade of Puerto Rico and the United States Virgin Islands in its merchandise trade statistics. In contrast, Mexico treats them as separate trading partners. The value shown is Mexico's reported imports from Puerto Rico and the Virgin Islands;

(*b*) *Partner country attribution*. Since the Mexican *pedimento* allows the reporting of only one country of origin, summarized *pedimentos* often combine merchandise with more than one country of origin. In such cases, the total value is attributed to the country accounting for the largest value. Consequently, some imports are misattributed to the United States. The Mexican Working Group on Foreign Trade Statistics surveyed *maquiladoras* to determine the proportion of goods attributed to the Unites States that actually originated in countries other than the United States. The survey results were used to estimate the value of goods misattributed to the United States;

(*c*) *Low-value transactions*. The United States does not include transactions valued below US$ 2,501 in its export trade statistics. Instead, an estimate of the total value of those transactions by country is included in the statistics. In contrast, Mexico tabulates all trans-

actions, regardless of value. The value of the difference attributed to low-value transactions was calculated as the difference between the sum of Mexican transactions valued at less than US$ 2,501 and the United States low-value transactions estimate for Mexico. However, reporting practices and levels of commodity detail collected by the two countries differ, so that that calculation remains only an estimation of low-value transactions;

(*d*) *Electricity*. Mexico includes the movement of electricity in its trade statistics and the United States does not. The value shown reflects the value of electricity imported from the United States as shown in Mexico's southbound statistics;

(*e*) *Residual differences*. That is the remaining unexplained difference between United States and Mexican statistics. The sources of that discrepancy may include, among others, additional differences in the attribution of partner country; over- or underestimation of reconciliation estimates; revisions; and the non-filing of United States export declarations, including those for exports out of foreign trade zones.

**Table D.4.5 Reconciliation of 1996-1997 merchandise trade statistics: Canada-Mexico northbound trade**

(*Millions of Canadian dollars*)

| *Current customs basis* | *1996* | *1997* |
|---|---|---|
| Canadian published imports | 6 035 | 7 019 |
| *Differences attributed to:* | | |
| Mexican re-exports: | | |
| Canada origin | 17 | 26 |
| United States origin | 13 | 17 |
| Other country origin | 16 | 26 |
| Indirect trade: | | |
| Via United States | (2 349) | (3 062) |
| Via other countries | (23) | (10) |
| Timing | 10 | 0 |
| Residual differences | (757) | (1 030) |
| Mexican published exports | 2 962 | 2 986 |

*Source:* Statistics Canada/INEGI.

*Note:* negative numbers are shown in parentheses; the published data used at the commencement of this study may have been subsequently revised.

18. The following are Canada-Mexico northbound explanatory notes (see table D.4.5 above):

(*a*) *Re-exports*. Canadian import data are based on the country of origin principle. Mexican published export trade data include both goods of domestic origin and goods of foreign origin sold to Canada without any substantial transformation occurring in Mexico. Canadian import documentation records two countries, the country of origin and the country from which the goods were shipped directly to Canada. The values for transactions that showed Mexico as the country of shipment, but not of origin, were totalled and used as the basis for the re-export estimate;

(*b*) *Indirect trade*. That estimate is based on Canadian import data using country of origin/shipment information, and reflects the value of the goods of Mexican origin that were shipped directly to Canada from a country other than Mexico;

(*c*) *Timing*. That estimate represents shipments of crude oil that were recorded in Mexican export statistics in one period but recorded in Canadian import data in another period;

(*d*) *Residual differences*. That is the remaining unexplained difference between Canadian and Mexican statistics. The sources of that discrepancy may include, among others, additional differences in the attribution of partner country, over- or underestimation of reconciliation estimates, and any revisions made during the reconciliation study period.

**Table D.4.6 Reconciliation of 1996-1997 merchandise trade statistics: Mexico–United States northbound trade**

*(Millions of United States dollars)*

| *Current customs basis* | *1996* | *1997* |
|---|---|---|
| United States published imports | 101 304 | 118 998 |
| *Differences attributed to:* | | |
| Geographic coverage | (258) | (356) |
| Re-exports | 1 156 | 1 581 |
| Indirect trade | (334) | (418) |
| Electricity | 98 | 3 |
| Residual differences | 8 066 | 10 877 |
| Mexican published exports | 110 032 | 130 685 |

*Source:* Statistics Canada/INEGI.

*Note:* Negative numbers are shown in parentheses; the published data used at the commencement of this study may have been subsequently revised.

19. The following are Mexico–United States northbound trade explanatory notes (see table D.4.6 above):

(*a*) *Geographic coverage*. The United States includes the foreign trade of Puerto Rico and the United States Virgin Islands in its merchandise trade statistics, but Mexico treats them as separate trading partners. The values shown are Mexico's reported exports to Puerto Rico and the Virgin Islands;

(*b*) *Re-exports*. United States import data are based on the principle of country of origin, whereas Mexico's export data include goods of national and foreign origin sold to the United States without any significant transformation. United States customs documents show two countries, the country of origin and the country from which the goods were directly shipped to the United States. The value of transactions showing Mexico as the country of shipment, but not of origin, was used for the estimate of re-export value;

(*c*) *Indirect trade*. These are goods of Mexican origin shipped to the United States from other countries. The adjustment is based upon country of origin and country of shipment information reported by the United States importer;

(*d*) *Electricity*. Mexico includes the movement of electricity in its trade statistics and the United States does not. The value shown reflects the value of electricity imported from the United States, based on Mexican northbound statistics;

(*e*) *Residual differences*. That amount represents the remaining unexplained difference between United States and Mexican statistics. The sources of the discrepancy may include, among others, additional differences in attribution of partner country; over- or underestimation of reconciliation estimates; and revisions.

## Annex D.5

### Inter-agency arrangements: the experience of the United States

The arrangements in effect between data-collection agencies in the United States may be noted as an example of inter-agency cooperation. The Customs Service collects paper or electronic records for both imports and exports, and forwards the records to the Census Bureau for processing. Currently, 99 per cent of import data collection is automated (Automated Broker Interface or automated Foreign Trade Zone reports), with the remaining 1 per cent coming from paper forms (including import entry summary forms, warehouse dispatch forms and foreign trade zone documents). Roughly 24 per cent of export data come from paper shipper's export declarations and 36 per cent from Canadian import data; the remaining 40 per cent are submitted electronically (Automated Export System). In all, 3-4 million data entries a month are processed. Paper data are batched and sent to Indiana for entry and initial checking. Processed data are transmitted electronically to the Census Bureau in Suitland, Maryland. A monthly production schedule determines close-out dates (clerical dates and release dates; import and export processing "cuts" (runs) and receipt of files; exchange of data between the United States and Canada; exchange of data between the Census Bureau and the Bureau of Economic Analysis for joint press release; transmission and processing of data files on vessel movement; and processing of import and export shipping data files). Export data are also taken from the Department of Defense (Military Assistance Program Grant-Aid shipments) and the National Energy Board (electricity and natural gas).

## Annex D.6

### National legislation dealing with compilation: the experience of Canada

1. A country's national legislation may provide a strong legal foundation for compilation activities. In Canada, for example, the Canadian Statistics Act states:

> "A person having the custody or charge of any documents or records that are maintained in any department or in any municipal office, corporation, business or organization, from which information sought in respect of the objects of this Act can be obtained or that would aid in the

completion or correction of that information, shall grant access thereto for those purposes to a person authorized by the Chief Statistician to obtain that information or aid in the completion or correction of that information."[a]

## Annex D.7

### Administrative records associated with taxation: the EU experience

1. In the European Community, it is possible to derive trade statistics from administrative records associated with taxation because the Community's statistical collection system, Intrastat, and the value added tax (VAT) system are linked.[b] In member States, the two systems come together in the registers of intra-Community operators, which play an important part in the data-collection system, in particular providing a means of checking that data collection has been exhaustive. The Council regulation establishing Intrastat specifies that the actual concept of the system resides in the use of related administrative networks, in particular that of the VAT authorities, to provide the statistical services with a minimum degree of indirect verification without thereby increasing the burden on taxpayers. The legislation has thus linked the VAT system to statistics. Some of the important substantive provisions of the regulation, which sets out such concepts as responsibility for providing information, representation and tax exemption, are based on that fundamental concept.[c]

2. On 1 January 1993, the new VAT transitional arrangements for trade in goods[d] came into force, and persons subject to taxation became obliged to keep separate accounts of their intra-Community deliveries and acquisitions and report them separately in their periodic tax declarations. Deliveries and acquisitions refer solely to goods, which are also covered by statistics on intra-Community trade. Tax declarations were an ideal instrument for verification, since the value reported in them could be compared with the value reported in statistical returns, thereby showing whether traders responsible for providing information had complied with their obligations. The legislation left it up to member States, with their differing administrative structures, to decide whether tax and statistical data would be collected via separate returns or in a joint return. The majority of member States opted for separate returns. In two member States (France and Italy), there are joint tax/statistical declarations.

3. *Use of tax data*. The registers for which tax authorities supply data are expected to do much more than simply provide a means of checking, as originally planned. The reason is that the data-collection system is still under strain in almost all member States. The link with the taxation system alone makes it easier to recognize non-responses early on so that targeted reminders can be generated, managed and processed via the registers. Along with values, an important basis is up-to-date addresses from the tax authorities, without which the reminder process could not be efficient. In addition, the tax data help to generate certain metadata relating to those statistics, such as the number and structure of intra-Community market operators, the effects on the economy of threshold arrangements and much more. The same applies to the estimates carried out by the majority of member States for trade below fixed thresholds. There has been a steady improvement in data since the new system was introduced, since tax data either have always been or are by now an increasingly reliable basis for estimates.

4. Despite quality problems in some areas, member States unanimously consider tax data to be the key information which ensures that their statistics are exhaustive and up to date. The tax data are also important, however, when completeness is being checked, and their contribution to the validity of the statistical results should not be underestimated.

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[a] Statistics Act, 1970-71-72, c. 15, s. 1, para. 13.

[b] The main features of the link between Intrastat and the VAT system are set out in detail in chap. II of regulation (EEC) No 3330/91 on the statistics relating to the trading of goods between member States; see *Official Journal of the European Communities*, No. L 316 (16 November 1991).

[c] Ibid.

[d] Council Directive 91/680/EEC of 16 December 1991; see *Official Journal of the European Communities*, No. L 376 (31 December 1991).

## Annex E

## MAIN DIFFERENCES IN COVERAGE OF FLOWS OF GOODS: INTERNATIONAL MERCHANDISE TRADE STATISTICS AND BALANCE-OF-PAYMENTS STATISTICS

The table set out below shows the main differences in conceptual standards for coverage of flows of goods recommended by IMTS, Rev.2, and BPM5. For practical reasons, countries may not always be able to follow those standards.

| | *IMTS, Rev.2, treatment (IMTS, Rev.2, para. Nos.)* | *Balance-of-payments goods treatment (BPM5 para. Nos.)* |
|---|---|---|
| Goods acquired by travellers | Include goods acquired on a significant scale as defined by national law (para. 25)<br>Exclude goods for own use unless values exceed those established by national law (para. 48) | Exclude goods for own use in all cases (included in services) (paras. 212 and 250) |
| Returned goods | Include but record separately (para. 30) | Exclude (also deduct value of original sale from exports/imports) (para. 210) |
| Migrants' effects | Include where economically important (para. 33) | Include all (para. 215) |
| Fish catch, minerals from the seabed and salvage sold from national vessels in foreign ports or from national vessels on the high seas to foreign vessels | Exclude (from exports) but record separately (para. 58) | Include (para. 208) |
| Bunkers, stores, ballast and dunnage | Exclude but record separately (para. 59) | Include (para. 201) |
| Goods lost or destroyed after leaving the economic territory of the exporting country but before entering the economic territory of the intended importing country | Exclude from imports, include in exports if ownership has not changed hands; but exclude and record separately if ownership has already changed hands to the importer (paras. 52 and 63) | Include if ownership has already changed hands (para. 208) |
| Mobile equipment that changes ownership while outside the country of residence of its original owner | Exclude but record separately (para. 57) | Include (para. 208) |
| Goods for repair | Exclude but record separately (para. 61) | Include (except construction, computing and maintenance performed in ports and airports on transportation equipment; all of which are included as services) (para. 200) |
| Goods entering or leaving a country illegally | Exclude but record separately (para. 62) | Include (para. 215) |
| Goods imported for projects by non-resident construction enterprises | Include in accordance with the general definition of coverage (para. 14) | Exclude (total value of the project included in services) (para. 254) |
| Merchanted goods (i.e., goods purchased and resold by a resident of the compiling country but not entering the compiling country) | Exclude (para. 50) | Generally exclude (mark-up is included in services). Include the value of goods bought but not resold in the accounting period as imports; include the value of goods bought in a previous accounting period but resold as negative imports in the current period (paras. 212 and 213, 207, 262) |

# Part II

# CONCEPTS AND DEFINITIONS

# INTRODUCTION

## A. General

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

2. In particular, the Commission:

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

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

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

(*a*) Adopted the draft revised concepts and definitions for international merchandise trade statistics, subject to the Secretariat's incorporating amendments that would clarify the draft text while maintaining its structural integrity;

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

(*c*) Also requested the Secretariat to work towards further harmonization of the concepts and definitions for international merchandise trade statistics with the 1993 SNA and BPM5.[9]

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

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

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

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

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

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

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

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

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

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

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

that are nationally useful and internationally comparable. At the same time, the guidelines should not lead to unjustified administrative costs for Governments or the business community.

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

## B. Summary of the recommendations

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

| *IMTS, Rev.2, recommendations* | *Relationship with 1982 concepts and definitions* |
|---|---|
| **Coverage and time of recording** (chap. I) | |
| 1. Take advantage of customs administration sources (customs documents) (para. 11). Use additional sources where customs administration sources are not available (paras. 11 and 12) | Updated recommendation |
| 2. Record all goods which add to or subtract from the stock of material resources of a country by entering (imports) or leaving (exports) its economic territory (para. 14) | Updated recommendation |
| 3. Goods are to be included at the time when they enter or leave the economic territory of a country; in the case of customs-based data collection systems, the time of recording should be the date of lodgement of the customs declaration (para. 15) | Updated recommendation |
| 4. Specific goods are to be included, others are to be included and separately recorded, and others are to be excluded (paras. 18-54) | Updated, with some specific changes, and new recommendations |
| 5. Specific goods are to be excluded from detailed international merchandise trade statistics but recorded separately so that the detailed data may be adjusted to derive totals of international merchandise trade for national accounts and balance of payments purposes (paras. 18 and 55-63) | New recommendation |
| **Trade system** (chap. II) | |
| 6. In the compilation of international merchandise trade statistics, use the definitions of procedures and other basic customs terms which are crucial in the determination of trade systems, and are contained in the annexes to the International Convention on the simplification and harmonization of customs procedures[a] (para. 69) | New recommendation |
| 7. Use the general trade system of data recording, and where the special system of trade is used, compile statistics on goods imported into and exported from premises for customs warehousing, premises for inward processing, industrial free zones or commercial free zones, as appropriate, to allow estimation of data on a general trade system basis (paras. 89 and 90) | New recommendation |
| **Commodity classifications** (chap. III) | |
| 8. Use the Harmonized System (HS)[b] as the primary commodity classification for the collection, compilation and dissemination of international merchandise trade statistics (para. 100) | New recommendation |
| **Valuation** (chap. IV) | |
| 9. Adopt the WTO Agreement on Valuation[c] as the basis for valuing international merchandise trade for statistical purposes (para. 114) | Updated recommendation |
| 10. Use a cost, insurance and freight (CIF-type) valuation for imports (border of importing country) and a free on board (FOB-type) valuation for exports (border of exporting country) (para. 116) | Updated recommendation |
| 11. Countries which use CIF-type values of imports to collect separately data for freight and insurance, at the most detailed partner/commodity level possible, to derive FOB-type values (para. 121) | Updated recommendation |
| 12. Specific goods to be valued in specified ways but consistent with the WTO agreement (paras. 123-125) | Updated recommendation |

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

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

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

| *IMTS, Rev.2, recommendations* | *Relationship with 1982 concepts and definitions* |
|---|---|
| 13. Where conversion of currency is necessary, use the rate of exchange duly published by the competent national authorities of the country, reflecting the current value of such currency in commercial transactions in terms of the currency of the reporting country, and which is in effect at the time of importation or exportation (para. 127) | Updated recommendation |
| 14. If a rate is not available for the time of exportation or importation, use the average rate for the shortest period applicable (para. 128) | New recommendation |
| 15. Where multiple official exchange rates are in effect, use the actual rate applicable to specific transactions (para. 129) | New recommendation |
| **Quantity measurement** (chap. V) | |
| 16. Use the standard units of quantity recommended by WCO;[d] also provide weight in cases where the standard unit is other than weight; the weight figures should be on a net weight basis; where non-standard units are used, provide conversion factors to the standard units (para. 133) | New recommendation |
| **Partner country** (chap. VI) | |
| 17. Follow the relevant provisions of the Kyoto Convention for determining country of origin of goods (para. 139) | New recommendation |
| 18. For attribution of partner country: adopt country of origin for imports (country of consignment as additional information), and country of last known destination for exports (para. 150) | Unchanged |
| 19. The statistical territory of each country, as defined by the country itself, should constitute the territory for which the trading partners of each country compile their statistics of trade by countries (para. 151) | Unchanged |
| **Reporting and dissemination** (chap. VII) | |
| 20. For dissemination of international merchandise trade statistics to follow specified practices relating to sources and methods, release schedules, regular reporting of data to the user community, revising data when additional information is available, reference period, kinds of data published and reported internationally, confidentiality, bilateral and multilateral reconciliations and data exchanges, and index numbers (paras. 154-160) | Updated and new recommendations |

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

7. There are many users of international merchandise trade statistics, including Governments, commercial enterprises, national and international organizations, researchers and the public at large. The different users need different data, ranging from data sets of varying detail by country and commodity to aggregated figures. The principal uses, listed in no particular order, are:

(*a*) Establishing general economic policy, including fiscal, monetary, structural and sectoral issues;

(*b*) Development of trade policy, including trade negotiations, monitoring trade agreements and settling trade disputes;

(*c*) Market analysis by importers and exporters to find supply sources or foreign markets;

(*d*) Establishing supply balances to monitor markets in such areas as agriculture and energy;

(*e*) Infrastructure planning (harbours, airports, roads etc.);

(*f*) Compilation of transportation statistics;

(*g*) Compilation of the import component of the various price indexes (e.g., cost-of-living indexes);

(*h*) Input into and forecasting in the framework of the system of national accounts and balance-of-payments statistics.

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

**I. Coverage and time of recording**

**II. Trade system**

**III. Commodity classifications**

**IV. Valuation**

**V. Quantity measurement**

**VI. Partner country**

**VII. Reporting and dissemination**

# I. COVERAGE AND TIME OF RECORDING

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

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

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

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

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

(*a*) Included in the detailed international merchandise trade statistics;

(*b*) Excluded from the detailed international merchandise trade statistics;

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

## A. General guidelines

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

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

## B. Specific guidelines

16. The above general guidelines serve as a basis for formulating a set of specific recommendations on the inclu-

sion or exclusion of certain categories of goods, which are listed below.

17. In principle, all goods which satisfy the definition of coverage (see para. 14 above) should be included in the international merchandise trade statistics under the appropriate headings of the commodity classification and in the aggregates. However, in certain instances the general guidelines are not sufficient to provide a clear answer on the issue of inclusion or exclusion of particular types of goods, due to either the peculiarity of such goods or the complexity of the transaction. It is also recognized that practical considerations of data collection limit the application of the general guidelines. There are several types of goods which may not be adequately captured under normal customs procedures; such goods should be recorded by using other sources of data.

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

### 1. *Goods to be included in the detailed international merchandise trade statistics*[10, 11]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[13] HS heading 85.24.

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

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

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

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

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

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

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

36. *Ships, aircraft and other mobile equipment*. International transactions in these goods are to be included in international merchandise trade statistics. Frequently, such transactions are not the subject of customs documents. In the absence of customs documents, they should be recorded using non-customs data sources, such as registry additions and deletions or enterprise surveys.

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

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

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

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

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

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

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

### 2. *Goods to be excluded from the detailed international merchandise trade statistics*

42. *Monetary gold*.[17] The definition of monetary gold adopted for the purposes of international merchandise trade statistics is provided in the *Explanatory Notes to the Harmonized Commodity Description and Coding System*.[18] According to this definition, monetary gold is gold that is exchanged between national or international monetary authorities or authorized banks. Since monetary gold is treated as a financial asset rather than a good, transactions pertaining to it should be excluded from the international merchandise trade statistics.

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

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

[17] HS, subheading 7108.20.

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

[19] HS: part of subheading 4907.00, and subheading 7118.90.

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

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

46. *Goods consigned to and from territorial enclaves*. The economic territory of a country includes any territorial enclaves (embassies, foreign military and other installations) that are physically located within the geographic boundaries of another country, and excludes the enclaves of other countries and international organizations located within its own geographic boundaries (see annex A, para. 3, below for the definition of economic territory). Therefore, the movement of merchandise between a country and its enclaves abroad is considered as an internal flow, and should be excluded from the imports and exports of the country. Such flows are also excluded from the merchandise trade statistics of the host countries, since these enclaves are not part of the host countries' economic territory.[20] Similarly, goods received or sent abroad by international organizations are excluded from the merchandise trade statistics of the host countries (see also para. 23 above). Subsequent transfers of goods from enclaves to the host country should be recorded, at the time of the transfer, as imports of the host country and as exports of the country to which these enclaves belong; in the case of international organizations, such transfers need not be recorded as exports of the country that originally exported them to the international organization since they would have previously been recorded as exports by that country at the time of the original export to the international organization.

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

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

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

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

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

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

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

50. *Goods which are acquired and relinquished within the compiling country, by non-residents, within the same recording period, and which do not cross the frontiers of this country*. These are excluded from international merchandise trade statistics. Any difference between the value of the goods when acquired and the value when relinquished is recorded as merchanting under other business services in the national accounts and the balance of payments.

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

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

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

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

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

3. *Goods recommended to be excluded from the detailed international merchandise trade statistics but recorded separately so that the detailed data may be adjusted to derive totals of international merchandise trade for national accounts and balance-of-payments purposes*

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

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

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

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

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

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

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

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

61. *Goods for repair*. This category comprises goods temporarily crossing borders for repair abroad, i.e., activity that reinstates the impaired quality of the existing goods and does not result in the creation of a new product (see para. 123 below for recommendation on valuation). This category excludes construction repairs, computer repairs, and maintenance performed in ports and airports on transportation equipment. These three activities are recorded in BPM5 as services.

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

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

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

# II. TRADE SYSTEM

## A. General

64. *Statistical territory*. In international merchandise trade statistics, the objective is to record goods entering and leaving the economic territory of a country. In practice, what is recorded is goods that enter or leave the statistical territory, which is the territory with respect to which data are being collected. The statistical territory may coincide with the economic territory of a country or with some part of it. It follows that when the statistical territory of a country and its economic territory differ, international merchandise trade statistics do not provide a complete record of inward and outward flows of goods.

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

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

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

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

### *Basic terms for use in a customs-based approach to trade statistics*

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

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

71. *Domestic and foreign goods*. *Domestic goods* are goods originating in the economic territory of a country. In general, goods are considered as originating in the country if they have been wholly obtained in it or were substantially transformed by processing in it, so that the processing confers domestic origin (criteria for determination of origin of

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

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

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

goods are discussed in more detail in chap. VI below). Goods may originate in such parts of an economic territory as the free circulation area, industrial free zones or premises for inward processing. It is assumed that goods do not originate in commercial free zones (see annex B, para. 13, below), which are also parts of an economic territory, since operations normally permitted in these zones do not constitute production or substantial transformation of goods. *Foreign goods* are goods which originate from the rest of the world (see annex A, para. 4, below), i.e., from any territory not included in the economic territory of a country.

72. In more detail, domestic goods consist of:

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

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

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

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

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

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

### B. General trade system

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

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

(*b*) Foreign goods comprising compensating products after outward processing;

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

General imports are brought into:

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

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

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

75. *General imports* consist of:

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

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

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

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

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

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

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

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

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

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

There are three types of exports:

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

(*d*) Domestic goods comprising compensating products after inward processing;

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

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

78. *General exports* consist of:

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

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

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

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

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

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

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

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

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

### C. Special trade system

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

(*a*) The rest of the world or from customs transit;

(*b*) Premises for customs warehousing or commercial free zones.[30]

There are three types of imports:

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

(*d*) Foreign goods comprising compensating products after outward processing;

(*e*) Domestic goods in the same state as previously exported.

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

81. *Special imports* consist of:

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

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

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

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

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

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

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

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

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

(*b*) Domestic goods comprising compensating products after inward processing;

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

There are two possible destinations:

(*d*) The rest of the world;

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

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

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

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

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

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

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

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

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

84. *Special exports* consist of:

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

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

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

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

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

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

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

**Table 1. Comparison of import flows in the general and special trade systems**[a]

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

[a] M = Imports; RM = Reimports

[b] See text, footnote 31.

[c] See text, footnote 32.

[d] See text, footnote 33.

**Table 2. Comparison of export flows in the general and special trade systems[a]**

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

[a] X = Exports; RX = Re-exports
[b] See text, footnote 27.
[c] See text, footnote 28.

### D. PRACTICAL PROBLEMS AND LIMITATIONS OF THE SPECIAL TRADE SYSTEM

86. The use of the special trade system narrows the coverage of the statistics in that not all goods are covered; in particular, imports into and exports from premises for customs warehousing or commercial free zones are not recorded. Differences among countries also arise because countries apply the underlying concepts and definitions in different ways. For instance, a number of countries base their recording of special trade on the concept of goods entering the free circulation area. Under this strict definition of special trade, goods moving in or out under inward processing should not be included in trade statistics. However, many countries adopt the relaxed definition and do record all these trade flows under the special system. Also, some countries consider that, from an economic standpoint, industrial activities taking place in the industrial free zones are similar to those in premises for inward processing, and they record some or all of their imports into or exports from industrial free zones as special trade.

87. Further differences in coverage stem from differences in national definitions and statistical treatment of the customs free zones. Customs free zones exist, inter alia, in such forms as investment promotion zones, export processing

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

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

## E. Recommendations

89. The general trade system provides a more comprehensive recording of the external trade flows than does the special system. It also provides a better approximation of the change of ownership criterion used in the 1993 SNA and BPM5. **It is recommended, therefore, that countries use the general system for compilation of their international merchandise trade statistics and international reporting.**

90. Any change from the special to the general trade system would require important administrative restructuring, which might prove impractical for some countries. **It is also recommended, therefore, that, in order to allow for the adjustments necessary for the estimation of data on a general trade system basis, countries that continue to apply either a strict or relaxed definition of the special trade system should compile or estimate, on at least an annual and a quarterly basis, with full geographical and commodity breakdowns, statistics on:**

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

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

# III. COMMODITY CLASSIFICATIONS

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

92. The complex nature of the basic customs and statistical needs makes it necessary to have a rather detailed commodity classification. The *Harmonized Commodity Description and Coding System* (Harmonized System, or HS; see para. 6, footnote b, above), or extended versions based on HS, such as the Combined Nomenclature used by the countries that are members of the European Union,[34] provide such details. Classification using these nomenclatures is based on the nature of the commodity. However, for analytical purposes, such a division of products is not the most appropriate. Commodity categories more suitable for economic analysis are provided by the *Standard International Trade Classification, Revision 3* (SITC, Rev.3),[35] which classifies commodities according to their stage of production. The *Classification by Broad Economic Categories Defined in Terms of SITC, Rev.3* (BEC),[36] groups large economic classes of goods with reference to their end use. Nomenclatures have also been elaborated with the primary aim of classifying productive economic activities. The *International Standard Industrial Classification, Revision 3* (ISIC, Rev.3)[37] is an example of such a nomenclature: it classifies according to the principal industry of origin of products. The *Central Product Classification* (CPC)[38] combines the main classification principle of ISIC, Rev.3 with criteria applied in HS.[39] For the purposes of balance-of-payments statistics, trade flows are broken down into such broad categories as general merchandise, goods for processing, goods for repair, goods procured in ports by carriers and non-monetary gold (see BPM5, paras. 195-202).

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

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

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

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

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

[38] Statistical Papers, Series M, No. 77, Version 1.0 (United Nations publication, Sales No. E.98.XVII.5).

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

## A. Harmonized Commodity Description and Coding System

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

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

96. In accordance with the preamble to the HS Convention, which recognized the importance of ensuring that HS be kept up to date in the light of changes in technology or in patterns of international trade, HS is regularly reviewed and revised.[42] The Statistical Commission, at its twenty-seventh session, recommended that the Customs Co-operation Council take fully into account the statistical implications of any changes proposed for HS and the statistical needs and capacities of developing countries.[43]

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

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

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

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

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

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

99. The general structure of HS is as follows:

Sections I to IV: Agricultural products

Sections V to VII: Minerals, chemical and related products, plastics, rubber and articles thereof

Sections VIII to X: Animal products, such as hides, skins and furskins, as well as wood, cork, pulp, paper, and articles thereof

Sections XI and XII: Textiles, footwear and headgear

Sections XIII to XV: Articles of stone, plaster, cement, asbestos, mica and the like, ceramic products, glass, pearls, precious or semi-precious stones, precious metals, jewellery, base metals and articles thereof

Section XVI: Machinery, mechanical appliances and electrical equipment

Section XVII: Vehicles, aircraft, vessels and associated transport equipment

Section XVIII: Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus, clocks and watches, musical instruments

Section XIX: Arms and ammunition

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

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

### B. Standard International Trade Classification, Revision 3

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

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

(*a*) The nature of the merchandise and the materials used in its production;

(*b*) The processing stage;

(*c*) Market practices and the uses of the product;

(*d*) The importance of the commodity in terms of world trade;

(*e*) Technological changes.

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

0 Food and live animals

1 Beverages and tobacco

2 Crude materials, inedible, except fuels

3 Mineral fuels, lubricants and related materials

4 Animal and vegetable oils, fats and waxes

5 Chemicals and related products, not elsewhere specified

6 Manufactured goods classified chiefly by material

7 Machinery and transport equipment

8 Miscellaneous manufactured articles

9 Commodities and transactions not classified elsewhere in SITC

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

104. SITC, Rev.3, was published in 1986. Following consultations by the United Nations Statistics Division with experts in other international bodies,[46] the *Commodity Indexes for the Standard International Trade Classification, Revision 3* were published in 1994.[47]

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

### C. Classification by Broad Economic Categories

106. The original version of the Classification by Broad Economic Categories[50] was devised mainly for use by the United Nations Statistics Division for the summarization of data on international trade by large economic classes of com-

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### D. International Standard Industrial Classification of All Economic Activities

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

### E. Central Product Classification

110. CPC, Version 1.0, was adopted by the Statistical Commission at its twenty-ninth session (11-14 February 1997).[56] It will be published in 1998, and will replace the Provisional CPC.[57] CPC, Version 1.0, is divided into 10 sections. Sections 0 to 4 are based on HS96, and aggregate the HS codes into product categories suitable for various types of economic analysis within the national accounts framework. This part of the classification, like SITC, provides for the rearrangement of HS-based international merchandise trade statistics for analytical purposes. Sections 5 to 9 of CPC, Version 1.0, go beyond HS categories to provide a classification of service products.

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

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

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

# IV. VALUATION

## A. Statistical value of imports and exports

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

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

113. An important step towards the standardization of the customs approach to valuation was made in 1947 by the adoption of article VII of the General Agreement on Tariffs and Trade (GATT 1947).[59] The contracting parties to GATT 1947 agreed to base the customs value of imported merchandise on its actual price, and recognized the validity of that approach in respect of all products subject to duties or other charges and restrictions on importation and exportation based on value. In 1953, the Brussels Definition of Value (BDV) was developed to further standardize the customs approach to valuation.[60] In 1981, another approach was adopted within the GATT framework, known as the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1981 (1981 GATT Agreement on Valuation).[61] Finally, in 1995, the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994 (WTO Agreement on Valuation) was established; it came into effect on 1 January 1995. It is one of the multilateral agreements on trade in goods annexed to the Marrakesh Agreement Establishing the World Trade Organization, and is obligatory for all WTO members.[62] The WTO Agreement on Valuation is patterned on the 1981 GATT Agreement on Valuation, adopting transaction value as the customs value of imported goods.[61] The text of the rules on customs valuation, as set out in the WTO Agreement on Valuation, is contained in annex C below.

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

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

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

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

"(*c*) The cost of insurance."[63]

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

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

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

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

117. Although customs administrations generally require the FOB or CIF value to be placed on the customs forms by traders, there are occasions when the trade statistician needs to examine supporting documents either to establish the transaction value itself or to identify insurance and freight costs, or for other reasons. Such supporting documents may include the contract of sale, which would normally contain the "terms of delivery" of goods. Types of

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

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

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

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

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

[63] Ibid., p. 204.

terms of delivery used in international commerce, including FOB and CIF, are described on the Incoterms web site (see part I, para. 193, above).

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

119. Commercial practice in international merchandise trade displays a variety of detail in the terms of delivery of goods. Statisticians should carefully examine available data sources, including the terms of goods delivery standardized by the International Chamber of Commerce and known as Incoterms (see part I, para. 193 above), in order to derive the recommended FOB/CIF values. In addition, they should establish a close cooperation with the primary data collectors to provide guidance on the methodology regarding the statistical value and to ensure the availability of adequate data. The customs value, when established in compliance with the WTO Agreement on Valuation, should form the basis for the statistical value. However, compilers should be aware that values placed on goods by customs authorities may not necessarily comply with statistical requirements.

120. The CIF-type values of imports and FOB-type values of exports satisfy several analytical needs, but FOB-type values of imports are also needed for some purposes. For instance, CIF-type values of imported goods are required for price comparison with other goods available on the domestic market. CIF-type values of imported goods are also required for national accounts purposes at the product group level (see 1993 SNA, para. 3.85). FOB-type values (of both exported and imported goods) provide a uniform price basis for goods (in the sense of giving a single point of valuation for exports and imports, namely, the border of the exporting country's statistical territory) and therefore serve the purposes of the compilation of national accounts and balance-of-payments statistics at the aggregate level (for valuation, particularly uniform valuation, see 1993 SNA, para. 3.85, and BPM5, paras. 221-225). FOB-type values of imported goods, for instance, are needed to separate the costs of freight and insurance associated with goods transportation from the point of export to the point of import (these costs are considered as value of services and are to be excluded from the cost of the goods). FOB-type values of imported goods can also enhance the analytical use of trade statistics; for instance, imports of country A from country B on an FOB basis can be used to estimate the exports of country B to country A on an FOB basis.

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

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

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

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

**(*b*) Goods used as carriers of information and software, such as packaged sets containing diskettes or CD-ROMs with stored computer software and/or data developed for general or commercial use (not to order), be valued at the their full transaction value (not at the value**

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

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

**of the empty diskettes or CD-ROMs, paper or other materials** (see para. 27 above)**);**

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

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

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

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

## B. Currency conversion

126. *The unit of account*. The value of trade transactions may be expressed initially in a variety of currencies or other standards of value (e.g., European currency units). Compilers are required to convert these values into a single (reference) unit of account in order to produce consistent and analytically meaningful national statistics suitable, inter alia, for measuring trade flows and the compilation of national accounts and balance-of-payments statistics. From the perspective of the data compiler, the national currency unit is the preferable reference unit of account. However, if the national currency is subject to significant change relative to other currencies, the analytical value of the data may be diminished. In those circumstances, it might be appropriate to use another more stable unit of account so that the values of international transactions expressed in that unit would not be significantly affected by appreciation or depreciation (relative to the unit of account) of the currencies in which the given transactions occur.

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

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

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

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

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

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

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

[67] See World Trade Organization, op. cit., pp. 204 and 205.

# V. QUANTITY MEASUREMENT

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

132. *The standard units of quantity recommended by the World Customs Organization*. In 1995, WCO adopted a recommendation on the use of standard units of quantity to facilitate the collection, comparison and analysis of international statistics based on the Harmonized System.[68] The standard units of quantity are:[69]

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

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

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

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

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

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

[69] Ibid., introduction.

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

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

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

# VI. PARTNER COUNTRY

## A. General

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

## B. Criteria for partner country attribution

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

### *Country of purchase/sale*

136. The country of purchase is the country where the purchaser's co-contractor (seller of the goods) resides. The country of sale is the country where the seller's co-contractor (purchaser of the goods) resides. The term "resides" should be interpreted in accordance with the 1993 SNA and BPM5 (see annex A, para. 5 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.

### *Country of consignment/destination/ last known destination/shipment*

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

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

### *Country of origin/consumption*

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

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

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

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

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

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

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

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

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

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

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

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

## C. Comparison of alternative approaches

### *Country of purchase/sale*

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

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

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

If all countries record goods on the basis of crossing their border and at the same time use a purchase/sale basis of partner country attribution, then the statistics of country A would record goods as exports to country B, and the statistics of country C would record the same goods as imports from country B. However, the statistics of country B will show neither imports from country A nor exports to country C since the goods did not cross its borders. No exact comparability of trade statistics between partners can be expected if statistics are based on a combination of border crossing and purchase/sale principles. In addition, purchases/sales comprise only a part of international merchandise trade statistics.

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

### *Country of consignment/destination/ last known destination/shipment*

144. In general, the method of compiling data by the country of consignment/destination offers the possibility of obtaining consistent statistics and reasonable comparability since it promotes the recording of the same transactions by importing and exporting countries. In cases where commercial transactions or other operations which change the legal status of the goods during transport from dispatching country (country A) to receiving country (country B) are absent, this approach should result in symmetrical data sets since goods recorded as imports by one country are to be recorded as exports by another. However, if such transactions or operations are present while the goods are being transported via a third country or through international waters, the import and export records of the countries involved might not provide such a symmetry due to, for instance, the added value by further processing, the cost of related services and the profit markups that would appear in import figures compared to export figures. Also, the entire value of a transaction is attributed to a country that may only be the location of a distribution warehouse or middleman. Such data on a consignment basis are also inconsistent with the need for the country-of-origin data required for quota and tariff purposes. In addition, there can be a lack of knowledge about the destination of goods at the time of export, goods can be redirected while at sea or goods can be trans-shipped from the original country of destination (and hence not included in that country's imports). Finally, for certain product areas, including artwork, special circumstances may apply, such as the exclusion of goods imported for auction as temporary imports, creating a discrepancy with the counterpart exports in which they are recorded as an export to the auctioning country. In practice, export statistics are rarely revised to reflect the actual country of destination.

145. The use of country of shipment has the advantage that for the majority of transactions, in the case of both im-

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

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

ports and exports, the trading partner can be easily determined from shipping documents. However, shipment of goods between countries does not necessarily reflect trade transactions. The transportation of goods from the country of consignment to the country of destination may involve the use of multiple shippers and passage through several countries, so that at the time of goods importation the country of consignment and the country of shipment may or may not coincide. The country identified by the importer as the partner country will often be the country where the last shipment arrangements were made rather than the country from which the goods were originally 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/consumption*

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

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

148. Difficulties can also arise in actually determining the country of origin since the information on origin for different transactions may not have the same quality because of variations in the requirements to produce documentary evidence. The requirement to present a certificate of origin of goods is defined by the tariff law of the countries and does not apply to all goods entering or leaving a country.[78] In the case of customs union countries, the union's external trade statistics (extra-union trade), as far as imports are concerned, is generally based on origin; but statistics of trade between member States (intra-union trade) may record only the country of consignment (or the state of dispatch/arrival).[79]

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

## D. Recommendation

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

## E. Country classification

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

152. Governments may wish, in national publications, to group together countries of minor importance to their trade for their own use. However, in reporting to regional and international organizations, countries should report data for each individual trading partner. This will allow both national and international users to calculate totals for economic and geographical groupings according to various analytical requirements, and will permit those users to estimate trade data for late reporting or non-reporting countries based upon the statistics of partner countries.

[77] See World Trade Organization, op. cit., p. 242.

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

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

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

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

[82] To assist countries in knowing how other countries define their statistical territory and how statistical territory relates to customs territory, the United Nations Statistics Division has published *Customs Areas of the World*, the latest revision of which was issued in 1989 (United Nations publication, Sales No. E.89.XVII.12). As an aid to countries, the Division also compiles and makes available a publication, *Standard Country or Area Codes for Statistical Use, Revision 4* (United Nations publication, Sales No. E.98.XVII.9).

# VII. REPORTING AND DISSEMINATION

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

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

**(*a*) Publicly disseminate documentation on their sources and methods;**

**(*b*) Publicly announce scheduled release dates;**

**(*c*) Provide regular monthly reporting of data to the user community through publications and/or electronic media;**

**(*d*) Regularly revise data (when additional information is available), taking into due consideration user needs for reliable statistics.**

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

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

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

158. *Data comparability* remains an important issue. Non-comparability is caused by differences in coverage; different methods for the treatment of certain goods (e.g., military goods, ship's stores, confidential data); value increases in intermediary countries; differences in classification of goods; time lags in reporting; differences in valuation, including CIF/FOB differences; currency conversion; methods of partner country attribution; and trade via third country intermediaries. Such non-comparability may be substantially reduced by the adoption of the concepts and definitions recommended in the present publication. Nevertheless, because of variations in data sources, errors in data collection or in the processing and forwarding of results, the use of fraudulent documents or the inability of traders to furnish accurate information, a certain amount of non-comparability will remain. **It is recommended, therefore, that countries periodically conduct bilateral and multilateral reconciliation studies or implement data exchanges[83] so that their statistics can be made more accurate and useful both for national purposes and for international comparisons.**

159. *Retained imports*. For presentation purposes, some countries that collect trade under the general trade system may wish to show retained imports, which are normally derived by deducting re-exports from general imports. The figures of retained imports must be used with care when individual commodities are dealt with. The deduction of re-exports from general imports presents two difficulties. First, since there is likely to be a time lag between importation and subsequent re-exportation that may amount to several months, the deduction may well be made in a period subsequent to the importing period, which could result in a negative figure for retained imports for particular commodities. Because of commercial mark-ups, inflation or charges for internal warehousing, insurance, transport etc., a commodity could have a higher value on re-export than when it was imported. For these reasons, some countries have discontinued publication of their statistics of retained imports.

160. *Index numbers*. Many users need more information than trade values by country or by commodity, and require information on prices and volumes as well. Two kinds of indices may be produced to reflect prices: unit value indices based primarily on customs documents and price indices based on survey data. The relative strengths and weak-

[83] Reconciliation studies involve comparison of a country's data with that of its major trading partners and investigation of any significant discrepancies. Data exchange can mean either the substitution of one partner's import data for the other partner's export data, or simply the exchange of data between partners for comparison purposes.

nesses of those two approaches to index number compilation are described in the United Nations publication *Strategies for Price and Quantity Measurement in External Trade: A Technical Report*.[84] Although price indices are generally preferred, in practice countries may not have the resources available to compile that information. **It is recommended that all countries produce and publish volume (quantum) indices and either unit value or price indices for their total imports and exports on a monthly, quarterly and annual basis.** Countries are also encouraged to calculate and publish such indices for the detailed commodity groups at least quarterly.

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

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

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

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

**(*c*) Use the general system of data recording;**

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

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

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

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

## Annex A

## BASIC NATIONAL ACCOUNTS AND BALANCE-OF-PAYMENTS CONCEPTS AND DEFINITIONS

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

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

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

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

"(*b*) Territorial enclaves in the rest of the world (clearly demarcated areas of land which are located in other countries and which are used by the government which owns or rents them for diplomatic, military, scientific or other purposes—embassies, consulates, military bases, scientific stations, information or immigration offices, aid agencies, etc.—with the formal political agreement of the government of the country in which they are physically located). Goods or persons may move freely between a country and its territorial enclaves abroad, but become subject to control by the government of the country in which they are located if they move out of the enclave;

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

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

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

5. *An institutional unit* (a household, legal or social entity, such as a corporation or quasi-corporation, a non-profit institution and the Government) (see 1993 SNA, para. 4.2-4.5) is said to have *a centre of economic interest* and is *a resident unit* (for a detailed description of resident units, see BPM5, chap. IV) of a country when, from some location within the economic territory of the country, the unit "engages, and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale" (BPM5, para. 62; see also 1993 SNA, para. 14.12). The 1993 SNA considers one year as a reasonable approximation of such a period (see 1993 SNA, para. 14.13).

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

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

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

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

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

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

## Annex B

## DEFINITION OF CUSTOMS TERMS AND RELATED DEFINITIONS

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

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

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

4. *Importation of goods under clearance for home use*. "Clearance for home use means the customs procedure which provides that imported goods may remain permanently in the customs territory. This procedure implies the payment of any import duties and taxes chargeable and the accomplishment of all the necessary customs formalities" (Kyoto Convention, annex B.1, definition (*a*)). The goods "may be declared for home use either directly on importation or after another customs procedure such as warehousing, temporary admission or customs transit" (Kyoto Convention, annex B.1, para. 2).

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

6. *Temporary admission (of goods) for inward processing* "means the customs procedure under which certain goods can be brought into a customs territory conditionally relieved from payment of import duties and taxes; such goods must be intended for re-exportation within a specific period after having undergone manufacturing, processing or repair . . . 'compensating products' means the products obtained during or as a result of the manufacturing, processing or repair of the goods temporarily admitted for inward processing . . . [*they*] need not be obtained solely from goods temporarily admitted for inward processing; it may be necessary to use goods of national origin or previously imported . . . Operations allowed under the temporary admission for inward processing procedure may be carried out in premises designated as warehouses for inward processing . . . compensating products [*may be exported to a*] free port or free zone [*placed*] . . . in a customs warehouse with a view to subsequent exportation or other authorized disposal . . . or [*declared*] for home use" (Kyoto Convention, annex E.6, definitions (*a*) and (*c*); standard (2), note 5; and standards 34, 36 and 37).

7. *Temporary exportation* [of goods] *for outward processing*. The temporary exportation [*of goods*] for outward processing is a "customs procedure under which goods which are in free circulation in a customs territory may be temporarily exported for manufacturing, processing or repair abroad and then reimported with total or partial exemption from import duties and taxes . . . 'compensating products' means the products obtained abroad during or as a result of the manufacturing, processing or repair of the goods temporarily exported for outward processing". The compensating products may be "placed in a customs warehouse or a free zone before being declared for home use" (Kyoto Convention, annex E.8, definitions (*a*) and (*d*), and recommended practice 25).

8. *Reimportation of goods after temporary exportation for outward processing*. Such goods are totally or partially exempt from import duties and taxes (see Kyoto Convention, annex E.8, definition (*a*)).

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

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

11. *Customs warehousing*. Customs warehousing "means the customs procedure under which imported goods are stored under customs control in a designated place (a customs warehouse) without payment of import duties and taxes . . . imported goods are not the only goods which may qualify for customs warehousing . . . Storage in customs warehouses should [*also*] be allowed for goods which are entitled to repayment of import duties and taxes when exported . . . [*and*] goods that have previously been dealt with under another

[a] United Nations, *Treaty Series*, vol. 1762, No. 30667.

customs procedure . . . [*This*] makes it possible for the customs authorities to grant discharge of such other customs procedure or to repay the import duties and taxes, as the case may be, before the goods are actually re-exported" (Kyoto Convention, annex E.3, definition (*a*); introduction, para. 5; and recommended practice 3).

12. "*Warehoused goods* . . . [*are*] allowed to undergo usual forms of handling to improve their packaging or marketable quality or to prepare them for shipment, such as breaking bulk, grouping of packages, sorting and grading and repacking . . . it is not intended to authorize any change in the essential character of the goods themselves" (Kyoto Convention, annex E.3, standard 18).

13. *Free zones*. "The term 'free zone' means a part of the territory of a State where any goods introduced are generally regarded, insofar as import duty and taxes are concerned, as being outside the customs territory and are not subject to the usual customs control" (Kyoto Convention, annex F.1, definition (*a*)). "A distinction may be made between commercial and industrial free zones. In *commercial free zones*, the permitted operations are generally limited to those necessary for the preservation of the goods and the usual forms of handling to improve their packaging or marketable quality or to prepare them for shipment. In *industrial free zones*, processing operations are authorized" (Kyoto Convention, annex F.1, introduction, para. 3). "By specifying that the goods are not subject to the usual customs control, the definition draws attention to the fact that the customs control exercised over goods placed in free zones is more flexible than that applicable to goods stored in customs warehouses, for example, or admitted under the temporary admission for inward processing procedure. Whereas in exercising the usual customs control the customs authorities have at their disposal a whole series of specific measures designed to ensure compliance with the laws and regulations which they are responsible for enforcing, in the case of free zones they normally have recourse to general surveillance measures only. Thus, premises situated in free zones are not usually subject to permanent customs surveillance. The control measures applied to goods during their stay in the free zone are generally reduced to an absolute minimum and are principally concerned with the relevant documentation" (Kyoto Convention, annex F.1, commentary (2)). "In some countries [*a free zone*] is also known under various other names, such as 'free port', 'free warehouse'" (Kyoto Convention, annex F.1, introduction, para. 2).

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

15. *Trans-shipment*. "The term 'trans-shipment' means the customs procedure under which goods are transferred under customs control from the importing means of transport to the exporting means of transport within the area of one customs office which is the office of both importation and exportation . . . [*This procedure*] does not apply to goods which on arrival in the customs territory of a country are already under a customs procedure (such as customs transit) and are transferred from one means of transport to another during the course of that procedure, such transfer being dealt with by the customs under the procedure already in operation. Nor does [*it*] . . . apply to goods carried by post or in travellers' baggage" (Kyoto Convention, annex E.2, definition (*a*) and introduction, para. 3).

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

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

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

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

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

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

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

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

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

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

"(*j*) Goods produced in that country solely from the products referred to in [*sub*]paragraphs (*a*) to (*i*) above" (Kyoto Convention, annex D.1, standard 2).

17. "Where two or more countries have taken part in the production of the goods, the origin of the goods shall be determined according to the substantial transformation criterion" (Kyoto Convention, annex D.1, standard 3). "The term 'substantial transformation criterion' means the criterion according to which origin is determined by regarding as the country of origin the country in which the last substantial manufacturing or processing, deemed sufficient to give the commodity its essential character, has been carried out" (Kyoto Convention, annex D.1, definition (*c*)).

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

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

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

"—by the ad valorem percentage rule, where either the percentage value of the materials utilized or the percentage of the value added reaches a specified level" (Kyoto Convention, annex D.1, note to standard 3).

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

## Annex C

# RULES ON CUSTOMS VALUATION AS SET OUT IN THE WTO AGREEMENT ON VALUATION

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

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

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

### PART I

### RULES ON CUSTOMS VALUATION

#### *Article 1*

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

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

(i) are imposed or required by law or by the public authorities in the country of importation;

(ii) limit the geographical area in which the goods may be resold; or

(iii) do not substantially affect the value of the goods;

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

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

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

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

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

(i) the transaction value in sales to unrelated buyers of identical or similar goods for export to the same country of importation;

(ii) the customs value of identical or similar goods as determined under the provisions of Article 5;

(iii) the customs value of identical or similar goods as determined under the provisions of Article 6.

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

(*c*) The tests set forth in paragraph 2 (*b*) are to be used at the initiative of the importer and only for comparison purposes. Substitute values may not be established under the provisions of paragraph 2 (*b*).

#### *Article 2*

1. (*a*) If the customs value of the imported goods cannot be determined under the provisions of Article 1, the customs value shall be the transaction value of identical goods

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

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 l (*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 l (*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 licence 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 au-

thorities 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.

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