

Report of the Joint Session of the Inter-Agency Task Forces on International Merchandise Trade Statistics and Statistics on International Trade in Services, Vienna, 28 March 2008

Introduction

1. The first Joint Session of both Task Forces took place in Vienna following the inter-agency Task Forces' respective meetings. The Session was opened by Mr Shyam Upadhyaya, Chief Statistician of UNIDO and was jointly moderated by the two Task Force Chairs. The agenda is at Annex 1 and the list of participants at Annex 2.
2. It was highlighted that ongoing revisions of statistical frameworks and classifications such as SNA, BPM, CPC and ISIC pose a number of challenges to trade statistics that require a joint approach to goods and services measurement. The stricter application of the change of ownership principle with respect to goods for processing and the changing business and production practices resulting in offshoring and increased intra-firm trade demand adequate responses from trade statisticians. These need to be coordinated and harmonized as much as possible in the respective frameworks for measuring trade in merchandise (IMTS) and services (MSITS).

Report from the UN Statistical Commission

3. To foster an integrated economic statistics approach, the Joint Session was informed that countries at the 39th Session of the Statistical Commission had requested that the revised recommendations for international merchandise trade statistics be harmonized to the extent possible with the new and updated recommendations for statistics of international trade in services, the balance of payments, and the system of national accounts. The meeting agreed that it was not appropriate to attempt achieving further harmonization by changing the conceptual frameworks of either the international merchandise trade statistics or the statistics of international trade in services. However, based on UNSD's proposal, the TFSITS decided to postpone its submission of MSITS, Rev.1 to the Statistical Commission until 2010 in order to allow more time to coordinate with the TFIMTS on compilation matters associated with cross-cutting issues between goods and services and to ensure consistency with BPM6 and SNA93 Rev 1, which are still being fine tuned for release later this year. This would allow the submissions of both revised manuals, MSITS Rev.1 and IMTS Rev.3 at the same Session with a joint background report to point out the co-operation that has taken place. The TFSITS will continue to follow closely its original schedule of work for revising MSITS, with a posting of draft chapters for public consultation in Summer 2008, aiming at finalising a close to final text for release on its website in early 2009.

Cross-cutting issues – a *modus operandi* for joint meetings

4. The meeting agreed that no specific additional formal settings were needed for the joint meetings. Unless a need arises for further arrangements, to be agreed upon, OECD and WTO as the respective chairs of the Task Forces would co-chair these joint sessions and jointly liaise with other inter-agency groups, when needed. To maintain as far as possible the existing working arrangements, public information on the meetings could be included and cross-referenced on the respective Task Forces' websites and could be mentioned in the progress reports of the respective Task Forces to the UN Statistical Commission in 2009.

OECD agreed to open up the EDG already used by TFIMTS to include TFSITS participants for disseminating working documents and facilitating virtual discussions. To this end, a new category for the joint session will be included in the EDG. For efficiency, TFSITS members could also post their “historical” information on this EDG if they so wish. In that case, the overall name of the EDG site would need to be reviewed accordingly.

Coverage of trade statistics for selected issues – the cases of goods for processing, merchanting, software and intra-firm trade of multinationals

5. Following discussions of the individual Task Forces, the joint session was informed that merchandise trade statisticians strongly support continuing to register goods entering/leaving the economic territory for inward or outward processing. The TFIMTS noted that new business practices increasingly involve trans-border transactions without a corresponding change of ownership. Keeping track of these trade flows on a gross basis, irrespective of change in ownership, would preserve the existing stock of precious information on sectoral and international trade developments, especially for developing countries where processing goods for exports is a key component of the industrialization strategy. Such a practice would also preserve the relevance and usefulness of trade statistics for the analysis of sectors in industry and transport as well as in national accounts (input-output matrices). The participants also noted that registering only manufacturing services instead of trade in goods would result in a loss of valuable information as the classification for merchandise (customs) is much more detailed than the one used for goods or services in balance of payments. In addition, both Task Forces expressed their concern that if this information is no more required for BOP purposes, compilation of it may be discontinued in some developing countries due to resource constraints.

6. For balance of payments purposes gross flows may be shown in addition, however, only the processing fee should be recorded as manufacturing service on inputs owned by others. Questions were raised as to the strategy for data collection to reconcile trade flows between merchandise trade statistics on one hand and balance of payments and national accounts on the other. If merchandise trade statisticians continue to record gross flows, would balance of payments statisticians survey the processing fee, as well as transportation and insurance data, complementary to the two data sets? How to link bilateral/multilateral flows in order to identify which goods are inputs and which are outputs after processing? These questions also impact on institutional arrangements to maintain the coherence and integrity of the national economic statistical framework in countries where data collection is decentralised between central banks, national statistical offices and line ministries.

7. The Joint Session felt that the data collection problem introduced through a stricter application of the change of ownership principle will lead to a greater divergence of trade aggregates presented in different frameworks. To that end, a group led by OECD and composed of IMF, UNIDO, UNSD and WTO will produce a brief issues paper for the forthcoming Working Group on Globalization on National Accounts, to be held in Geneva, 23-24 April 2008. A more substantive report will be produced afterwards.

8. As a further cross-cutting issue, and in relation to goods for processing, the Joint Session discussed also intra-firm trade measurement. With the increasing vertical integration of large firms and the generalization of international production sharing, intra-firm trade is an important dimension of international trade. But a stricter application of the change of ownership principle for recording international transactions means that actually less

information may become available in future. The TFSITS recalled that there was a need to strengthen data collection on foreign affiliates (FATS). Also, the participants noted that the valuation of intra-firm transactions may present specific difficulties, as they may not reflect the full market prices (transfer pricing) in order to take advantage of fiscal or tax regulations. Identifying intra-firm trade was a challenge by itself, due to the complexity of corporate ownership. The successful linking of trade and business registers, orchestrated by Eurostat and OECD was mentioned as a promising and “zero cost for respondents” data collection tool which generates new statistics in high demand, namely the economic and enterprise (size classes) characteristics of traders. The meeting concluded that to measure intra-firm trade it would need to analyse more thoroughly the various dimensions of intra-firm trade statistics. Starting with the issue of valuation of transactions, it was decided that both WCO and OECD (transfer pricing principle) would provide additional information on their respective work in this area through the EDG. The paper will be reviewed at the next joint meeting.

9. Other issues such as merchanting, repair and software were also discussed, albeit in less detail as there was less pressure for defining conceptual issues or appropriate data collection strategies. For software, however, a question was raised as to what extent CPC deviated from the HS classification in terms of recording media such as disks with and without content or software included in computers. With the increasing availability of downloaded software in comparison to on disks stored software, it was also questioned to what extent non-customized software recorded on media with a perpetual licence should be recorded as a service (current recommendation is to record it as a transaction in good). While there is still work carried out by other Groups (OECD Group on Software in National Accounts), it was highlighted that the statistical community of trade statisticians should specify its needs.

10. Other cross-cutting issues that were identified during the Task Force meetings for further consideration by the joint meeting of the two task forces included e-commerce, goods for recycling, distributive services and valuation problems (cif/fob).

11. On classifications, OECD introduced ideas on a "new classification or framework" highlighting that trade statisticians coming from different statistical frames, be it merchandise or balance of payments, would need a common classification of trade in products to facilitate their analysis. The only full product classification existing is CPC but the structure does not fully satisfy analytical needs of either trade nor production. There would be a demand for a broader classification whose building blocks would need to be compatible with needs for analysing trade, production or I/O tables. It was decided that OECD would refine and populate this suggestion for a classification or framework further (similar to the ICT approach) and present first results at the forthcoming WPTGS September meeting at OECD.

Decisions

Liaison with Working Group on the Impact of Globalization on National Accounts

12. It was decided that OECD and WTO as co-chairs would report concerns of this meeting in respect of goods for processing (data collection and valuation) to the above Working Group. Due to the short time available, only a short statement presenting the relevant issues and the Task Forces points of view should be prepared, while a more substantial paper on this subject will be developed for the next Joint Session (see paragraph 7).

Recommendation of the Joint Session and Future Work

13. In addition to virtual discussions through the EDG, the Joint Session decided to hold further meetings back-to-back with the Task Forces. Options could be to have a 2+1 arrangements of meetings or 1.5+1.5 with items only for information that would not need a presentation to allow for a more substantial discussion of selected topics. Most delegates prefer to maintain the present 2+1 option for the next meeting, due to the work load of each Task Force.
14. The cross-cutting issue of the valuation of intra-firm transactions in goods and services will be reviewed at the next meeting, on the basis of documents provided by WCO and OECD (see item 8)
15. Other issues of mutual interest will be discussed through the EDG.
16. As for the next meeting, it was decided to inquire with ESCAP/Bangkok about their possible hosting of the meeting as this region is of particular importance in a globalization context. WTO will contact ESCAP on this option. Alternatively, other organizations (UNSD or possibly ESCWA) informed of their willingness to host the meetings. March, April or May were mentioned, however, exact location and dates will have to be worked out depending on the participants' availability.

Annex 1: Provisional Agenda

JOINT SESSION OF THE INTER-AGENCY TASK FORCES ON INTERNATIONAL MERCHANDISE TRADE STATISTICS AND OF STATISTICS ON INTERNATIONAL TRADE IN SERVICES

Vienna, 28 March 2008

- 1. Adoption of the Provisional Agenda**
- 2. Report from the UN Statistical Commission - UNSD**
- 3. Cross-cutting issues – a *modus operandi* for joint meeting(s)**
- 4. Coverage of trade statistics for selected issues – the cases of goods for processing, merchanting, software and intra-firm trade of multinationals (treatments in customs, IMTS, BoP, SNA, classifications and the respective data collection) – Discussion Document – WTO and OECD**
- 5. Liaison with Working Group on the Impact of Globalization on National Accounts**
- 6. Recommendation of the Joint Session and future work**

Annex 2: List of Participants

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