

MEDSTAT II: Asymmetry in foreign trade statistics in Mediterranean partner countries

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MEDSTAT II ran from January 2006 to September 2009. Its aims were to:

- Harmonise statistical methods in Mediterranean partner countries in line with European and international conventions and standards.
- Improve the comparability of data between the partner countries and with those from EU Member States and EFTA countries.
- Enhance the quality of services offered to users by the National Statistical Institutes and their partner organisations involved in the production of statistics.

Special attention is paid to 9 sectors: Trade in goods and services, National accounts, Social statistics, Energy, Agriculture (including Fisheries), Environment, Tourism, Transport and Migration.

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A. Introduction

1. Foreign trade statistics are extremely relevant for monitoring the competitiveness of countries and geographical areas, for establishing economic policies, for preparing trade negotiations and for monitoring application of trade agreements. However, precise analyses are possible only if they are based on comparable figures.
2. At international level there is no strict single methodology for producing foreign trade statistics. International recommendations by the United Nations exist, but countries frequently adopt methodologies that deviate from them slightly, with a greater or lesser impact on data comparability.
3. One characteristic of international trade statistics is that they are not compiled on the balance sheet principle. Consequently, when exports from country A to country B are compared with imports to country B from country A, the figures never match. Expert studies are used to identify the main causes of such discrepancies (for further details of the various causes of asymmetries, see Annex 1).
4. Taking into account the key objectives of the Barcelona Agreement and the strong need for reliable figures to support trade negotiations, eight bilateral mirror studies were carried out as part of the MEDSTAT II programme in order to assess data quality and comparability and to make recommendations for future improvements and harmonisation.
5. The studies compared the latest trade figures declared by the European Union and by the Mediterranean partner countries (MPCs) and their customs and statistics systems. The preliminary results were discussed by experts in the course of missions to the MPCs, during which additional data-mining, field research and bilateral discussions provided valuable input for explaining the main discrepancies and drafting final recommendations.
6. Even if there is still room for improvement in data comparability, the results obtained so far in the MEDSTAT II programme are relevant for interpreting and enhancing the EUROMED figures, thereby making it easier to monitor progress towards establishing a free-trade area around the Mediterranean Sea.

B. Discrepancies

7. In foreign trade statistics, differences between mirror figures are generated by the application of the international methodology itself. This states, for example, that exports should be valued in FOB ('free on board') terms, whereas imports should be expressed in CIF ('cost, insurance and freight') value. Clearly, insurance and freight charges depend on the kind of goods and on the mode of transport chosen. The time of recording might also play a major role, especially in the cases of cross-continental trade or of trade in specific goods. The causes are multiple and would produce differences even if countries were fully to adopt the international recommendations. However, their impact is usually relatively contained (less than 10%).
8. Other mirror discrepancies are due to differences in the methodologies adopted by the countries concerned. For instance, EU Member States produce harmonised foreign trade statistics in accordance with EU regulations, whereas Mediterranean countries have their own national methodologies. Even if both are converging towards the UN

standards, any differences could be highly relevant when comparing total trade and trade at more detailed levels. The most common causes of discrepancies are linked to the adoption of different trade systems (general trade v. special trade¹) and to differences in coverage, which mean that goods entering or leaving a specific part of the economic territory of one country (i.e. customs warehouses, Free Zones, goods for processing, etc.) might be excluded when compiling foreign trade statistics.

C. The asymmetry: the 'mirror exercise' and the results

9. In the MEDSTAT II programme, north-south and south-south mirror exercises were carried out to assess data quality and comparability, quantify mirror discrepancies at total trade and detailed product levels, identify their causes and make recommendations for solving them.
10. MEDSTAT II experts visited the Mediterranean partner countries (MPCs) to share results with the relevant local administrations (national statistical institutes and customs administrations, in particular), conducted additional joint research and found the precise causes of the main discrepancies. In addition, a specific 'EJPAI group' has been established, bringing together Egypt, Jordan, the Palestinian Authority and Israel to discuss and solve discrepancies detected in their bilateral trade. Multilateral EJPAI meetings held at various locations have produced valuable results and facilitated cooperation between administrations.
11. The outcomes have been extremely useful and encouraging. Analysis of the customs procedures adopted by the partner countries put the experts in a position to draft specific recommendations on the kind of transactions to be included in trade statistics. Cooperation between national administrations has been strengthened, by finding areas for integration to improve the overall quality of data. In cases where the discrepancies at total trade level were extremely wide, countries have decided to change their production system and their methodology (by adopting the general trade system and nomenclatures, more in line with international standards). This has been the case in Egypt, where the export and import figures were half those declared by the European Union, mainly due to the strong role played by national Free Zones.
12. The next sections give a few examples of the most tangible results achieved during the EU-MPC mirror exercises (for further results, see Annex 2).

D. Egypt: customs declarations and better collection of statistics

13. The results of a mirror study were presented in a workshop organised by the Central Agency for Mobilisation and Statistics of Egypt (CAPMAS) in which delegates from the customs authority participated. Until then Egypt's foreign trade statistics had been based on data collected from CAPMAS regional offices at the main customs posts. However, the mirror study revealed substantial under-coverage, because the CAPMAS offices did not receive all customs declarations. In addition, the strict definition of

¹ 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. 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". 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 (*International Merchandise Trade Statistics Concepts and Definitions*, United Nations, series M, n° 52, revision 2).

'special trade system' was applied and the product nomenclature adopted by CAPMAS was based on the 1992 version of the UN's Harmonised Commodity and Coding System, (HS). Egyptian Free Zones and bunkers were considered as separate countries and imports from them into the area of free circulation were recorded without any product distinction.

14. Since the workshop, a new production system has been put in place in Egypt. The 2007 HS has been adopted by CAPMAS, starting in January 2008, and, in order to be more consistent with real trade figures, Egypt has decided to publish data based on the general trade system and to avoid duplication of data collection and storage. Protocols of understanding have been signed to give CAPMAS direct access to the databases of other administrations. Data on imports are now taken from the new data warehouse of the customs administration and data on exports are collected via the General Administration for Exports and Imports Control in the Ministry of Trade and Industry.

E. Israel: a new and more accurate classification of products

15. In Israel different product nomenclatures were used for each trade flow. The classification for exports was not completely in line with HS, leading to serious distortion when Israeli data were loaded into international databases (the United Nations Comtrade database and Eurostat's Comext database), with the result that a large proportion of trade was recorded under the product category 'Other', seriously affecting data comparability at chapter level. However, in 2008 Israel started to introduce a new classification for exports and this problem can therefore now be considered partly solved.
16. Some major asymmetries between the EU and Israel at chapter level were due to Israel applying product confidentiality. Revision of the confidentiality rules, which were based on reallocation of particular kinds of trade to other chapters of the HS, should be studied in the future.
17. Trade between Israel and the EU in 'Diamonds worked but not mounted' (HS code 710239) should be studied in detail, as it is the cause of one of the major asymmetries detected in the EU-MPC mirror exercises.

F. Syria: revision of the partner country nomenclature

18. The EU-Syria mirror exercise revealed how a small deviation from the standardised classifications can have a big impact on comparability. It found that Syrian figures in the Comtrade database were distorted by the incorrect reclassification of the partner country code 'EEC', adopted by Syria up to 2007, in accordance with its national nomenclature. Syrian trade with the partner country 'EEC' was wrongly attributed to 'Other European countries not elsewhere specified' instead of 'Other European Union countries not elsewhere specified', leading to an underestimation of Syrian imports from the European Union by 30%.

G. Morocco: inclusion of trade in electricity

19. The EU-Morocco mirror analysis based on 2006 data revealed a total asymmetry in southbound trade in electricity. Following research conducted by the *Office des Changes*, it emerged that the *Office National de l'Electricité* (the National Electricity Office) had not been making customs declarations since 2004 and, consequently, that

the data were not included in the foreign trade statistics. Contacts have been established between the relevant administrations and data on electricity have been included in foreign trade statistics once again since 2007.

H. Confidentiality of the partner country for EU imports of energy products

20. Other EU-MPC mirror studies identified causes of discrepancies at both chapter and detailed levels of the product classification. For example, the large discrepancy (about 5 billion euro) detected in northbound trade in mineral fuels between Algeria and the European Union in 2006 was due to the fact that some EU countries kept the 'partner countries' for imports of natural gas confidential.

I. EU: exclusion of repairs of aircraft

21. Up to 2005, the European Union methodology did not follow the international recommendations concerning the treatment of repairs. This produced structural asymmetries with the EU's partners, especially in the case of trade in aircraft and turbojets. These were detected in almost all the mirror studies carried out with the partner countries. Under the international methodology, repairs should be excluded from foreign trade statistics, but the EU recorded as imports the value of the goods to be repaired and as exports the value of these goods plus the value of the repairs. Changes made to the EU methodology since 1 January 2006 have helped to reduce such bilateral asymmetries significantly.

J. Difficulties with identification of re-exports and processing activities

22. Thanks to collaboration by some EU Member States and MPCs, it was discovered that the main asymmetries detected in connection with particular categories of products were linked to re-export activities by the European Union. More specifically, this is the case with trade in 'Automatic data-processing machines' (HS 8471), 'Telephone sets' (HS 8517), 'Transmission apparatus for radio telephony' (HS 8525) and some textile and clothing products. However, the non-availability of statistics on re-exports at EU level limits the scope for further research in this field.
23. Inward processing – in which imported raw materials or semi-manufactured goods are processed for re-export without the manufacturers having to pay customs duty and VAT on the goods being used – is causing asymmetry in several sectors, mainly in textiles and clothing (EU-Tunisia) and in jewellery (Israel-Jordan), but also in trade between the EU and MPCs in the electronics and automobile-related sectors. These asymmetries are due to the application of different coverage and valuation rules. Further analysis of trade between the EU and Tunisia in textiles and clothing is suggested.
24. Establishment of the Mediterranean free trade area could also widen the discrepancies between the statistical systems.

K. Free Zones

25. In some MPCs the role of Free Zones in international trade has increased in recent years and will certainly increase more in the future. Countries should be aware of the impact that this might have on the exhaustiveness of trade statistics and should try to adapt their trade system accordingly in order to continue to guarantee good coverage by their trade statistics.

L. Recommendations

26. The mirror exercises carried out in the MEDSTAT II programme proved a powerful instrument for assessing the quality of the trade data, detecting deviations between methodologies and identifying particular problems linked to international trade. In several cases specific action has been taken to change the methodology applied, to widen the coverage and to correct trade data, thereby immediately enhancing data quality and comparability. The efforts made during the project to support closer coordination between administrations, at both national and international levels, have helped to create the conditions for stable and sustainable cooperation between producers of statistics.
27. Of course, it was not possible to solve all the discrepancies detected during the MEDSTAT II programme, as more detailed analyses could not be carried out for lack of time. However, following the mirror analysis, MPCs now have good practices at their fingertips and it is up to them to continue to build on the results of this set of MEDSTAT II studies with their own field research.
28. However, international trade is a changing environment in which the leading partners and the products traded change constantly. Monitoring the comparability of foreign trade statistics remains fundamental for any economic or political decision. Based on the successful experience in MEDSTAT II, it is recommended to launch mirror exercises at regular intervals not only between the European Union and the MPCs but also among MPCs in regional studies, as experience has shown that there may also be wide divergence between the data from neighbouring countries.

ANNEX 1: Main causes of asymmetries in mirror statistics

In theory, exports from one country should be the mirror image of imports to its partner countries. In practice, there are discrepancies between the two. The various causes of asymmetries can be classified into three categories:

1. Asymmetries created even with application of a harmonised methodology;
2. Asymmetries explained by differences in the methodology;
3. Asymmetries created by dysfunctions in the collection systems.

1. Examples of causes of asymmetries created even with application of a harmonised methodology

- 1.1. Due to the FOB valuation of exports (excluding international freight and insurance costs) and the CIF valuation of imports (including international freight and insurance costs), the value of imports should generally be higher than the value of the corresponding exports.
- 1.2. Triangular trade (with merchanting): this is when a company in country A sells goods to a company in country B, which then sells them to a company in country C, although the goods are physically moved only once — from A to C. In such cases, trade statistics should record an export from A to C and an import to C from A. There is, however, a risk that country A or C will regard country B as its trading partner, but that B will not record this trade because there is no physical movement in that country.
- 1.3. Triangular trade (without merchanting): if goods are exported from country A to country B and then later resold and redispached to country C, in accordance with the allocation by country of origin country C will record an import from country A, country A an export to country B and country B an export to country C. In the end, asymmetries are created between A and C and also between B and C.
- 1.4. Time gaps: the same transaction can be recorded under a different reference period because of transport times.
- 1.5. Exchange rate differences: due to the different timing of customs procedures in the exporting and importing countries, the value of the goods could be affected by any variation in the exchange rate.
- 1.6. Statistical confidentiality: confidentiality can affect product or partner country classification. Asymmetries occur because confidentiality is not applied in the same way in every country. For instance, a country might record a transaction under a different commodity or country code than its partner country.

2. Examples of asymmetries explained by differences in the methodology

- 2.1. The distinction between 'general' and 'special' trade: if two countries apply different systems for trade, inconsistencies could appear. For instance, exports from country A to country B where goods are dispatched in a warehouse will be included in country

B's statistics if B applies the general trade system but excluded if B applies the special trade system.

2.2. Some specific transactions might be treated in different ways by the two partner countries, e.g. goods sent before or after repair, goods for temporary use, leasing, etc.

3. Examples of asymmetries created by dysfunctions in the collection systems

3.1. Some goods might be excluded from trade statistics in one of the partner countries for confidentiality reasons (military equipment, for instance).

3.2. Some specific goods (electricity, maritime products, ships, aircraft, software, etc.) might not be followed properly by the customs administration, leading to different statistical treatment.

3.3. Fraudulent transactions could affect reporting at customs level, in particular on the import side, where duties are generally paid.

3.4. Errors can slip into the collection system of the customs authorities, made either by the declaring companies themselves or during processing of declarations. The increasing computerisation of customs declarations should gradually limit this risk.

3.5. Differences in the classification of goods, due to companies finding it difficult to classify their goods correctly. Errors or differing interpretations of detailed product classifications could cause mirror differences at detailed or even at aggregate level.

Recommendations

The main objectives and conclusions of any asymmetry study need to be adapted to each kind of asymmetry. Recommendations should be made in order:

- to explain the sources of the first type of asymmetry (application of a harmonised methodology). These asymmetries will always remain, but it is important to measure them in order to keep users and producers informed;
- to improve the application of international standards in order to reduce the second type of asymmetries (application of different methodologies);
- to implement corrective measures in the national systems in order to reduce the third type of asymmetries (dysfunctions in the collection systems).

ANNEX 2: Summary of the results of asymmetry studies with MPCs

1. As part of the MEDSTAT II programme, eight asymmetry studies were carried out between the EU and the following Mediterranean partner countries (MPCs): Algeria (DZ), Egypt (EG), Israel (IL), Jordan (JO), Lebanon (LB), Morocco (MA), Syria (SY) and Tunisia (TN).
2. The studies analysed the pattern of trade of the MPCs and the level of asymmetries between the EU and MPCs at total trade, chapter and detailed product levels for trade flows in both directions (concentrating on the ten most concerned chapters). In addition, a similar study was carried out to analyse the trade between the members of the EJPAI group (Egypt, Jordan, the Palestinian Authority and Israel).
3. The studies were conducted between December 2006 and August 2009. Depending on data availability, detailed analyses were carried out for the years from 2004 to 2007 (and the first quarter of 2008 within the EJPAI group, in response to major changes made in Egypt from January 2008 on).

Table 1

	JO	EG	DZ	SY	MA	LB	IL	TN	EJPAI
Currency used in the analysis	€	€	€	€	€	€	€	€	\$
Period covered	2001-2005	2000-2004	2000-2004	2002-2006	2002-2006	2000-2004	2003-2007	2003-2007	
Detailed analysis	2005	2004	2004(1)	2006	2006	2004	2007	2007	2005-2008

(1) An analysis at HS2 level was also produced using 2005-2006 data.

4. Table 2 provides an overview of the global level of asymmetry between EU trade statistics and mirror MPC flows for northbound trade (exports from MPCs compared with EU imports) and southbound flows (exports from the EU compared with MPCs' imports).
5. The global level of asymmetry depends largely on the partner country and on the direction of trade.
6. Some countries had a limited level of asymmetry (below 10%) in both directions. This is the case with Israel, Morocco and Tunisia. Others showed significant asymmetry in one direction only: Algeria and Syria on the import flow and Lebanon on the export flow. Two countries had a high level of asymmetry in both directions: Egypt and Jordan.

Table 2: Overview of asymmetries between the EU and MPCs

	Mirror discrepancy							
	Northbound				Southbound			
	MPC exports to EU-25 (1000 euro)	EU-25 imports from MPC (1000 euro)	Northbound mirror discrepancy		EU-25 exports to MPC (1000 euro)	MPC imports from EU-25 (1000 euro)	Southbound mirror discrepancy	
Value (1000 euro)			%	Value (1000 euro)			%	
JORDAN	124 115	375 076	250 961	202.2	2 315 469	2 028 265	- 287 205	-12.4
EGYPT	2 217 471	4 191 972	1 974 500	89.0	7 398 116	3 059 961	-4 338 154	-58.6
ALGERIA	13 932 458	15 251 581	1 319 122	9.5	9 451 495	8 062 116	-1 389 379	-14.7
SYRIA	3 493 711	3 455 586	- 38 125	-1.1	2 902 799	1 698 860	-1 203 938	-41.5
MOROCCO	7 349 554	7 159 447	- 190 106	-2.6	10 387 890	9 882 012	- 505 877	-4.9
LEBANON	146 651	240 367	93 715	63.9	3 224 947	3 022 096	- 202 850	-6.3
ISRAEL	11 671 813	11 351 149	- 320 664	-2.8	14 286 886	13 645 370	- 641 516	-4.5
TUNISIA	8 782 949	8 975 115	192 165	2.2	9 503 610	9 052 109	- 451 500	-4.8

Note: Mirror discrepancy in value = Imports - Exports ; Mirror discrepancy in % = (Imports-Exports)/Exports

7. Detailed analyses were carried out at the two-digit level of the Harmonised commodity classification System (HS), focusing on the main product chapters with the highest level of asymmetry. Table 3 summarises the results obtained.
8. Certain types of products appear specifically for some bilateral links and certain chapters appear more frequently as a source of asymmetry for several countries or for several flows.
9. Chapter 88 (Aircraft) was often the source of asymmetries since, as mentioned earlier, transactions linked to repairs were included in the EU data up to the end of 2005.
10. Some chapters appear on the list due to their high share in the trade of MPCs: this is the case with Chapter 27 (Mineral fuels, oils, distillation products, etc.) in exports from Algeria, Egypt and Syria or with the textile industry (Chapters 60, 61 and 62) for exports from Egypt, Morocco, Syria and Egypt. In the southbound flow, Chapters 84 (Machinery) and 85 (Electrical and electronic equipment) are often sources of asymmetries.
11. Detailed analysis of asymmetries between the EU and MPCs shows that the main reasons for discrepancies are:
 - a. Confidentiality concerning the partner country in some EU countries (in particular for HS27);
 - b. Repairs of aircraft (HS88, HS84 and HS90);
 - c. Differences in the trade systems (impact on processing);
 - d. Difficulties with measuring trade involving Free Zones;
 - e. Non-use of registers to measure trade in vessels and aircraft (HS88 and HS89);
 - f. Difficulties with measuring trade in diamonds (HS71);
 - g. Registration of the country of origin for used cars in accordance with international recommendations;
 - h. Possible under-declaration of values.

Table 3: Main asymmetries at HS chapter level in EU-MPC trade

	Northbound		Southbound	
	HS	million euro	HS	million euro
EU-JO	88	140.6	84	145.6
	84	36.6	87	65.6
	40	15.9	99	55.4
	25	11.4	90	46.9
	90	10.8	85	34.9
EU-EG	27	571.6	84	1109.4
	61	180.9	88	422.9
	88	140.6	85	409.4
	72	125.4	89	364.2
	84	97.9	87	189.3
EU-DZ	27	-2469.8	87	-622.4
	88	307.5	88	-342.9
	28	37.4	84	-254.8
	84	32.7	04	126.7
	74	16.3	90	-69.3
EU-SY	61	-70.6	84	-354.8
	27	64.3	27	193.7
	15	-25.8	85	-184.4
	25	23.0	17	-150.0
	41	-11.0	87	-106.5
EU-MA	85	-427.2	84	-147.0
	07	152.7	62	-114.4
	62	-122.6	87	-81.9
	08	84.4	27	-70.8
	28	-74.6	99	-51.5
EU-LB	88	34.1	88	-119.8
	89	17.8	27	101.6
	05	14.6	85	-97.3
	85	5.9	84	-87.4
	71	5.5	87	70.9
EU-IL	38	-722.1	84	-514.1
	71	-700.1	85	-241.9
	27	630.0	71	165.3
	85	-303.2	90	-86.0
	39	-124.2	33	-82.3
EU-TN	61	126.8	85	-236.8
	85	121.4	60	-182.2
	62	-104.0	62	112.3
	27	-90.6	27	-125.9
	94	62.6	52	76.4

12. Table 4 provides a quantitative measurement of the results of the studies, in terms of the value of the discrepancies 'solved' (either explained or which will disappear following corrective measures).

Table 4: Results of investigations, million euro

	Northbound discrepancies	'Solved' discrepancies in absolute values at chapter level*	Southbound discrepancies	'Solved' discrepancies in absolute values at chapter level*
EU-JO	250.9	203.9	-289.2	230.0
EU-EG	1974.5	181.6	-4338.1	566.5
EU-DZ	1319.1	2795.4	-1389.3	538.9
EU-SY	-38.0	0.0	-1203.9	692.2
EU-MA	-190.1	65.5	-505.9	272.0
EU-LB	93.7	34.1	-202.8	138.7
EU-IL	-320.7	1983.4	-641.5	165.0
EU-TN	192.2	:	-451.5	:

* Solved discrepancies are measured in absolute terms and can be higher than the northbound or southbound discrepancy.

13. Significant results have been obtained by the various studies already carried out, but in the case of several MPCs there is still room for further investigations to limit the asymmetry in the future.

Recommendations

14. As there is still room for improvement in most MPCs, a set of recommendations was made for each partner country. The most frequent recommendations are:

- Adopt the international classifications (of products and partner countries);
- Check for full coverage;
- Adopt the 'special trade system (relaxed definition)' or the 'general trade system';
- Improve the information on trade via Free Zones;
- Continue and step up the cooperation with customs authorities;
- Lay down new rules on confidentiality;
- Make better use of registers for vessels and aircraft (HS 88 and HS 89);
- Improve checks for under-declared trade values;
- Check processing activity, particularly in the textile, car and jewellery sectors;
- Organise national workshops;
- Re-organise customs procedures, adopting the Kyoto Convention;
- Proceed periodically with new asymmetry studies.

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