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Geographic classification of goods imports and exports from a national and economic/currency union perspective

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Geographic classification of goods imports and exports: the national and economic/currency union perspective

1 Current international standards for the allocation of goods imports and exports

1. In accordance with general balance of payments principles, the 5th IMF Manual on Balance of Payments (BPM5) defines the change of ownership¹ as the principle determining the coverage and time of recording of international transactions. The consequence of applying the change-of-ownership concept merchandise trade is that goods exports will be allocated to the region of residence of the new owner and imports to the region of residence of the former owner. However, international standards for Foreign (International) Trade Statistics (FTS)², as well as customs returns in most countries, are based instead on physical movements of goods across national or customs frontiers. The recording of these movements does not necessarily coincide with changes in ownership. This Issue paper discusses the consequences for both national and regional-union BOP statistics that are based on FTS data.

2. The United Nations Manual for International Trade Statistics³ (UN Manual) describes different methods that countries use for the allocation of international merchandise trade to partner countries. Equivalent to the BPM5 change-of-ownership principle is the recording according to country of purchase/sale⁴. This method is however not recommended because it leads to inconsistencies, notably if all countries record goods imports on the basis of border crossings, as is common for FTS data⁵. Although no single method of allocating to partner country is considered ideal, the UN Manual recommends the following (par. 150).

¹ In its October 2005 meeting, the IMF Balance of Payments Committee supported a proposal to adopt the new concept of 'change of *economic* ownership' (see document BOPCOM 04.36). The proposal will now be presented to the AEG in its forthcoming December meeting. The possible adoption of the new concept will not fundamentally affect the content of this Issue paper.

² The abbreviation ITS generally refers to International Trade in Services statistics. To avoid confusion, in this Issue paper only the abbreviation FTS (foreign trade statistics) will be used for what is generally denoted as merchandise trade or international trade statistics, *even if* the original quoted text uses the term 'ITS'.

³ International Merchandise Trade Statistics: Concepts and Definitions, United Nations, New York, 1998.

⁴ UN Manual, par 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, par. 4 below).

⁵ In the case of merchanting, for instance, goods do not cross the border of the country where the temporary owner resides. The change of ownership related to merchanting will therefore generally not be recorded in FTS data. Merchanting, BOPTTEG Issue #16, is not discussed further in this Issue paper.

- For imports: attribution to the country of origin.
 - For exports: attribution to the country of last known destination.
 - Additionally, both for imports and exports: attribution to the country of consignment.
- These recommendations are explained in the following Paragraphs.

3. The **country of origin** of a good (for imports) is determined by rules established by each country that are generally based on two criteria⁶:

- The criterion of goods ‘wholly produced’ (obtained) in a given country, where only one country enters into consideration in attributing origin;
- The criterion of ‘substantial transformation’, where two or more countries have taken part in the production of the goods (UN Manual, par. 139).

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, etc (UN Manual, par. 146-147). 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 (A) and the importing country (C) if the goods were directed through country B. Both countries B and C would in that case record an import from country of origin A.

The situation in the example (the recording as imports in both B and C of the same export goods from country A) will not occur if the goods passing through country B are in *transit*, i.e. just passing through B. According to international standards goods in transit must not be recorded in FTS data.

4. 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. Conceptually, the country of last known destination can be considered as the end of the chain, which starts at the country of origin. For instance, if it is known at the time of exportation that goods are to be delivered from country of origin A to country C, but will initially be dispatched to a third country B, country C is the country of last known destination. There are limitations to the use of export data recorded on the basis of the country-of-last-known-destination. This method does not permit a symmetrical recording of the same trade transactions (in the example, both countries A and B will record the same goods as exports to C, the country of last known destination; C, on the other hand, will of course record its imports only once).

5. The **country of consignment** (destination) is relevant in case imported or exported goods are recorded in a third, intermediate country before arriving in the country of last known

⁶ Presently, 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), is undertaking the harmonization work programme on rules of origin.

destination. More particularly, in the case of *imports* the country of consignment is the country from which goods are dispatched to the importing country, without:

- any commercial transactions (e.g. processing, change of ownership), or
- other operations which change the legal status of the goods (e.g. customs declaration) taking place afterwards in any other intermediate country (UN Manual, par. 137).

Similarly, in the case of *exports* the country of consignment (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, first being subject to any commercial transactions or other operations which change the legal status of the goods in any other intermediate country.

In both the examples of Par. 3 and 4, country B is the country of consignment.

2 Concerns/shortcomings regarding the geographic allocation of partner country in the BOP

6. As mentioned above, international standards for FTS data do not recommend the change-of-ownership principle (i.e. recording according to country of purchase/sale) for the allocation of the partner country. The Compilation Guide (par. 825) therefore gives the following recommendation regarding the use of FTS data for the BOP: ‘This Guide recommends that the FTS compiler produces merchandise trade statistics on a consignment/destination basis and that the BOP compiler uses these data to compile partner country statistics on goods ... The consignment/destination concept, which is a close proxy to the change-of-ownership principle preferred for the BOP, achieves a symmetry that the origin/consumption⁷ concept cannot. In fact ... the concept of consignment/destination is the same as the change-of-ownership principle required for use in the BOP’.

7. It is important to note that these recommendations of the Compilation Guide are based on the UN Manual of 1982⁸, which gave the following definitions of the country of consignment (Compilation Guide, par. 822): ‘For imports, the country of consignment is the country from which goods were initially dispatched, to the importing country without any commercial transactions taking place in intermediate countries. For exports, the country of consignment (or destination) is the ‘country known at the time of dispatch to be the final country where goods are to be delivered’. In the definitions of 1982, reference to the ‘change of legal status’, which is an important aspect of the UN Manual of 1998 (see §5 above), is missing. Consequently, the country where the customs declarations are carried out was not considered to be the country of consignment under the previous UN concepts.

⁷ The consumption concept is not discussed in this Issue paper because it is not recommended by any of the international standards referred to. The same holds for the so-called country of shipment.

⁸ The Compilation Guide refers to: International Trade Statistics; Concepts and Definitions, United Nations Statistical Papers, Series M, No. 52, Rev. 1 (New York, 1982). See Compilation Guide footnote 178.

8. Especially in economic (monetary) unions, customs declarations are in many cases fulfilled in a country that does not at any time obtain ownership of the goods itself (e.g. in Rotterdam, the Netherlands for the European Union). Under such circumstances, the present country-of-consignment concept, encompassing the country of legal change, is *not* a good proxy for the change-of-ownership principle. The present FTS concepts of ‘country of origin’ and ‘country of last known destination’ as presented in Chapter 1 appear to be better proxies, notably because their definitions are almost similar to the ‘old’ consignment concept, which was recommended in the Compilation Guide.

3 Application of the different FTS concepts for the geographic allocation of goods

9. Table 1 shows the goods imports and exports that are recorded using the three FTS concepts of partner country described in Chapter 1. In line with the examples in that section, country A is the country of origin, B is the country of consignment (where customs declarations take place) and C is the country of last known destination. Part 1 of the Table uses the FTS concepts of country of origin and country of last known destination for the geographic allocation of goods in the BOP. As a consequence, both countries A and B show an export to country C (the country of last known destination), whereas both countries B and C show an import from country A (country of origin). In the resulting BOP data, there is no symmetry between the recorded transactions:

- the exports of country A are recorded as imports of both B and C;
- the exports of country B to C are not recorded as imports from B in C.

Table 1 Recording of partner country using different concepts

<u>1 Use of country of origin and country last known destination</u>			
	Country A	Country B	Country C
Country A records			export: 10
Country B records	import: 10		export: 10
Country C records	import: 10		
<u>2 Use of country of consignment</u>			
	Country A	Country B	Country C
Country A records		export: 10	
Country B records	import: 10		export: 10
Country C records		import: 10	
<u>3 Combination of concepts 1 and 2</u>			
	Country A	Country B	Country C
Country A records		dispatch: 10	export: 10
Country B records	arrival: 10		dispatch: 10
Country C records	import: 10	arrival: 10	

Explanatory note: A = country of origin, B = country of consignment, C = country of last known destination.

10. Part 2 of the Table shows the recording in the BOP according to the consignment principle (using the present UN concepts and definitions). Consequently, country A allocates its exports to consignment country B and country C allocates its imports to B. In this case, the exports and imports recorded in the national BOPs of countries A, B and C are symmetrical. At the same time, the imports and exports of country B represent a double counting of the exports and imports recorded in countries A and C, respectively. It should also be noted that, in this example, country B does not become the owner of the goods, they only pass through B. According to the change-of-ownership principle, these cross-border movements through B should not be recorded in its BOP.

11. Part 3 of the Table shows a method of recording that includes both the country of consignment and the countries of origin/last known destination. To be able to separately distinguish the goods crossing country of consignment B, they are denoted as dispatches and arrivals both by B and by the countries sending and receiving them (country A and C, respectively). The example shows that this way of recording makes it possible to look through the 'consignment trade' through B. As a result, the exports from the country of origin A, and the imports of the country of final destination C, can be distinguished separately, without double counting. This apparently is the reason why the present UN Manual recommends separate recording of the country of origin, country of last known destination and country of consignment (see §2, above).

4 The allocation of goods to partner country in an economic (monetary) union

12. Table 2 shows the same cross border movements as in Table 1. In this case, the countries B and C represent an economic (monetary) union. Part 1 of the table shows the BOP transactions that will be recorded in the union's BOP if FTS data are used which are based on the concepts of country of origin and country of last known destination. As a result, the 'extra-trade' imports of the union from country A are included twice. Also, an 'intra-trade' export from B to C will be recorded, actually representing a dispatch (not an export).

13. If the country-of-consignment concept is used (part 2 of the table), the union's extra-trade import from country A is recorded properly. On the other hand, the dispatch and arrival of the goods from country B to C are recorded as exports and imports, even though no change of ownership has occurred.

14. Part 3 of the table shows the BOP recordings that occur when the combination of both concepts is used (similarly as in the previous section). In this case not only does the union's extra trade correspond to the actual imports from country A, but also is the intra trade between countries B and C correctly recorded as arrivals and dispatches. From this example the conclusion may be drawn that, when using FTS data for goods imports and exports in the BOP of economic (monetary) unions, the best results are obtained when a combination of the relevant concepts is used. This avoids both asymmetries and inconsistencies.

Table 2 Recording of partner country using different concepts

1 Use of country of origin and country last known destination			
	Country A	Country B	Country C
Country A records			export: 10
MS country B records	import: 10		export: 10
MS country C records	import: 10		
Union records	Extratrade import (from A): 20		Intratrade import: 0 export: 10
2 Use of country of consignment			
	Country A	Country B	Country C
Country A records		export: 10	
MS country B records	import: 10		export: 10
MS country C records		import: 10	
Union records	Extratrade import (from A): 10		Intratrade import: 10 export: 10
3 Combination of concepts 1 and 2			
	Country A	Country B	Country C
Country A records		dispatch: 10	export: 10
MS country B records	import: 10		dispatch: 10
MS country C records		arrival: 10	
Union records	Extratrade import (from A): 10	Intratrade import: 0 export: 0	arrivals: 10 dispatches: 10

Explanatory note: A = country of origin, B = country of consignment, C = country of last known destination.

5 Points for discussion regarding the geographic allocation of goods imports and exports in the BOP on the basis of FTS data

- *Do CUTEG (BOPTTEG) members agree that the present recommendation in the Compilation Guide to use the country of consignment concept should be reconsidered?*
- *Do CUTEG (BOPTTEG) members agree that the country of origin and the country of last known destination in FTS data are good proxies for the allocation according to the change-of-ownership principle?*
- *If the answer to the previous question is yes, do CUTEG (BOPTTEG) members agree that in the BOP the use of additional FTS data according to the consignment concept is advisable/ necessary to avoid asymmetries in mirror statistics?*

- *Do CUTEG members agree that in order to achieve meaningful data on goods imports and exports in the BOP of economic (monetary) unions the combined use of data according to the country of origin, the country of last known destination and the country of consignment is useful/indispensable?*