



STATISTICS DIRECTORATE

STD/NAES/TASS/ITS(2003)14
For Official Use

National Accounts and Economic Statistics - International Trade Statistics

PRESENTATION OF A STUDY FOR THE RECONCILIATION OF TRADE AND BOP STATISTICS

Prepared by Thierry Coulet - EUROSTAT

4th INTERNATIONAL TRADE STATISTICS EXPERT MEETING

Château de la Muette, Paris

7 April 2003 - 9 April 2003 (morning)

Beginning at 10.00 a.m. on the first day

English - Or. English

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PRESENTATION OF A STUDY FOR THE RECONCILIATION OF TRADE AND BOP STATISTICS

1. Eurostat presents a study contracted to Thierry Coulet of Gruppo Clas. The study, structured into seven tasks, is just started. It is scheduled to last two years.
2. The final objective is to write a methodology and practical handbook on "the measurement of goods in Foreign Trade Statistics and in the Balance of Payments".
3. The handbook based on the results of previous analyses of legislation, practises and data available at International, EU and national levels should result in an essential tool in the way towards a more consistent and transparent presentation of statistics related to foreign trade.
4. In particular, it will provide a link between the existing manuals, i.e. the UN "International Merchandise Trade Statistics", the EU Foreign Trade Statistics Compiler's manual and the IMF Balance of Payments 5th manual, and will facilitate the implementation of recommendations stemming from these three pillars. In the analysis of the CIF/FOB adjustment and on other issues related to the services part of the transaction on goods, particular attention will be given to the manual on "International trade in Services".
5. The handbook will be supplemented by a set of practical recommendations aimed at improving the quality of the adjustment of foreign trade data to the balance of payments concept.
6. The study will examine the present 15 EU members plus the 13 acceding/candidate countries.
7. The co-operation of the OECD Secretariat will be highly appreciated for the provision of its own relevant methodological notes and other documentation dealing with the conceptual and practical differences between the Foreign Trade Statistics and the Balance of Payments.
8. Most of the problems tackled and most of the questions raised in the conversion of trade figures to BOP figures are not specific to the EU member States, even though they can take specific forms in this context, like with the intra-EU asymmetries.
9. They concern, in particular, the other member States of the OECD. This means that the EU member States can draw benefits from the experience of other OECD member States in the framework of this study, but also that the OECD member States could draw benefits from some of its conclusions. Eurostat is open to co-operation in this respect.
10. Eurostat units B5 (Balance of Payments) and C4 (External trade) have launched a study for the reconciliation of Trade and BOP statistics. Its main objectives are to better understand the origin of differences between FTS and BOP and to foster harmonisation of methods and improved integration of the statistics on trade in goods. This study takes place in the more general objective of producing an Extra-EU FOB-FOB trade balance, laid down in the EDICOM II Program. The objectives and the proposed methodology of the study are further developed below.

I. Preliminary remarks

11. Data on international flows of goods make up one of the main objects of economic statistics. In the current context of globalisation, they are all the most essential to monitor and regulate economic development. Users include policy makers at national, Community or international level, academics, companies, associations and individuals.

12. These data on international flows of goods are produced in the framework of two different statistical systems, the Foreign Trade Statistics on one hand and the Balance of Payments on the other. Due to their specific objectives and logic, these systems rely on varying concepts, definitions, methodologies and practices. This results in different figures for the same trade. Non-specialists users (but also sometimes the specialists) may thus have some difficulties in understanding these differences and in using correctly the corresponding data. It is thus of great importance to report and analyse the causes for these differences and, where possible, to propose actions to reduce them, thus enhancing consistency and increasing the quality of the data in the different statistical systems.

13. This supposes to make an inventory of present legislation and Member States practices regarding both Foreign Trade Statistics and Balance of Payments, to make an analysis of their respective data with a view to single out the sources of divergence, and to produce methodological notes aimed at fostering harmonisation of methods and improved integration of the statistics on trade in goods.

These specific objectives will be tackled through the working out of seven specific tasks which will be detailed below.

II. Key issues

14. Most Member States of the EU use Foreign Trade Statistics as the basis for the compilation of their Balance of Payments Goods item, according to the transactions reporting system; the only exception being Greece which makes use of a settlements reporting system.

15. Foreign Trade Statistics and the Goods item of the Balance of Payments are thus very closely related statistical systems not only because of their common object, i.e. international flows of goods, but also, most of the time, because of their common original source.

16. Despite this close relation, however, figures in both systems differ. These divergences stem from conceptual and practical differences between both systems and from conversion operations carried out by BOP compilers on FTS, according to these differences. These ones can be grouped in four main categories:

- differences of coverage : differences in the principle of recording (crossing the border vs change of ownership), definition of the boundary, application of a General Trade System vs a Special Trade System, application of a national concept vs a Community concept;
- differences in the treatment of specific operations, e.g. transactions not crossing the border, goods for processing, repairs on goods, transactions without payments and without change of ownership, disguised transit trade;
- differences of valuation : definition of the actual value of the good transacted (transaction value vs statistical value), definition of an homogeneous point of valuation to which is associated the major question of the CIF/FOB adjustment;
- differences in the timing of recording : this can be the date of customs clearance, the date of change of ownership or the date of entry/exit of the national territory.

17. A series of adjustments are made by BOP compilers on FTS in the various Member States, in order to take these conceptual and practical differences into account. For example, adjustments related to coverage frequently include conversion operations for special operations, operations on gold, operations related to ships and aircrafts, operations related to special items and adjustments related to statistical conventions (e.g. thresholds and non responses, Special Trade System/ General Trade System).
18. At this level, however, most of these adjustments are specific to one or two Member States, which complicates the analysis of the relations between the two statistical systems. Furthermore, these adjustments sometimes differ for Intra-EU and Extra-EU trade. However, it comes out from previous studies that the so-called CIF/FOB adjustment, through which BOP compilers transform Foreign Trade Statistics CIF imports data into FOB imports data, constitutes the main single source of discrepancy. Most Member States carry out such a CIF/FOB conversion, mainly on the basis of either FOB ratios or estimations of imports volumes and application of freight rates.
19. Another source of divergence at EU level is due to the fact that the FTS figure used by the BOP compilers is sometimes different from the FTS figure published by Eurostat. This can be due to different revisions or other factors. This may further blur the origin of differences between both statistical systems.
20. In this context, it is essential to progress towards a more consistent and transparent presentation of statistics related to foreign trade. This project thus has the objective to enhance consistency and increase the quality of the data in these different statistical systems.
21. In this objective, this project will include an inventory of legislation and methodological notes regarding both Foreign Trade Statistics and Balance of Payments as well as an inventory of Member States practices concerning the treatment of special types of goods and special transactions.
22. A quantitative reconciliation between the FTS and BOP data will be realised for each Member State, in order to identify and measure the impact of each single adjustment.
23. A special analysis of the major question of the CIF/FOB adjustment and freight transport issue will be conducted in order to better know the Member States practices in this respect and to make recommendations of best practices.
24. Intra-EU asymmetries will be the object of a special attention, especially with regard to the impact of adjustments made in the transition from Foreign Trade Statistics to Balance of Payments on these asymmetries.
25. Finally, a handbook on the measurement of goods in Foreign Trade Statistics and in the Balance of Payments will be elaborated, which will take into account the results of all the previous analyses and will constitute an essential tool in the way towards a more consistent and transparent presentation of statistics related to foreign trade. In particular, it will provide a link between the existing manuals, i.e. the UN "International Merchandise Trade Statistics", the EU's Foreign Trade Statistics Compiler's manual and the IMF Balance of Payments 5th manual, and will facilitate the implementation of recommendations stemming from these three pillars. In the analysis of the CIF/FOB adjustment and on other issues related to the services part of the transaction on goods, particular attention will be given to the manual on "International trade in Services".
26. This handbook will be supplemented by a set of practical recommendations aimed at improving the quality of the adjustment of foreign trade data to the balance of payments concept.
27. The action conducted in the framework of this project will thus include seven specific tasks which are the following:

- Inventory of legislation and methodological notes;
- Inventory of Member States practices concerning the treatment of special types of goods and special transactions;
- Reconciliation between the FTS and BOP data;
- Analysis of the CIF/FOB adjustment and freight transport issue;
- Analysis of Intra-EU asymmetries;
- Production of a handbook on the measurement of goods in Foreign Trade Statistics and in the Balance of Payments;
- Recommendations.

28. The tasks dealing with Member States practices concerning the treatment of special types of goods and special transactions on one hand, and the reconciliation between FTS and BOP data, on the other hand, should be enlarged, as far as possible, to the 13 Candidate Countries. The seven tasks listed above are further detailed below.

29. This study, of course, will not start from scratch. It will rely, in particular, as said above, on studies and inquiries previously realised by both the BOP and the External trade units of Eurostat. In particular, the methodological studies and the reconciliation exercises making up the first five tasks of this study will rely, among others, on :

- previous analyses of Foreign Trade Statistics and Balance of Payments methodologies included in various BOP Task Forces reports, like the Task Force 2 “Current Account” report and the Transport technical group report;
- the results of a questionnaire on the reconciliation between the FTS and BOP figures carried out in December 1999 and May 2001;
- the final report of a previous study on the “Analysis of inconsistencies between External Trade Statistics and Balance of Payments” realised for Eurostat C4;
- the EU’s Foreign Trade Statistics Compiler’s manual, including a study on “methodological reasons for asymmetries”.

30. These various documents and studies already tackle many points of relevance for this study, especially with regard to:

- the Member States practices in relation to the conversion operations from Foreign Trade Statistics to Balance of Payments figures, especially with regard to the treatment of special types of goods and special transactions and the methodology of the CIF/FOB conversion;
- the reconciliation between the FTS and BOP data;
- the analysis of intra-EU asymmetries.

31. The study under way will thus heavily make use of the existing material, providing a synthesis while updating it when necessary, as is the case with some results of the BOP Task Force 2 “Current

Account” report dating back to 1999. It will also elaborate on these results and go further in several respects. As said above, it will, in particular, provide, through the handbook on the measurement of goods in Foreign Trade Statistics and in the Balance of Payments, a link between the existing manuals and will facilitate the implementation of recommendations stemming from them. On this basis, the final result of the study will consist in the formulation of practical recommendations, based on a best practice analysis among the EU’s Member States, aiming at fostering harmonisation of the conversion operations from the Foreign Trade Statistics to the Balance of Payments Goods item.

III. Technical approach and methodology

32. This section will present the content and the objective of the seven tasks listed above.

A. *Task 1: Inventory of legislation and methodological notes*

33. The objective of this inventory is to provide a comprehensive picture of the conceptual and practical differences between Foreign Trade Statistics and Balance of Payments at the international, European and Member States level.

34. This inventory will rely on the analysis of:

- international documents : it will focus, in particular, on the conceptual differences lying in the two international reference documents for Foreign Trade Statistics and Balance of Payments, i.e. “International Merchandise Trade Statistics : concepts and definitions” (United Nations, M52, Rev.2) and the Balance of Payments Manual Fifth Edition (International Monetary Fund), but this analysis will also take into account the relevant OECD documents;
- Commission’s documents : they include previous analyses of Foreign Trade Statistics and Balance of Payments methodologies and, in particular, various BOP Task Forces reports, and the report of a previous study on “Analysis of inconsistencies between External Trade Statistics and Balance of Payments”.
- national documents : they could include specific national studies on the relation between Foreign Trade Statistics and Balance of Payments.

35. This inventory will be made in a structured approach allowing to list legislative and methodological notes and to single out practical and conceptual differences arising from them around thematic chapters. It will allow to distinguish their geographical level, their nature (conceptual vs practical) and their applicability to Intra- and/or Extra-EU trade. As a first suggestion, these thematic chapters could be made of the following ones:

- differences of coverage : principle of recording, definition of the boundary, application of a General Trade System vs a Special Trade System, application of a national concept vs a Community concept;
- differences in the treatment of specific operations, e.g. transactions not crossing the border, goods for processing, repairs on goods, transactions without payments and without change of ownership, disguised transit trade, e-commerce, transactions on special types of goods (military goods, software, video, CD, works of art, etc.);
- differences of valuation : definition of an homogeneous point of valuation and CIF/FOB adjustment, definition of the actual value of the good transacted;
- differences in the timing of recording.

36. This first task has already been launched with an exhaustive inventory of all the relevant documentation regarding both the Foreign Trade Statistics and the Balance of Payments Goods item compilation at the three levels, i.e. international, Community and national, being under way. The analysis, as such, will then begin on this basis.

37. The co-operation of BOP and External trade statistics compilers, as well as that of the OECD Secretariat, for the provision of all the relevant documentation in this respect will be highly appreciated.

B. Task 2: Inventory of Member States practices concerning the treatment of special types of goods and special transactions

38. As said above, differences between Foreign Trade Statistics and Balance of Payments arise not only from definitions and concepts but also from compilers' methodologies and practices. Furthermore, these practices vary from one Member State to the other. They concern, in particular, the treatment of special transactions and special types of goods.

39. Special transactions refer, in particular, to disguised transit trade, General and Special trade, warehouse transactions, goods changing ownership without crossing the border or vice versa, goods for processing, e-commerce and repairs of goods. Special types of goods include, among others, military goods, software, video, CD, works of art.

40. It is thus of great importance, for the transparency and the right understanding of FTS and BOP figures that Member States practices regarding these special transactions and special types of goods in both Foreign Trade Statistics and Balance of Payments be collected and described.

41. This inventory will be based, as far as possible, on the analysis of the information already available. This includes, in particular, answers from Member States FTS and BOP compilers to previous questionnaires which are contained, in particular, in BOP Task Force 2 reports, BOP "Gentlemen's Agreements" and the study "Analysis of inconsistencies between External trade statistics and Balance of Payments".

42. As said above, this material will have to be updated in several respects. It will constitute the basis, in this case, for the creation of pre-filled questionnaires that will be addressed to Member States FTS and BOP compilers. If and when necessary, supplementary questions could also be included.

43. This task has already been approached through a first reflection on the content of such a questionnaire.

C. Task 3: Reconciliation between the FTS and BOP data

44. Beyond the inventory of legislation, methodological notes and Member States practices, a full reconciliation of FTS and BOP data is crucial to the transparency of their relation.

45. Based on figures published by ECB and on restricted information available at Eurostat, a full, quantitative, reconciliation of FTS and BOP data will be realised for each Member State, for Intra-EU, Extra-EU and the Euro zone as partners and for the period 1997-2001. This reconciliation will identify and single out each adjustment made from FTS to BOP figures, including the so-called "CIF/FOB adjustment". It will measure each of these adjustments in absolute and relative terms. This reconciliation will be based on available information and, especially, on the results of a BOP questionnaire on the reconciliation between the FTS and BOP figures carried out in December 1999 and May 2001. The results of this questionnaire should allow to get the necessary elements for the reconciliation of FTS and BOP data from

1997 to 2000. A new submission of the questionnaire should be necessary in order to elaborate the reconciliation for the year 2001¹.

46. The co-operation of BOP compilers is again required in this respect.

D. Task 4: Analysis of the CIF/FOB adjustment and freight transport issue

47. As mentioned above, the CIF/FOB adjustment constitutes the main single source of discrepancy between Foreign Trade Statistics and Balance of Payments. At the root of this adjustment are the very basic principles of Foreign Trade Statistics and Balance of Payments with regard to the definition of an homogeneous point of valuation. Indeed, while the United Nations “International Merchandise Trade Statistics”, which constitutes the international reference for the compilation of Foreign Trade Statistics, recommends the adoption of a CIF valuation of imports (i.e. cost insurance freight value at the importer’s border), the International Monetary Fund’s “Manual of Balance of Payments Fifth Edition”, which constitutes the international reference for the compilation of Balance of Payments, recommends, on his side, the adoption of a FOB valuation (i.e. free on board at the exporter’s border).

48. Furthermore, it happens that Member States make use of different methods in the realisation of this adjustment. These can be based on the application of ratios, fixed or varying according to the mode of transport, the country of consignment and the type of good, or on the estimation of imports volumes and the application of a freight rate, which can vary, again, according to the mode of transport, the country of consignment and the type of good. Practices and methods often vary, furthermore, for Intra-trade and Extra-trade.

49. In this context, it is of great importance that the Member States practices regarding the CIF/FOB adjustment be comprehensively documented and analysed. The practical problems of the estimation of FOB adjustments for the item “Goods” and the reallocation to the “Transport” and “Insurance” items of the Balance of Payments will be thoroughly examined.

50. This analysis will be based on existing information and, in particular, on the results of the questionnaires already sent to FTS and BOP compilers on this question of the CIF/FOB adjustment, which are included in BOP Task Forces and Gentlemen’s Agreements reports, in the results of a questionnaire on the reconciliation between the FTS and BOP figures carried out in December 1999 and May 2001, and in the report on “Analysis of inconsistencies between External Trade Statistics and Balance of Payments”.

51. *If necessary, supplementary specific questions will be addressed to Member States FTS and BOP administrations.*

52. Furthermore, an analysis of most frequent and best practices from a methodological point of view will allow to propose recommendations aimed at implementing harmonised practices through the Member States. This will be an essential step towards the more general objective, laid down above, of producing a FOB/FOB trade balance at the EU level.

E. Task 5: Analysis of Intra-EU asymmetries

53. Intra-EU asymmetries result from discrepancies in the recording of Intra-EU dispatches and arrivals. They result in non nil Intra-EU balances and undermine the reliability of both Intra-EU and Extra-EU figures.

¹ It should be noted that the Eurozone BOP figures are produced by the European Central Bank.

54. Although intra-EU asymmetries are a specific concern to the EU, they are thus related to the much more general problem of discrepancies in the recording of exports and imports by the trading partners. These discrepancies are regularly highlighted in the so-called mirror exercises, not only at the EU level but also at the OECD and world levels.

55. The objective of this task will thus be to analyse the adjustments made by BOP compilers in the transition from FTS to BOP that could have an impact on these asymmetries and to evaluate this impact.

56. The realisation of this task will benefit from the results of previous tasks of this project, especially of Task 1 “Inventory of legislation and methodological notes”, Task 3 “Reconciliation of FTS and BOP data” and Task 4 “Analysis of the CIF/FOB adjustment and freight transport issue”. In particular, it should be possible, from the results of Task 3 “Reconciliation of FTS and BOP data” for Intra-EU trade, to compare Intra-EU asymmetries in original FTS data and in BOP data, and to single out the adjustments leading from one to the other.

57. The realisation of this task will also fully take into account the works already done in the framework of the Ad hoc Committee on BOP Asymmetries.

F. Task 6: Handbook on the measurement of goods in Foreign Trade Statistics and in the Balance of Payments

58. Having clarified the relation between Foreign Trade Statistics and Balance of Payments at a conceptual and methodological level, having identified the sources of discrepancies between both data series lying in these concepts and methodologies but also in the Member States practices, a synthesis of these findings will be of utmost interest for compilers and users, and will constitute a crucial tool in the transparency and understanding of both statistics. This is this tool that the handbook on the measurement of goods in foreign trade and balance of payments statistics will constitute.

59. This handbook will thus heavily rely on the results of the five previous tasks of this project. It will constitute a synthesis of their results in a rationally structured layout. It could, for example, rely on a “double entry” approach, one distinguishing between concepts, methodologies and practices, the other being thematic and distinguishing, for example, between the questions related to coverage, to the treatment of specific operations, to valuation and to timing. For each point, the handbook will provide a methodological guide identifying the main common features and the main differences between concepts, the borderlines and statistical treatments of goods in Foreign Trade Statistics and Balance of Payments.

G. Task 7: Recommendations

60. Clarification and transparency of the relation between Foreign Trade Statistics and Balance of Payments are essential to their right understanding and use. Beyond this, it is essential to improve the quality of the adjustment of foreign trade data to the balance of payments concept, in order to enhance the consistency between the data of these two statistical systems.

61. This supposes, in particular, to put forward proposals for an homogeneous treatment of specific adjustments, especially the CIF/FOB adjustment and the adjustments for specific transactions, coverage, valuation and timing.

62. These proposals will stem from all the analyses conducted in the six previous tasks, in particular the Task 2 “Inventory of Member States practices concerning the treatment of special types of goods and special transactions”, the Task 3 “Reconciliation between the FTS and BOP data” and the Task 4 “Analysis of the CIF/FOB adjustment and freight transport issue”. They will take the form of practical

recommendations and will constitute an essential step towards the elaboration of a FOB/FOB trade balance at the EU level.

IV. Final considerations

63. As said above, should it appear necessary for the updating and control of the existing material which will constitute its basis, the study will also rely on specific contributions from External trade and BOP compilers. In this respect, it will thus highly depend on the co-operation of national External trade and BOP administrations. This will be the case, in particular, for the provision of the relevant documentation dealing with the conceptual and practical differences between the Foreign Trade Statistics and the Balance of Payments, the inventory of Member States practices concerning the treatment of special types of goods and special transactions, the reconciliation between the FTS and BOP data or the analysis of the CIF/FOB adjustment. This will also be the case for the discussion and implementation of recommendations based on a best practice analysis.

64. All the process should allow to provide the BOP compilers with recommendations for an homogeneous conversion methodology of trade figures to balance of payments figures, making possible, once again, the production of an Extra-EU FOB/FOB trade balance.

65. The co-operation of the OECD Secretariat will be also highly appreciated for the provision of its own relevant methodological notes and other documentation dealing with the conceptual and practical differences between the Foreign Trade Statistics and the Balance of Payments.

66. Most of the problems tackled and most of the questions raised in the conversion of trade figures to BOP figures are not specific to the EU member States, even though they can take specific forms in this context, like with the intra-EU asymmetries.

67. They concern, in particular, the other member States of the OECD. This means that the EU member States can draw benefits from the experience of other OECD member States in the framework of this study, but also that the OECD member States could draw benefits from some of its conclusions. Eurostat is open to co-operation in this respect.