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PRINCIPLES FOR STATISTICS ON EXTERNAL TRADE

(Comments prepared by the International Monetary Fund)

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Introduction

1. The Fund wishes to commend the excellent report of the Expert Group on definitions for external trade statistics. The Fund considers that the adoption of the recommendations of the Group will greatly advance international standards in this field. In order to facilitate the discussion of the Statistical Commission the following detailed comments are submitted. Certain of the comments relate to minor problems. One problem is, however, of particular importance to the Fund and the views of the Commission are sought thereon, viz. the method of obtaining periodic figures of the f.o.b. value of imports for use in balance of payments work.

Coverage

2. The Fund is in general agreement with the proposals for coverage of external trade statistics and has only a few suggestions to offer with regard to various borderline cases.

3. Paragraph 15: It is understandable that the Expert Group does not wish to recommend that the statistical territory should be generally extended to include national ships, aircraft and other vehicles. However, since this extension is rejected primarily because of statistical considerations, it does not follow that external trade statistics might not advantageously include certain groups of transactions that can be effectively recorded even though they take place outside the narrower statistical territory adopted. By making some exceptions to the principle of recording only transactions as they are reflected in physical movements across the statistical boundary, it should be

possible to achieve a higher degree of comparability between the coverage of the merchandise account of the balance of payments on the one hand and external trade statistics on the other. A few specific suggestions in this direction are made below.

4. Paragraph 17: All the items listed in paragraph 16 are appropriate in the balance of payments but only items (5) and (6) to its merchandise account. The recommendation that countries should collect and publish data on them is supported. It is proposed that it might be desirable to include items (5) and (6) in trade statistics for the reasons given in the commentary to paragraph 15.

5. Paragraph 18: The items listed in paragraph 16 have the common characteristic that they can be recorded more accurately in one of the two countries involved than in the other. It is suggested that it would be helpful if the former would publish a breakdown by major countries of each of the items it records or would make such information available to the partner countries concerned and that the Statistical Commission might wish to encourage such a procedure.

6. Paragraph 19: All transfers of ownership between residents and foreigners of ships, aircraft and other vehicles are included in the merchandise account of the balance of payments. Since complete records are ordinarily kept of these transactions, it would seem reasonable to include them in external trade statistics for the reasons given in the commentary on paragraph 15. It is not clear from the formulation of paragraph 19 what position the Expert Group has taken in that respect.

7. Paragraph 20: The recommendation that transfers of military surplus property should not be included in external trade statistics is supported, because such transactions are in part entered outside the merchandise account of the balance of payments.

#### Valuation

8. Paragraph 47: The recommendation that countries should compile their trade statistics on the basis of transaction values is strongly supported, since transaction values are those that are relevant for balance of payments calculations as well as for most types of economic analyses.

9. Paragraphs 50-56: The Fund accepts the recommendation that imports should be valued on a c.i.f. basis in the regular trade statistics. Since c.i.f. statistics represent what the importing country pays for the commodity, including the international transportation involved in it, they lend themselves to analysis from the standpoint of various policy decisions. If imports of a commodity are reduced by tariffs, trade quotas, or exchange controls, the international transportation connected with it is reduced simultaneously. Statistics that link the two will facilitate consideration of the pros and cons of alternative types of commercial policy. Or, if the market is left free, the competitive balance between foreign and domestic goods will be better disclosed by comparing c.i.f. values with domestic prices than by comparing f.o.b. values. In this latter case, however, it should be noted that the values for foreign goods that would provide the closest comparison with domestic prices would be values that include any tariff duties paid as well as the domestic transportation and distributive costs involved in getting the goods to the internal markets on which they are offered for sale.
10. It should also be noted that a recommendation that c.i.f. values be applied to imports, and f.o.b. to exports, is not a recommendation for international comparability. If followed, it will yield a set of inconsistent figures. A commodity exported by France to the United States in a British vessel will be recorded at one value in the French export statistics and at another by the U.S. Customs. The difference between the two will not even be an export of French transportation services to the United States. This lack of international consistency in the valuation of the same commodity will have the serious consequence that the records of one country cannot be checked against those of its partners in trade. Since this is one of the basic procedures for improving trade statistics - particularly when one of the partner countries has a more accurate or up-to-date record than the other - the loss is considerable. But it is mitigated by the fact that invoices on a c.i.f. basis are often more accurate than those on an f.o.b.; hence, the original records may be in better shape if c.i.f. valuations are employed.
11. These are merely preliminary considerations. While we believe that the Experts' Report might well bring them all out in order to present a balanced picture to the Statistical Commission, we do not object to the conclusion that,

all things considered, c.i.f. valuations are probably the most convenient basis for the regular trade statistics of most countries.

12. For balance of payments work, however, it is essential to have f.o.b. valuations. The Experts' Report itself indicates its awareness of some of the difficulties that c.i.f. creates in the balance of payments field. The balance of payments is a record of transactions between residents and foreigners. Payments by British importers to British shipping companies are not balance of payments transactions at all; yet such freight charges are included in the c.i.f. value of British imports. Hence if c.i.f. values are used in the balance of payments, the incorrect inclusion of such freight in the merchandise item must be offset by a corresponding incorrect entry in the transportation item. The c.i.f. valuation of imports also seems to clash with the principles of the system recommended by the United Nations Committee of National Income Experts. Since the Committee's definition of "territory" includes national ships, freight charges paid to national ships are transactions within the domestic economy. They are not international transactions to be recorded in the "Rest of the World" account.

13. Not only are f.o.b. values required by the logic of the balance of payments and national income systems, but, if we are to build up the pattern of international payments in order to find out what elements have shifted and produced a dollar shortage or other major problems, we must have figures that dovetail from country to country. We must be able to show merchandise flowing from one area to another with exports and imports balancing for the world as a whole. Similarly we must be in position to show transportation payments, income from investments, and all the other flows in the balance of payments coming full circle for the world as a whole. Only as we do this can we put together the whole picture of international transactions, which is essential to the analysis of payments problems. C.i.f. valuations for merchandise destroy this possibility in two categories; for transportation charges are thrown as much askew as merchandise itself. It becomes impossible to put together the balance of payments of a region - the sterling area, for example - by the simple process of adding the balance of payments statements of its constituent members, letting the transactions among themselves cancel out. And it becomes impossible to show the flow of transactions from one major region to another.

14. Enough has been said to indicate why in balance of payments work f.o.b. valuations are essential. For such work, however, it is not necessary to have f.o.b. valuations commodity by commodity or month by month. If the regular trade statistics are on a c.i.f. basis, it would be enough to adjust quarterly or semi-annually to an f.o.b. basis the total imports of a country from each area recorded in its regional balance of payments statement, using perhaps a sampling method for the purpose. Providing the basic invoices contained the necessary information, this job might be done by the trade statistics people or the balance of payments people. In some countries it might be possible to make the f.o.b. conversion on the basis of reports from shipping companies instead of using customs records. Just what the operating problems are and what method would yield satisfactory results at the least cost is a matter for further investigation. We would suggest that the Statistical Commission, in acting on the report of the Experts' Committee, should call attention to this problem.

Analysis of trade by country

15. The geographical classification of merchandise transactions adopted in the Fund's Balance of Payments Manual is by country of purchase and sale. It is believed that, in practice, this classification will not be substantially different from the classification by country of consignment recommended in the report on external trade statistics. It is further believed that comparability of external trade statistics will be substantially improved by the general adoption of the country-of-consignment allocation and, assuming that the Expert Group's recommendation in paragraph 81 is adopted, the Fund proposes to modify accordingly the principle of allocating merchandise transactions by regions embodied in its Balance of Payments Manual.

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