Measuring merchandise and international freight transportation costs in the Balance of Payments (BOP)
A plea for a new approach in BPM 7 and the SNA 20XX

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Overview

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II. Crucial problems with the current recommendations of the BPM6

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I. Introduction

– The methodology of external statistics, e.g. Balance of Payments (BOP) and Foreign Trade Statistics (FTS) show a high degree of international harmonisation

– Users, therefore, expect that bilateral partner data match

– The expectation is not proofed by reality; in 2015 global exports of goods and services exceed imports about 497 billion $ (IMF)

– The reasons for these asymmetries are threefold:
  • Misclassifications, underreporting
  • different collection methods
  • conceptual requirements of the manuals

– However, the increasing interest in the economic effects of internationalisation of production requires comparable trade data
I. Introduction

− The presentation intends to shed light on one of the conceptual reason which contribute to a large extent to these asymmetries: the concept of uniform valuation of goods exports and imports and the related treatment of international freight transportation service

− This concept deviates from the “market price” as the general valuation principle in BOP and SNA

− It is questioned, if this concept should be retained in the future BPM7 or better be replaced by a new approach which is in line with the general valuation principle and which can contribute to the reduction of asymmetries in the future
II. Crucial problems with the current recommendations of the BPM6

− The treatment of merchandise imports and exports is given in paragraph 10.30 of the manual:
  
  • “the principle for valuation of general merchandise is the market value of goods at the point of uniform valuation. The point of uniform valuation is at the customs frontier of the economy from which the goods are first exported, that is, free on board (FOB)”

− Furthermore, this treatment effects also related freight transactions. Paragraph 10.78 of the manual states:
  
  • “The treatment of freight services is a consequence of adopting FOB as the uniform valuation principle for goods... FOB valuation is as at the customs frontier of the exporting economy, so:
  (a) all freight costs up to the customs frontier are shown as incurred by the exporter, and
  (b) all freight costs beyond the customs frontier are shown as incurred by the importer.”
II. Crucial problems with the current recommendations of the BPM6

- Theoretical reasoning: this treatment is not obvious when studying the various editions of the manual
- Basic economic intention: establish a borderline between the value of goods and the value of the distributive service.
- Beside this, it seems that also pragmatic considerations played a major role.
- That is, information on goods exports and imports usually come from customs declarations/FTS; thus the value at the border (export FOB/import CIF) is easily collectable and the fob value contains only a small part of distributive services
- Problem! Values from this source are already estimated as the customs value is the transaction value
- Consequence: import CIF values to be adjusted by BOP compilers for merchandise trade have already been adjusted beforehand by importers/exporters, customs authorities or FTS compilers because they can only in rare cases be extracted from the accounting
II. Crucial problems with the current recommendations of the BPM6

- To align the “adjusted CIF values” of imports to the FOB value required by the manual compilers developed different methods depending on available sources/resources
- Information used with different degree are: type of goods, disaggregated quantities, partner country, transport mode, freight rates
- Estimates derived from these information are then added up to the total amount of transportation costs included in the import figures
- Consequence: The calculated total CIF/FOB margin depends on the reliability of estimated CIF value and the conversion method used by each country. **Asymmetries are unavoidable!**
- But this is not the end of the story! The calculated margin (transportation costs) then have to be split up into services rendered by residents and non-residents
- The relevant information needed (are transportation costs paid/received related to exports/imports) can only be collected from the involved parties which is costly and burdensome for respondents
II. Crucial problems with the current recommendations of the BPM6

− But even with a survey in place some information is still missing; for example when the transportation is organised between two non-residents (CIF contract) which has to be recorded as an debit by the importing country

− How to calculate these costs and to allocate the residency of the counterpart? The answer must be given by compilers. This compares to glancing in a crystal ball

− The list of problems can be extended and are mentioned in the paper

− In a nutshell: calculation of freight transportation according to the BPM6 is difficult and a huge challenge for compilers. Various methods are applied. Especially the correct geographical allocation take them all to their limit.

− Despite of all efforts made by compilers to produce reliable figures, asymmetries are inevitable

− Compilers cannot be blamed, the core problem is the concept!

− Therefore, alternative concepts should be considered
III. Invoice values as an alternative concept

– To overcome these problems it is proposed to introduce a new concept in BPM7 based on “invoice values”

– This concept goes back to the late nineties, when the Eurostat Technical Group “Merchandise Transport” was mandated to propose a uniform approach for estimating transportation services in the EU

– According to this approach imports and exports are recorded with their invoice values and transport services if a market transaction between a resident and a non-resident rendering the transport takes place

– This will enable compilers to collect more reliable data which can be extracted easily from the accounting of the reporters

– Estimations of goods and freight transportation would no longer be necessary!

– To show the difference the following example is given:
III. Invoice values as an alternative concept

**FOB-Contract**

US company imports goods from China with a FOB contract.

FOB value of goods: 100
transportations costs: 10

**CIF-Contract**

US company imports the same goods from China with a CIF contract.

FOB value of goods: 100
transportations cost: 10
⇒ CIF value: 110

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 Invoice approach = BPM6
III. Invoice values as an alternative concept

– The above example shows that the overall balance of the two accounts is the same under both concepts
– The amounts recorded in the respective accounts, however, will differ unless FOB is the contracted delivery term. Otherwise they will be diverse in regard to the amount and -for freight transportation- also on the credit and debit side
– Consequence! The balance of the two accounts would change. Transportation debits and credits are recorded for merchandise imports as well as for exports

There are several arguments given in the paper for changing from the current definition of the manual to a invoiced based approach

The most important one are:
III. Invoice values as an alternative concept

- No estimates are necessary, neither for the goods account nor for the freight account.
- Asymmetries caused by the current estimations (statistical value, CIF/FOB adjustment, transportation) will be avoided because they are superfluous.
- The data can be extracted directly from the company’s accounting. Thus, the reliability of the single accounts and the overall balance of both improve.
- The data requirements for compilers are reduced since no information is necessary for estimates, e.g. freight rates or weights.
- The only information necessary is the invoice value from customs or FTS which is - as a general rule - the starting point for respondents, customs or statisticians to calculate the customs value or the statistical value.
- In an invoice based world the regional distribution is not a special problem, the partner is always known.
III. Invoice values as an alternative concept

- It better fit with other components which are relevant in case of trade or international transportation like merchanting. Paragraph 10.44 of the BPM6 states that “... merchanting entries are valued at transaction prices as agreed by the parties, not FOB”

- The invoice approach would also be in line with current recommendations of the SNA 2008 regarding the valuation of goods and related transportation services inside the economic territory. Paragraph 14.54 states, “… if the producer agrees to deliver the product to the purchaser without explicit charges, the costs of delivery is included in the basic price”

- In line with this treatment of domestic transactions, the 2008 SNA discusses the international transport charges.

- Paragraph 14.63 states that “... When the supplier (exporter) commits to deliver goods to the importer, the value of the goods will include the transport costs. When the purchaser (importer) is responsible for transport, the value of the goods excludes the transport costs and these features as a separate purchase”. The invoice approach is in line with this recommendation and therefore fosters the consistency between the two manuals
III. Invoice values as an alternative concept

Last but not least:

- Also users who are interested in “real” figures on international transportation outside of the scope of BOP will profit from the invoice approach. The new concept will only record market transactions between residents and non-residents. Therefore, the freight account will better reflect changes in market conditions than the current approach which to a large extent is based on estimates.
IV. Summary and outlook

− The traditional methodological concepts are designed at a time when goods between countries moved only under strict custom controls, when borders constituted a quasi-natural barrier where documents had to be presented and goods were reloaded from one mean of transport to the other with a huge amount of manpower involved.

− Under such circumstances it seems natural to separate transportation costs into three parts, the transportation up to the border of the exporting country, international transportation and transportation within the importing country.

− But the world has changed!

− Nowadays, goods move around the world more freely with customs controls reduced to a minimum. Simplified custom procedures shift most of the documentations and controls into the companies. Containers are now the standard, send without notable interruptions directly to the premises of the buyer. A single cost given for the whole journey and paid completely by the producer or his customer is not the exception anymore, but the rule!
IV. Summary and outlook

– Therefore, the traditional valuation concept for exports and imports and the related freight transportation has to be updated to better incorporate current transportation procedures.

– The current principles force compilers to set up resource and cost intensive methods to calculate the CIF/FOB adjustment based on information which itself is estimated.

– Additional assumptions have to be made for transportation without having any source data available.

– However sincere the individual efforts, they result in inevitably asymmetries since there is not one method that can be recommended for all countries.

– An invoice based approach avoids many of the current problems.

– The concept would be much more in line with the corresponding principles established by the 2008 SNA. A consistent treatment would be reached between domestic and international freight transportation.

– However, disadvantages have to be mentioned (changes in time series).

– In the coming years, the pros and cons should be thoroughly examined.
IV. Summary and outlook

The arguments piled up on the table, however, do call for a “thinking out of the box”

Thank you for your attention!

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