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**MERCHANDISE TRADE RECONCILIATION
UNITED STATES - MEXICO - CANADA
1996 - 1997**

The Bureau of the Census announced today the results of a study into the differences between the official trade statistics released by the United States and Mexico, and Canada and Mexico during 1996 and 1997. This study was conducted jointly by the relevant agencies in the three countries.

The statistics produced by countries, on their merchandise trade with the rest of the world, frequently differ from the statistics published by their trading partners. These differences reflect both legitimate conceptual differences between import and export statistics as well as errors. This reconciliation study was undertaken to identify and quantify the causes of the differences. It is important to note that the results of this study do not constitute revisions to any country's official statistics; however, the results do help improve the understanding of the trade statistics of the three countries.

The significance of commercial relations among the United States, Mexico and Canada can be gauged in part by the size of their trade flows. Thirty percent of the total U.S. merchandise trade occurs with Canada and Mexico. North American trade represents about 80 percent of Mexico's total trade and a similar percent of Canada's total trade. Therefore, it is important to understand the reasons behind the differences among the partners' statistics.

The participants in the project were: the U.S. Customs Service and the Foreign Trade Division of the U.S. Bureau of the Census; the International Trade Division of Statistics Canada; and the Mexican Working Group on Foreign Trade Statistics, which is comprised of the Secretariat of Treasury and Public Credit (SHCP), the Bank of Mexico,

the Secretariat of Commerce and Industrial Development (SECOFI), and the National Institute of Statistics, Geography and Informatics (INEGI). The U.S. Bureau of Census, Statistics Canada and INEGI have co-operated in developing the reconciliation estimates and in preparing this report.

Canada and the United States participate in a 'data exchange', in which the export statistics of each country are derived from the counterpart import data; therefore, there are no unexplained differences in their trade statistics. However, differences between the official trade statistics of the United States and Mexico, and Canada and Mexico are sizeable. Mexico's trade statistics exceeded those of the United States by over \$10 billion southbound in 1996 and 1997 and over \$6 billion and \$8 billion northbound in 1996 and 1997, respectively. Discrepancies between Canadian and Mexican statistics were also significant. Mexico's import trade statistics exceeded Canada's exports by over \$0.8 billion in 1996 and over \$1.0 billion in 1997. The difference between Mexican exports and Canadian imports was over \$2.3 billion in 1996 and over \$2.9 billion in 1997.

I. United States - Mexico trade reconciliation

The 1996 and 1997 official trade statistics of the United States and Mexico showed significant differences, with both Mexico's published import and export statistics exceeding the corresponding export and import statistics of the United States.

| | Southbound Trade | | Northbound Trade | |
|--------------------|------------------------------------|-------------|-------------------------|-------------|
| | <i>In millions of U.S. dollars</i> | | | |
| | 1996 | 1997 | 1996 | 1997 |
| Mexican statistics | 67,526 | 82,002 | 80,697 | 94,385 |
| U.S. statistics | 56,792 | 71,378 | 74,297 | 85,938 |
| Difference | 10,734 | 10,624 | 6,400 | 8,447 |

The reconciliation study concentrated on southbound trade because this trade flow showed the greater discrepancy. Although no specific research was conducted regarding northbound trade, it was possible to narrow the discrepancy through the examination of geographic coverage, classification, conceptual framework, etc.

In order to help quantify the sources of discrepancy, the following field research was carried out:

- a) The Mexican working group surveyed Mexican maquiladoras to obtain an estimate of their imports that were misattributed to the United States. Because the maquiladoras account for most of Mexico's trade with the United States, the effect was significant, accounting for close to half of the discrepancy between the statistics of the two countries in the study period.

- b) U.S. and Mexican representatives made field visits to the Customs offices in Long Beach, San Diego, and Tijuana to investigate the documentation and Customs procedures at border crossings in both countries. The investigation included interviews with Customs officials in both countries, U.S. foreign trade zone operators and several maquiladora representatives.

The reconciliation study on southbound trade identified the following main sources of discrepancy:

- a) Geographic Coverage. The United States includes trade with Puerto Rico and the U.S. Virgin Islands in its merchandise trade statistics. In contrast, Mexico treats them as separate trading partners. This coverage difference resulted in a relatively minor difference in the trade statistics of the two countries, accounting for \$180 million and \$192 million dollars in 1996 and 1997, respectively.
- b) Partner Country Attribution. The Mexican Customs import document or Pedimento only allows the reporting of one country of origin. When more than one country of origin is involved, as is common on summary declarations filed by maquiladoras and certain other manufacturing or assembly plants, the country accounting for the largest value is credited with the total value. Consequently, some Mexican imports are misattributed to the United States. According to Mexico's survey, the estimated value of imports misattributed to the United States by maquiladoras was \$4.8 billion in 1996 and \$5.2 billion in 1997 or 45 and 49 percent of the original differences between the southbound trade statistics of the two countries, respectively.
- c) Nonfiling of U.S. exports. U.S. export regulations require the reporting of all export transactions valued over \$2,500. Some companies however, do not submit all the required declarations, especially those exporting out of foreign trade zones. The reconciliation could not quantify the total effect of nonfiling on U.S. exports to Mexico; however, it could account for a large part of the residual differences between the southbound trade statistics of the two countries.
- d) Low value transactions. The United States does not include transactions valued below \$2,501 in its export trade statistics. Instead, an estimate of the total value of these transactions by country is included in the statistics. In contrast, Mexico records all trade transactions, regardless of value. The study showed that the difference between the U.S. estimate of export shipments below \$2501 and the sum of Mexican import shipments of the same value was just over \$1 billion or roughly 11 percent of the original annual differences.

II. Mexico - Canada trade reconciliation

The 1996 and 1997 published trade statistics of Mexico and Canada also showed a significant difference, with the import statistics of each country exceeding counterpart exports.

| | Southbound Trade | | Northbound Trade | |
|---------------------|------------------------------------|-------|------------------|---------|
| | <i>In millions of U.S. dollars</i> | | | |
| | 1996 | 1997 | 1996 | 1997 |
| Mexican statistics | 1,744 | 1,968 | 2,172 | 2,156 |
| Canadian statistics | 923 | 959 | 4,426 | 5,069 |
| Difference | 821 | 1,009 | (2,254) | (2,913) |

The reconciliation study identified indirect trade as the main source of discrepancy between Canada and Mexico in both directions of trade. The research has shown that record filers frequently treat these shipments as destined for the intermediate country rather than the country of final destination. For example, Canadian goods shipped to Mexico via the United States may be recorded as exports to the United States in the Canadian trade statistics, while in Mexican statistics these imports are recorded as originating in Canada. The estimation of this source of discrepancy was derived from Mexican import data. This estimation provides an explanation of the largest discrepancy in the period of the study.

The results of the Canada – Mexico trade reconciliation study explained a large portion of the original statistical discrepancies.

III. Final Considerations

The results of the reconciliation study have been useful to the three countries in the evaluation of their trade statistics and have allowed the identification of areas for further quality improvement.

United States:

The United States is pursuing several courses of action to improve the reporting of its export statistics. Special outreach and education programs at various Customs ports throughout the United States are being conducted to ensure that U.S. Customs officers, exporters, freight forwarders and foreign trade zone directors are aware of export reporting requirements and how to report correctly. In addition, both the Census Bureau and the U.S. Customs Service are strongly marketing automated reporting of all export shipments, especially along the southern border. Because of the edits and controls in the

system, increased electronic filing is expected to significantly reduce the reporting errors and nonfiling associated with U.S. export statistics.

Mexico:

In the case of Mexico, the results of the study have been taken into account in the design of a new Customs System. The new system will improve recording of the countries of origin and destination for merchandise trade. This new system tackles one of the main sources of statistical discrepancy between Mexican statistics and those of the United States and Canada.

Canada:

It has been previously noted that the main source of the difference between Canadian exports and Mexican import trade statistics has been the result of recording indirect shipments as trade with the intervening country. In response to this phenomena, Statistics Canada has been working closely with the U.S. Bureau of the Census to explore possible solutions to this problem.

This reconciliation project has also been useful in confirming that a certain portion of Canadian exports to Mexico are not reported correctly. In conjunction with the Canada Customs and Revenue Agency (CCRA) and the U.S. Census Bureau, steps are being undertaken to explore various methods of correcting this problem. In particular, a new method of electronically reporting exports to non-U.S. destinations is being actively promoted to the exporting community.

Finally, the utility of this study in identifying reporting errors has resulted in the agreement between all three countries to explore the possibility of undertaking further reconciliation studies, with the expectation that more detailed work may be possible.

IV. Reconciliation Results

The following sections provide a more detailed presentation of the results of the study, as well as explanatory notes and a description of the methodology used in the reconciliation of the foreign trade statistics.

TABLE 1

**Reconciliation of 1996-1997 Merchandise Trade Statistics
United States - Mexico
Southbound Trade**

*In millions of \$U.S.
Current Customs Basis*

| | 1996 | 1997 |
|-----------------------------|-------------|-------------|
| Mexican Published Imports | 67,526 | 82,002 |
| Differences attributed to: | | |
| Geographic Coverage | 192 | 180 |
| Partner Country Attribution | (4,806) | (5,249) |
| Low Value Transactions | (1,141) | (1,220) |
| Electricity | (56) | (51) |
| Residual differences | (4,923) | (4,284) |
| U.S. Published Exports | 56,792 | 71,378 |

Negative numbers are shown in brackets

Totals may not add due to rounding

The published data used at the commencement of this study may have been subsequently revised

Source: U.S. Bureau of the Census/INEGI

UNITED STATES -MEXICO SOUTHBOUND EXPLANATORY NOTES

Geographic Coverage:

The United States includes the foreign trade of Puerto Rico and the U.S. Virgin Islands in its merchandise trade statistics. In contrast, Mexico treats them as separate trading partners. The value shown is Mexico's reported imports from Puerto Rico and the Virgin Islands.

Partner Country Attribution:

The Mexican Pedimento (Customs document) only allows the reporting of one country of origin. Summarised Pedimentos often combine merchandise with more than one country of origin. In these cases, the total value is attributed to the country accounting for the largest value. Consequently, some imports are misattributed to the United States.

The working group for foreign trade statistics in Mexico surveyed maquiladoras to determine the proportion of goods attributed to the United States that originated in countries other than the United States. The survey results were used to estimate the value of goods misattributed to the United States.

Low Value Transactions:

The United States does not include transactions valued below \$2,501 in its export trade statistics. Instead, an estimate of the total value of these transactions by country is included in the statistics. In contrast, Mexico tabulates all transactions, regardless of value. The value of the difference attributed to low value transactions was calculated as the difference between the sum of Mexican transactions valued less than \$2,501 and the U.S. low-value transactions estimate for Mexico. However, reporting practices and levels of commodity detail collected by the two countries differ, so that this calculation remains only an estimation of low valued transactions.

Electricity:

Mexico includes the movement of electricity in its trade statistics and the United States does not. The value shown reflects the value of electricity imported from the United States as shown in Mexico's statistics.

Residual Differences:

This is the remaining unexplained difference between U.S. and Mexican statistics. The sources of this discrepancy may include, among others: additional differences in the attribution of partner country, over-or under estimations of the reconciliation estimates, revisions, and non-filing of U.S. export declarations, including those for exports out of foreign trade zones.

TABLE 2

**Reconciliation of 1996-1997 Merchandise Trade Statistics
United States - Mexico
Northbound Trade**

*In millions of \$U.S.
Current Customs Basis*

| | 1996 | 1997 |
|----------------------------|-------------|-------------|
| U.S. Published Imports | 74,297 | 85,938 |
| Differences attributed to: | | |
| Geographic Coverage | (123) | (152) |
| Re-exports | 848 | 1,142 |
| Indirect Trade | (245) | (302) |
| Electricity | 47 | 2 |
| Residual differences | 5,873 | 7,757 |
| Mexican Published Exports | 80,697 | 94,385 |

Negative numbers are shown in brackets

Totals may not add due to rounding

The published data used at the commencement of this study may have been subsequently revised

Source: U.S. Bureau of the Census/INEGI

UNITED STATES - MEXICO NORTHBOUND EXPLANATORY NOTES

Geographic Coverage:

The United States includes the foreign trade of Puerto Rico and the U.S. Virgin Islands in its merchandise trade statistics but Mexico treats them as separate trading partners. The values shown are Mexico's reported exports to Puerto Rico and the Virgin Islands.

Re-Exports:

The U.S. import data are based on the principle of country of origin, whereas Mexico's export data include goods of national and foreign origin sold to the United States without any significant transformation. The U.S. Customs documents show two countries, the country of origin and the country from which the goods were directly shipped to the United States. The value of transactions showing Mexico as the country of shipment but not of origin was used for the estimate of re-export value.

Indirect Trade:

These are goods of Mexican origin shipped to the United States from other countries. This adjustment is based upon country of origin and country of shipment information reported by the U.S. importer.

Electricity:

Mexico includes the movement of electricity in its trade statistics and the United States does not. The value shown reflects the value of electricity imported from the United States as shown in Mexican statistics.

Residual Differences:

This amount represents the remaining unexplained difference between U.S. and Mexican statistics. The sources of this discrepancy may include among others: additional differences in attribution of partner country, over-or under estimations of the reconciliation estimates, and revisions.

TABLE 3

**Reconciliation of 1996-1997 Merchandise Trade Statistics
Canada - Mexico
Southbound Trade**

*In millions of \$U.S.
Current Customs Basis*

| | 1996 | 1997 |
|-----------------------------|-------------|-------------|
| Mexican Published Imports | 1,744 | 1,968 |
| Differences attributed to: | | |
| Re-Exports | 29 | 79 |
| Low Value Transactions | (26) | (35) |
| Indirect Trade: | | |
| Via United States | (464) | (731) |
| Via Other Countries | (56) | (58) |
| Partner Country Attribution | 205 | 297 |
| Residual difference | (509) | (561) |
| Canadian Published Exports | 923 | 959 |

Negative numbers are shown in brackets

The published data used at the commencement of this study may have been subsequently revised

Source: Statistics Canada/INEGI

CANADA-MEXICO SOUTHBOUND EXPLANATORY NOTES

Re-Exports:

Mexico's import data are based on the country of origin principle, in which only goods grown, extracted or produced in Canada are considered as merchandise trade with Canada. However, the published Canadian export information includes both goods of Canadian origin and goods of foreign origin that have entered Canadian consumption and have been subsequently sold to Mexico without any substantial transformation occurring in Canada. This type of transaction is recorded separately in Canadian statistics; consequently, the amount attributed to this difference has been obtained from Canadian export data.

Low Value Transactions:

Canadian exports to Mexico are not required to be reported if the total value of the shipment is less than \$2,000 (Canadian funds). However, the Mexican import statistics include all transactions regardless of value. This estimate was obtained from Mexico's import data, which allows identification of the total value of small transactions.

Indirect Trade:

Frequently, Canadian exporters at the time of shipment are not aware of the final country of destination or consumption of goods shipped from Canada. Research has shown that there is a tendency to record the intermediate country(ies) involved in the transportation of goods to the final destination as the country of final destination. For example, in the case of Canadian goods moving through the United States en route to Mexico, the goods are frequently not recorded as Canadian exports to Mexico because of the perception that the United States is the final destination. Therefore, the shipments continuing to Mexico cause a discrepancy between Canadian and Mexican statistics because Mexico records them as imports originating in Canada while Canada does not record them as exports to Mexico.

This estimate was derived from Mexican import data. Mexico records both the country of origin and the country of seller (i.e. the country in which the goods were invoiced). The comparison of these two data sets permitted the derivation of the amounts that, in all probability, have been recorded as Canada/other country trade rather than Canada/Mexico transactions.

Partner Country Attribution:

As previously noted, during the study period, Mexico's published import data were based on the principal country of origin. The Mexican Pedimento (Customs document) did not provide for reporting imports from more than one country. This caused some goods from other countries to be included in Mexico's reported imports from the United States.

The Working Group for Foreign Trade Statistics of Mexico surveyed import firms to determine the proportion of goods attributed to the United States that were in fact of Canadian or other country origin. These proportions were used to obtain estimates of the annual value of misattributed trade and the results were added to Mexico's imports of Canadian goods.

Residual Differences:

This is the remaining unexplained difference between Canadian and Mexican statistics. The sources of this discrepancy may include, among others: additional differences in attribution of partner country, over-or under estimations of the reconciliation estimates, revisions and the non-filing of Canadian export declarations.

TABLE 4

**Reconciliation of 1996-1997 Merchandise Trade Statistics
Canada - Mexico
Northbound Trade**

*In millions of \$U.S.
Current Customs Basis*

| | 1996 | 1997 |
|----------------------------|-------------|-------------|
| Canadian Published Imports | 4,426 | 5,069 |
| Differences attributed to: | | |
| Mexican Re-Exports: | | |
| Canada Origin | 12 | 19 |
| United States Origin | 10 | 12 |
| Other Country Origin | 12 | 19 |
| Indirect Trade: | | |
| Via United States | (1,723) | (2,211) |
| Via Other Countries | (17) | (7) |
| Timing | 7 | 0 |
| Residual differences | (555) | (745) |
| Mexican Published Exports | 2,172 | 2,156 |

Negative numbers are shown in brackets

The published data used at the commencement of this study may have been subsequently revised

Source: Statistics Canada/INEGI

CANADA-MEXICO NORTHBOUND EXPLANATORY NOTES

Re-Exports:

Canadian import data are based on the country of origin principle. Mexican published export trade data includes both goods of domestic origin and goods of foreign origin sold to Canada without any substantial transformation occurring in Mexico.

Canadian import documentation records two countries, the country of origin and the country from which the goods were shipped directly to Canada. The values for transactions that showed Mexico as the country of shipment but not of origin were totaled and used as the basis for the re-export estimate.

Indirect Trade:

This estimate is based on Canadian import data using the country of origin/shipment information. It reflects the value of the goods of Mexican origin that were shipped directly to Canada from a country other than Mexico.

Timing:

This estimate represents shipments of crude oil that were recorded in Mexican export statistics in one period but recorded in Canadian import data in another period.

Residual Differences:

This is the remaining unexplained difference between Canadian and Mexican statistics. The sources of this discrepancy may include, among others: additional differences in the attribution of partner country, over-or under estimations of the reconciliation estimates, and any revisions made during the reconciliation study period.