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The Existing Records

THE SYSTEM OF REPORTING

To appraise the information on transportation activities requires knowledge of the system of reporting. IMF's *Balance of Payments Manual* supplies the member countries with a consistent set of rules for reporting their international transactions. The manual, published in January 1950, sets forth the underlying principles, the system of reporting, and general instructions for its use. Tables with detailed information are given for the main components of the balance of payments, of which transportation is one. It is not the intention to deal extensively here with the system of reporting, but only to draw attention to certain aspects of it that bear upon the quality of the transportation figures. These are variations in the way of reporting: the value of imports and exports; the revenues and payments for transport of commodities between other countries—"cross trade"; and the receipts and payments for other activities associated with transportation.

While the IMF uses in the balance of payments f.o.b. values for both imports and exports, countries vary in their choice of values reported. The result is a lack of uniformity in the transportation account. There is a close relationship between the reporting of transportation transactions and that of merchandise transactions. The latter is based on the invoices accompanying the commodities on their way from seller to buyer and stating the amounts of the transactions subject to varying specified conditions. In many cases the invoice shows the f.o.b. (free on board) value of the commodities, or the value at the time the commodities leave the country of export. In others, the invoice shows the c.i.f. (cost, insurance, and freight) value of the commodities, or the value up to the time the commodities are delivered in a port of the importing

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country. The question therefore arises which of the two commodity values is most suitable to be shown in a uniform system of reporting.

From the point of view of customs collection, the most interesting statistics are the f.o.b. value of exports and the c.i.f. value of imports. These values are the basis of duties and consequently must be reported in customs returns. The customs returns are the basis of the foreign trade statistics, which also usually state the f.o.b. value of exports and the c.i.f. value of imports. Some countries, however, manage to deduct the freight charges from the c.i.f. value of the imported merchandise, leaving its f.o.b. value. In those instances, it is possible to record the same value, i.e. the f.o.b. value, of the merchandise by both exporting and importing countries.

This possibility is probably the main reason for the Fund's decision in favor of showing the f.o.b. value of exports as well as imports in the balance of payments. Comparison of the two sets of values reveals inconsistencies in the reporting. In addition, if not only the total amounts of exports and imports are shown but also their allocation to partner areas, a useful tool will be forged for bringing the receipts and payments figures to agreement and achieving a true balance of payments.

Another reason for deciding in favor of the f.o.b. value of imports could have been that useful information on transportation transactions, apart from that on merchandise transactions, could be secured. Hence, the IMF's choice was a happy one, capable of providing us with the maximum information attainable. This means, however, that countries whose customs returns show the c.i.f. value of their imports have to estimate each year the freight (and other additional costs) incorporated in that value—a costly and time-consuming task if done accurately. This poses the question whether putting the customs returns for imports also directly on an f.o.b. basis would not pay. It would eliminate inconsistencies in the reporting which are otherwise difficult to remove, as shown by a simple example.

Let us assume, for instance, that Finland buys commodities in the United Kingdom for 90 currency units and that the merchandise is carried by a Swedish vessel to Finland for an additional 10 currency units.¹ Two tables show for each of the three countries:

1. The actual transactions (as might be reflected by exchange control records)
2. The adjustments to be made by each country to fit its system of reporting

¹ All three countries state the f.o.b. value for the exports and the c.i.f. value for the imports in their trade statistics.

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3. The initial position on the merchandise or transportation line or both of each country's balance of payments
4. The adjustments necessary to bring the balance of payments in correspondence with IMF instructions
5. The ultimate position on both lines of each country's balance of payments

To show the difference made in the recording at the start and the adjustment required thereafter for commodities bought f.o.b. and c.i.f., Table 1 gives the method of reporting for commodities bought f.o.b., and Table 2 for commodities bought c.i.f.

The case in Table 1 is the least complicated of the two, even though the c.i.f. value of the imported merchandise is recorded in Finland's import statistics. The position at the end is the same as at the start, as it should be, since the actual transactions fit exactly the intention of the rules given in the *IMF Manual*.²

To take into account that exports are valued f.o.b. in the United Kingdom's trade statistics, Table 2 shows the various stages in the recording until the ultimate balance of payments position has been arrived at. It is somewhat surprising that in this case the positions in the third phase and at the end are not the same as those shown in Table 1. The difference is not important for the United Kingdom, since the debit and credit entries for transportation could eventually cancel each other. Such a cancellation is recommended by the *IMF Manual*, . . . "on the assumption that the exporter acts merely as an agent for the foreign importer."³ The final positions of Finland and Sweden on the transportation line in Table 2 differ, however, from those shown in Table 1. For the c.i.f. commodities, Finland's transportation debit is allocated to the United Kingdom, although the commodities were not carried by a British vessel. Also, Sweden's transportation credit is allocated to the United Kingdom, although Finland paid the freight ultimately. An extra entry in the transportation accounts of both countries is needed here to arrive at the same results as in Table 1.

But both countries need more information to make the appropriate correction. The importing country (Finland in our example) needs exact information for deducting the freight charges from the c.i.f. value of its imports and for allocating them to the country that rendered the transportation service. Obviously, the shortest route to that end is for the importing country to report the f.o.b. value of its imports in its balance

² *Balance of Payments Manual* (International Monetary Fund), 1950 (hereafter cited as *IMF Manual*).

³ *IMF Manual*, Section 4, subsection c, p. 3.

TABLE 1
 SYSTEM OF REPORTING COMMODITIES BOUGHT F.O.B. BY FINLAND FROM UNITED KINGDOM AND CARRIED
 BY A SWEDISH VESSEL TO FINLAND

	FINLAND				UNITED KINGDOM				SWEDEN				United Kingdom						
	Total		United Kingdom		Sweden		Total		Finland		Sweden		Total		Finland		United Kingdom		
	C	D	C	D	C	D	C	D	C	D	C	D	C	D	C	D	C	D	
1. Actual transactions																			
Merchandise	90		90				10		90										
Transportation		10																	10
2. Adjustment made by importing country																			
Merchandise	+10			+10															
Transportation		-10			-10														
3. Initial balance of payments position																			
Merchandise	100		100						90										
Transportation				-10															10
4. Adjustments to be made for IMF																			
Merchandise	-10																		
Transportation		+10			+10														
5. Ultimate balance of payments position																			
Merchandise	90		90						90										
Transportation		10																	10

In this and Table 2, C = credit, D = debit.

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TABLE 2
COMMODITIES BOUGHT C.I.F. BY FINLAND FROM UNITED KINGDOM AND CARRIED BY A SWEDISH VESSEL TO FINLAND

	FINLAND				UNITED KINGDOM				SWEDEN				United Kingdom				
	Total		United Kingdom		Total		Finland		Sweden		Total		Finland		United Kingdom		
	C	D	C	D	C	D	C	D	C	D	C	D	C	D	C	D	
1. Actual transactions	100		100		100		100		10		10		10		10		10
Merchandise																	
Transportation																	
2. Adjustments made by																	
exporting country																	
Merchandise					-10		-10										
Transportation					+10		+10										
3. Initial balance of																	
payments position					90		90		10		10		10		10		10
Merchandise																	
Transportation																	
4. Adjustments to be																	
made for IMF																	
Merchandise	-10		-10														
Transportation	+10		+10														
5. Ultimate balance of																	
payments position	90		90		90		90		10		10		10		10		10
Merchandise																	
Transportation	10		10		10		10		10		10		10		10		10

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of payments. In general, however, the added information required to make the appropriate corrections will not be available. Consequently, the transportation figures in the ultimate balance of payments position of the importing country (Finland) will not be in line with those of the transporting country (Sweden), and an inconsistency remains in the reporting.⁴

The transportation figures in the ultimate balance of payments positions, derived from different sources and by different means, therefore, differ greatly in quality. It is by and large poor in cases where commodities are bought c.i.f.: the final figures are then usually only estimates. For example, unless the Finnish customs keeps accurate records of the freight incorporated in the c.i.f. value of imported merchandise, the debit figure on the transportation line of the ultimate balance of payments can only be estimated by using information on "similar" f.o.b. imports. The transportation figure in the Swedish balance of payments has, on the other hand, a much more exact figure stemming from exchange control records of the amount actually received. The estimated figure in the Finnish balance of payments can only by chance be the same as the actual figure in the Swedish balance of payments. In evaluating the accuracy of all c.i.f.-f.o.b. adjustments of import values made by the countries themselves, this lack of consistency must be borne in mind.

Apart from freight on exports and imports, a country's merchant fleet obtains revenues from transportation of commodities between other countries, too. The income from "cross trade" is for certain countries a multiple of the freight earnings on exports and imports together, and must therefore be included in this discussion of transportation receipts and payments between countries. What is the source of information on receipts from cross trade and what is the quality of the figures? Ordinarily, the figures are supplied by the central banks (particularly in countries with exchange control systems), which obtain them from the shipping companies. An over-all check on the figures, like that on the earnings from exports and imports with the aid of customs returns, is impossible, because the amounts paid by other countries to the shipping companies of the transporting country are so far not available. Consequently, the central banks must either rely on the accuracy of their countries' shipping companies or—in countries with exchange control systems—make costly special investigations of suspected statements. In practice, the figures relating to earnings from cross trade are usually taken at face value and put into the country's balance of payments.

⁴ The inconsistency in reporting commodities bought c.i.f. will not be present if the imported merchandise is carried by the importing country's own vessels.

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In addition to payments and receipts for freight, there are also those from other transportation activities that affect the balance of payments. On the earnings side are carrying foreign passengers, chartering ships to foreign countries, and some other activities that yield receipts which should be reported on the transportation line of the balance of payments. There are also various kinds of disbursements—port and harbor dues, costs of loading and unloading in foreign ports, wages of nonresidents, and so on.⁵ Such payments must be reported not only as transportation debits in the balance of payments of the carriers' countries, but also as credits by the countries receiving them.

Bunker fuel loaded in ports of one country by carriers of other countries must also be reported. The intakes nearly always appear under the transportation debits in the balance of payments of the carriers' countries. Deliveries of bunker fuel can also be regarded as exports of a commodity and are sometimes reported as merchandise. The IMF requires, however, that deliveries of bunker fuel should also be reported under transportation, which helps to balance the transportation debits and credits of all countries together.

The way in which two other items—passenger fares and insurance of commodities—lying on the periphery of transportation are dealt with can also cause some inconsistency in the reporting of transportation transactions in the balance of payments. Passenger fares paid to foreign shipping and aviation companies should be recorded under transportation, as passenger fare receipts are, according to the IMF instructions. To meet these requirements, the countries have to single out passenger fares for overseas ship and air traffic from the other expenditures of their residents abroad. The latter, including passenger fares inside foreign countries, must be reported under travel. Not all countries succeed in making the separation, and part of the overseas ship and plane passenger fares are reported under travel instead of transportation.

The ways of dealing with amounts paid and received for insurance of commodities moved in international trade are another cause of inconsistency in the reporting of transportation transactions. Views differ whether payment of such insurance premiums should be reported under transportation or insurance. The most common opinion seems to be that, since they are closely related to the transportation of commodities, the former is the suitable category. But, in order to keep the world transportation account in balance, at least theoretically, it then becomes necessary to separate receipts for such insurance from receipts for capital goods and life insurance. Commodity insurance should then be reported

⁵ For detailed description of the various components of the IMF transportation account, see *IMF Manual*.

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under transportation and the other two under insurance—a difficult division to make for proper entries in the balance of payments.

With this brief review of the implications of the system of reporting on the transportation figures, let us now see to what extent countries fulfill the requirements.

THE REPORTED FIGURES

The information on transportation gathered from the IMF's *Balance of Payments Yearbook*⁶ (Volumes V and VI), supplemented with some information on details from its files, reveals that up to the present not many countries have succeeded in carrying out the IMF's instructions. Only a few show allocation to partner countries of total amounts as well as of gross freights—by far the most important of all transportation items. Among the thirteen to sixteen member countries that in 1950-1953, had fleets of 1,000 gross register tons (GRT) and over, only the United States, Canada, Denmark, and Japan supplied all the required information on transportation transactions. Other major transportation countries show amounts of freight not allocated to partner countries and totals for all items together; others show only total amounts with allocation; and some only allocation of net amounts (total debits minus credits). Some of the less important countries do considerably better.

A number of countries do not even show the correct totals of payments and receipts for a number of reasons:⁷

1. Many countries, not able to establish the f.o.b. value of their imported merchandise, report the c.i.f. value, with no amount on the transportation line for freight on imports.

2. The United Kingdom does not report receipts and payments of its tanker fleet under transportation but includes them with all petroleum transactions reported under miscellaneous.

3. Panama and Honduras do not consider ships of other countries registered under their flags as part of their national economy and hence leave earnings and disbursements of those fleets out of their balance of payments. Liberia submits no balance of payments and, therefore, no financial report on ships carrying its flag.

4. Greece reports only receipts of contributions to seamen's funds,

⁶ Hereafter referred to as IMF *Yearbook* of the appropriate volume.

⁷ A more detailed discussion of the many deficiencies in the world's transportation accounts can be found in "A Trial-Run Matrix of Transportation Transactions between World Areas in 1951," MS. by Herbert Woolley and Walther P. Michael, National Bureau of Economic Research, 1954.

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seamen's remittances, taxes, profits, and so forth—only the smaller part of the net earnings of the Greek fleet which operates mainly from foreign bases; a very large share of earnings and expenses is not reported by Greece.

5. Since expenses for bunker fuel are part of a ship's disbursements and always reported under transportation debits, receipts for the sale of bunker fuel should logically be reported under transportation credits. Such receipts are not reported by a number of countries, however.

6. The overseas territories of the United Kingdom, France, the Netherlands, Portugal, and Spain do not report receipts for harbor and port dues, fees for loading and unloading, stevedorage, and so forth.

These omissions result in understatement of payments on account of 1, of 2 (expenses of the U.K. tanker fleet), of 3 (expenses of fleets carrying the flags of Panama, Honduras, Liberia), and of 4 (disbursements of the Greek fleet). The omissions result also in understatement of receipts on account of the earnings of those fleets (2, 3, and 4) as well as of other earnings (5 and 6). One might expect these omissions to cancel out to a great extent, leaving no large difference between the debits and credits of all countries together. The differences, when all the reported amounts for 1951 are added together, are shown in Tables 3 and 4. The grand totals are close (5,437 and 5,749), and the allocated totals still closer (4,746 and 4,868). The correspondence is less for individual areas, as expected.

TABLE 3
RECEIPTS FROM ALL TRANSPORTATION ITEMS, WORLD AREAS, 1951
(millions of U.S. dollars)

<i>Receipts of:</i>	<i>Receipts from:</i>					<i>Total Allocated</i>	<i>Unallocated</i>	<i>Total</i>
	<i>£ Area</i>	<i>Non-£ EPU^a</i>	<i>U.S. and Canada</i>	<i>L.A.</i>	<i>Rest of World</i>			
£ area	681	285	243 ^b	55	170	1,434	48	1,482
Non-£ EPU ^a	461	465	245	85	111	1,367	469	1,836
U.S. and Canada	396	618	152	377	173	1,716		1,716
Latin America	2	3	29	12	1	47	84	131
Rest of world	66	64	26	7	19	182	90	272
Total	1,606	1,435	695	536	474	4,746	691	5,437

SOURCE: IMF, *Yearbook* and files.

^a European Payments Union.

^b Includes Latin-American dollar countries and Liberia.

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TABLE 4

PAYMENTS FOR ALL TRANSPORTATION ITEMS, WORLD AREAS, 1951
(millions of U.S. dollars)

<i>Payments to:</i>	<i>Payments of:</i>					<i>Total</i>
	£ Area	Non-£ EPU ^a	U.S. and Canada	L.A.	Rest of World	
£ area	581	429	232	31	63	1,336
Non-£ EPU ^a	425	596	335	80	99	1,535
U.S. and Canada	256 ^b	417	185	208	117	1,183
Latin America	36	80	257	17	34	424
Rest of world	92	96	136	35	31	390
Total allocated	1,390	1,618	1,145	371	344	4,868
Unallocated	121	496		210	54	881
Total	1,511	2,114	1,145	581	398	5,749

SOURCE: IMF, *Yearbook* and files.

^a European Payments Union.

^b Includes Latin American dollar countries and Liberia.

There is a considerable understatement of receipts and of payments, for reasons noted. On the payments side, for instance, adjustment of imports from c.i.f. to f.o.b. value, alone, amounts to about \$2 billion, in addition to omitted expenses of certain fleets. The total effect of the omissions on each side of the combined balance of payments lies between \$2.5 and \$3 billion in 1951, as will be shown later. For the years under study, no more than about two-thirds of receipts and payments were reported. The next section describes the measures used to amplify the records.