Twinning Project

Contract: GE 16 ENI ST 06 18

Strengthening the Capacity of the Georgian Statistical System

Component 1: "Development of External Sector Statistics"

Sub-component 1.1: "Mirror Comparison in International Merchandise Trade" Statistics (IMTS) accomplished

MISSION REPORT

Activity: 1.1A "Analyses of asymmetries and identification of data sources"

Mission carried out by

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List of Abbreviations

EC	European Commission
EU	European Union
MS	EU Member State
RTA	Resident Twinning Adviser
RTAA	Resident Twinning Adviser Assistant
ToR	Terms of Reference

1. General comments

This mission report was prepared within the EU Twinning Project "Strengthening the Capacity of Georgian Statistical System". Following a common assessment mission in May, covering the entire component 1, it was the first mission within *Component 1.1: Mirror Comparison in International Merchandise Trade Statistics (IMTS) accomplished*

During the assessment mission, the major points regarding the current situation within IMTS in Geostat was observed and a work plan was laid out to achieve the objectives within subcomponent 1.1. According to this plan the main objectives to be achieved during the mission 1.1.A were:

- Transfer of necessary knowledge on asymmetry studies and reasons for asymmetries
- Relevant data for asymmetry studies are found
- Work plan on mirror statistics is defined

The program for this mission contained a number of presentations from Geostat on methodological practices, knowledge on asymmetry reasons and work in past on asymmetries, accompanied by good and fruitful discussions between Geostat and the consultants on the various aspects.

During the mission, the first talks took place on actual asymmetries in Georgian trade with EU-countries and other countries to be analysed and relevant data sources for mirror comparisons were discussed.

Staff from Central Bank of Georgia and Georgian customs authorities also participated in the meetings and made presentations on various issues addressed during the mission.

The Consultants presented a short summary of the findings and conclusions from each meeting day, to ensure that no misunderstandings had happened.

The consultants would like to express their gratitude to all officials and individuals met for the kind support and valuable information which they received during the stay in Georgia and which highly facilitated the work of the consultants.

The views and observations stated in this report are those of the consultants and do not necessarily correspond to the views of the European Union, Geostat, Statistics Denmark, or other statistical institutions involved in the implementation of the project.

2. Assessment and results

2.1 IMTS methodology in Geostat

In various presentations Geostat presented how IMTS is compiled in Georgia and in the discussions focus were on methodological practice which can have influence on asymmetries.

In general good methodology is applied in Georgian IMTS compilation and there is good awareness of the international IMTS standards (UN, etc.) among Geostat staff.

Coverage in Georgian IMTS

Geostat use the general trade concept in the compilation of IMTS. This is according to the UN recommendation.[1] General trade comprises all goods being moved into or out of the country, unless exceptions

[1] United Nations, International Merchandise Trade Statistics: Concepts and Definitions 2010, New York 2011

have been laid down in special rules (e.g. goods in transit). Thus, imports cover all goods entering the country, including goods intended for re-export. Similarly, exports cover all goods leaving the country, whether processed in the country or have previously been imported (re-export).

IMTS according to the special trade concept excludes transactions between other countries and national customs bonded warehouses. Goods imported to a bonded warehouse are thus excluded from external trade based on the special trade principle and are only included when the goods are declared by the customs for free circulation and home use domestically.

Goods in transit are excluded from the external trade statistics (for special as well as general trade).

With respect of asymmetries with EU Member States, it should be noted that Eurostat, EUs statistical office, apply the special trade concept in the Comext database containing IMTS data of the EU Member States. Furthermore, many Member States follows the practice of Eurostat and disseminate according to special trade concept in the national IMTS data.

This difference in trade concepts can produce asymmetries. Goods going from Georgia to a specific Member State might not be included in the IMTS of that Member State because the goods are not recorded in special trade if the goods only enter a custom warehouse in the Member State and leave the warehouse again with a non-EU country or Member State as final destination.

Similar, goods from an EU Member State (Member States of consignment) entering Georgia might be recorded in Georgian IMTS as import from that EU Member State, but if the goods are originating from another EU Member State or from a non-EU country (leaving from a customs warehouse in EU Member States of consignment), then this will most likely not be included in the IMTS of the Member States of consignment.

When recording the partner country, Geostat use the country of consignment in imports and the country of last known destination in exports. In imports, the UN recommendation is to use country of origin, not country of consignment. Geostat is fully aware of this and have plans to records country of origin in imports at some point in the future.

However, even though country of origin is included as a box in the Georgian customs declaration, only a minor part of the import and export declarations include this information. Country of origin is mandatory in import and export declarations, but often filled in as “unknown country”.

In general some of the declarations (40%) contain country of origin. A check on September 2019 data showed that the percentage of declarations with missing country of origin or showing unknown country of origin were:

- 50% in exports to EU countries
- 70% in imports from EU countries
- 57% in exports to all countries
- 64% in imports from all countries

For some goods, importers can be exempted from import duties based on the origin of the goods and they thus have an incentive to report country of origin in customs declarations. In practice, country of origin is declared when there is an incentive for exemption for duties.

Customs use an exemption threshold where goods with value under 300 GEL in imports and 10.000 GEL in exports are exempted from declarations. But in some cases product export or import can be declared if the value of goods is below this amount. However, it is unknown if simplified declaration can be applied. This will be further investigated in next mission.

The Customs exemption threshold seems rather high in exports. The threshold corresponds to 3.125 EUR, where in the EU customs union a threshold for simplified declarations of 1.000 EUR is applied. The high threshold can result in lower coverage of the export in Georgian IMTS.

In respect to customs warehousing and free zones, our assessment is that Geostat have a good practice with respect of recording the transactions involving customs warehousing and free zones, ensuring a good compliance with the general trade concept. In some cases information are used when goods leaves the warehouse for free circulation and home use in Georgia, but the reference period is the period when goods enter the warehouse.

Geostat also follows international recommendations in respect to goods included or not included in IMTS. Goods for repair or for temporary admissions/temporary imports are excluded from IMTS while goods for inward or outward processing are included in the IMTS.

Data availability and validation
Geostat receives the full customs declarations from Georgian customs authorities and corrections for the previous years are sent once a year in August (new data set on corrected declarations). However, some corrections are made earlier (mostly in case of custom warehousing, goods entering Georgia for home use).

Only customs declarations for gas and electricity are made very late and Geostat therefore receives data directly from traders and once the customs declarations are made, Geostat corrects data according to the declarations.

Also information about export and import of motor vehicles is provided by the Service Agency of the Ministry of Internal Affairs.

Georgian Customs use an 11-digit commodity coding system, where the first 6 digits are corresponding to the Harmonized System and thus with the first 6 digits of the EU Combined Nomenclature. This will ease the mirror comparison to be carried out in this component.

In around 80% of the declarations in imports and exports the commodity classification is done by custom officers based on information from contracts, invoiced and other documents provided by the declarant. Only when goods are selected in the risk analysis, are the goods inspected physically and classification is checked. Only rarely (5-6 cases per month) do this result in new classification of transactions.

Geostat revise many commodity classifications during the data validation, by comparing the commodity code with the text description. Geostat checks 30-40.000 declarations/commodity lines out of monthly 120.000 and correct around 500 commodity codes.

Misclassification of the commodity can also create asymmetries.

2.2 Reasons for asymmetries

One of the objectives of the first mission was to transfer necessary knowledge on asymmetry studies and reasons for asymmetries.

Presentations during the missions have shown that Geosat staff working with IMTS already have good knowledge on reasons for asymmetries and experience with asymmetry studies. Both Geostat and National Bank of Georgia have carried out asymmetry studies in the past. During the mission, the reasons for asymmetries found in those studies were presented. The reasons are summarized below:

1. Transit trade through Georgia recorded by importer with Georgia as country of origin

There have been cases, where oil from Kazakhstan/Azerbaijan, which is shipped from Georgian ports to EU, was recorded by the EU importer with Georgia as country of origin. Obviously, this reporting mistake will create asymmetries.

2. Re-export of cars shown in importing country's statistics with country of origin
   Significant trade in cars is done by Georgian traders, who import cars from EU and re-export them to Armenia. As the Armenian import statistics will show these transactions with country of origin, this trade creates an asymmetry with Georgian exports. There have been similar cases with copper.

3. Fraudulent underreporting of export value with a view to evade taxation of profit
   There have been cases, where Georgian exporters have not declared the full value of their exported goods, as a seemingly low export can help them evade taxation of the profit. This has been the case with copper going to Bulgaria. There have been similar cases with metal scrap. If the importer reports the correct value of the goods, obviously an asymmetry will appear.

It is deemed likely, that these reasons for asymmetries are still at play. Therefore, future missions will pay special attention to them when analysing the asymmetries seen in the current data.

Other potential reasons for asymmetries

The mission identified several potential reasons for asymmetry - on top of the reasons for asymmetry, which have already been identified in earlier studies. These potential reasons for asymmetry are:

1. High exemption threshold for export
   A relatively high exemption threshold of GEL10.000 for export declarations is applied by Georgian Customs. In cases, where the importing counterpart is subject to lower exemption threshold, asymmetry will appear.

2. Cars re-exported within 90 days
   Cars need only be registered at the Service Agency of the Ministry of Internal Affairs within 90 days of their arrival to Georgia. In many cases, the cars are re-exported within these 90 days. In these cases, there will be a re-export declaration, but no import declaration. Consequently, the import of these cars is missing from Georgian import statistics. However, the issue has been identified and work has been commenced to solve the problem by imputing the import based on the re-export declaration.

3. Currency exchange
   GEL is a somewhat volatile currency and consequently fluctuations in exchange rates may be behind some part of the asymmetries which can be observed. However, this is not assessed to be a major reason for asymmetries between Georgia and her trade partners.

2.3 Forthcoming work in this mission

During the first mission, relevant data for the asymmetry studies was discussed. Geostat already have good experience using UNs Comtrade database where IMTS data of most countries are available as general trade.

The consultants introduced Geostat Staff to Eurostat's Comext database where the IMTS of the EU Member States are available as special trade. Some of the tables in Comext can show both the country of consignment and country of origin which will be a helpful tool in the analysis of asymmetries in exports to EU Member States.

It was agreed during the mission to have focus on import from and export to EU-countries, that is the major asymmetries or consistent asymmetries with EU countries or asymmetries which can be improved by

methodological changes or better practice in data validation or data compilation in Geostat. Knowledge from these studies are expected also to improve asymmetries with non-EU countries

It was also agreed that Geostat will extract data and create tables for analysing asymmetries, using data from Geostat, Comtrade (UN) and Comext (Eurostat). It was agreed which tables and information to be produced before next mission.

The plan for next mission was also discussed. The plan for next mission (expected to be in April 2020) developed during the assessment mission of Component 1 in May 2019 was adopted by the Geostat IMTS staff. The plan is as follows:

- Identification of partner countries and commodities with the biggest asymmetry
- Major asymmetries at the level of products and partner country are selected for further investigation
- Preliminary discussions on possible reasons for the chosen asymmetries
- Communication with the counterparts (RS/MoF and NBG) and major users on topical statistical issues
- Identification of relevant partner countries for bilateral cooperation on asymmetry studies

3. Conclusions and recommendations

In general good methodology is applied in Georgian IMTS compilation and there is good awareness of the international IMTS standards (UN, etc.) among Geostat staff.

However, a few issued has been identified during the mission:

- In imports, country of consignment is used as partner country, not country of origin, contrary to UN recommendations. Geostat is fully aware of this and have plans to record country of origin in imports at some point in future. One possibility could be to ask the customs authorities to fill in the missing information, bearing in mind that 80% of the declarations in imports and exports the commodity classification is done by custom officers based on information from contracts, invoiced and other documents provided by the declarant and assuming that those documents might also include information about the country of origin.
- No coverage of imports of cars which are re-exported within 90 days. However, the issue has been identified and work has been commenced to solve the problem by imputing the import based on the re-export declaration. Geostat is planning to revise data back to 2009 to include this trade.
- Large undervaluation of exports because of fraudulent reporting export value with a view to evade taxation of profit. National Bank of Georgia makes correction for this in the compilation of Balance of Payments, but this should also be corrected somehow in IMTS. It is not known if this is corrected in national accounts.
- High customs exemption threshold (10.000 GEL) is used in exports. This can result in to low coverage of exports and in asymmetries with trade partners in exports. It is not yet fully clear if some simplified reporting is taking place. This will be further investigated.

During the mission there have also been fruitful discussions on specific asymmetries and reason for those asymmetries and this point toward that the participants in this component can solve some of the asymmetries seen in the present IMTS data and thus improve the IMTS.

Actions needed for moving forward as well as for preparing the next mission:

Action	Deadline	Responsible person
Extract data and create tables for analysing asymmetries according to	April 2020	Geostat

specific agreements made during the mission		

Annex 1. Terms of Reference

Terms of Reference

EU Twinning Project GE 16 ENI ST 06 18

October 29th – October 31st 2019

Component 1: Development of External Sector Statistics

Sub-component 1.1: Mirror Comparison in International Merchandise Trade Statistics

Mandatory results and benchmarks for sub-component 1.1:

- Mirror Comparison in International Merchandise Trade Statistics (IMTS) accomplished

Indicators of Achievement (baseline and targets):

- Availability of reasons for asymmetries in International Merchandise Trade Statistics (IMTS)
  - **Baseline:** 2019 - not available
  - **Target:** January 2021- methodological problems identified and / or data quality issues Results prepared

- Number of GEOSTAT Staff familiar with mirror comparisons
  - **Baseline:** 2019 - n/a
  - **Target:** March 2021- 3 staff members trained Availability of International

<u>Activity 1.1.A: Analyses of asymmetries and identification of data sources</u>

1. Purpose of the activity

To discuss and work and the below mentioned subjects:

- Introduction to current situation in the field of IMTS
- Elaboration of proper methodology for analyzing asymmetries and reasons for asymmetries
- Identification of relevant data sources for mirror comparison
- Setting out the future work plan

2. Expected output of the activity

- Transfer of necessary knowledge on asymmetry studies and reasons for asymmetries
- Relevant data for asymmetry studies are found
- Work plan on mirror statistics is defined
- Mission Report written
- ToR for next activity is prepared

Annex 2. Persons met

Geostat:
Ms. Lia Dzebisauri, Deputy Executive Director
Ms. Mariam Kavelashvili, Deputy Head of Strategic planning
Ms. Nino Maisuradze, Acting Head of External Trade and Foreign Investments Statistics Department
Mr. Otar Bunturi, Acting head of External Trade Statistics Division
Mr. Irakli Zoidze, Senior specialist, External Trade Statistics Division
Mr. Beka Benidze, Senior specialist, External Trade Statistics Division

External stakeholders:
Mr. Vakhtang Pkhakadze, Head of Balance of Payments division, National Bank of Georgia
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Ms. Marine Baindurashvili, Ministry of Finance Revenue Service, Customs Department
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