



RESTRICTED — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Legislative Liaison, a record of which is kept by the Comptroller General of the United States OAS

090589

RELEASED

WASHINGTON, D.C. 20548

4.60.01

6

B-178239

DEC 6 1973

The Honorable Abraham Ribicoff, Chairman
Subcommittee on International Trade
Committee on Finance
United States Senate

R Dear Mr. Chairman:

Your March 8, 1973, letter asked us to investigate the trade figures presented in a print by the Senate Committee on Finance of the "Sixth Annual Report of the President to the Congress on the Automotive Products Trade Act of 1965" and an addendum that contained statistical data furnished by the Tariff Commission. The report and the addendum contain information relating to U.S. automotive trade with Canada for calendar year 1971.

Department of Commerce officials prepared the report, including one schedule which showed the 1971 automotive trade balance with Canada to be a deficit of \$1,185.3 million and another schedule which showed this balance to be a deficit of \$197 million. A third schedule, prepared by the Tariff Commission and included in the addendum, showed the balance to be a deficit of \$1,374.8 million. Your letter stated that the explanation for these wide differences, appearing on page 15 of the report, is inadequate. The results of our analysis of the components of the three deficits and the reasons for the differences between the three deficits are discussed below.

Both the \$1,185.3 million deficit calculated by Commerce and the \$1,374.8 million deficit calculated by the Commission were derived from Commerce's Bureau of the Census statistics. The import figures were based on legally defined customs values, and the export figures were based on values defined in Census Bureau regulations. The "customs value" is legally defined for imports as the wholesale market value of the item in the foreign country from which the item is imported. Regulations define the "value of exports" as an amount based on selling price (or cost if not sold), including inland freight, insurance, and other charges to the U.S. port of exit.

In calculating the \$197 million deficit, Commerce used Canadian import data for U.S. exports. Imports were based on transaction values furnished by major automotive manufacturers. "Transaction value," in

904432 090589

the case of related companies, is defined as the transfer price at which the transaction was entered in the accounts of the exporting and importing company.

The following table summarizes the components of the three deficits.

	1971 statistics as presented by		
	Department of Commerce (millions)		Tariff Commission
Imports:			
Cars	\$1,924.0	\$2,396.9	\$2,396.8
Trucks and other vehicles	587.0	721.1	561.3
Parts	1,481.0	1,355.1	1,692.0
Tires and tubes	8.0	(a)	(b)
Total	<u>4,000.0</u>	<u>4,473.1</u>	<u>4,650.1</u>
Exports:			
Cars	985.0	946.6	945.9
Trucks and other vehicles	334.0	324.0	310.0
Parts	2,448.0	2,017.2	2,019.3
Tires and tubes	36.0	(a)	(b)
Total	<u>3,803.0</u>	<u>3,287.8</u>	<u>3,275.2</u>
Reported deficits	<u>\$ 197.0</u>	<u>\$1,185.3</u>	<u>^c\$1,374.8</u>

^aNot included.

^bIncluded in the total for parts.

^cDoes not add due to rounding.

COMPARISON OF DEFICITS CALCULATED BY COMMERCE

The Sixth Annual Report states that the table showing the \$197 million deficit gives the most complete and accurate figures available for U.S. automotive trade with Canada. Representatives of the United States and Canada agreed in principle that each country would cooperate with the other in developing a more uniform approach to the statistical measurement of

trade in automotive products between the two countries. They also agreed that the most accurate measurement of trade could be obtained by using the import statistics of each country and transaction values to measure the exports of the other country.

Commerce officials stated they believe that statistics based on transaction value result in a more accurate measurement of U.S. automotive trade with Canada than statistics based on other values. Most of the automotive trade between the two countries is intracompany. Actual intracompany transfer prices are generally lower than the customs values, and therefore, they believe use of customs value would reflect inflated trade statistics.

The table with the \$1,185.3 million deficit compares U.S. automotive trade with all countries, with Canada, and with all countries except Canada. A Commerce official told us that, to present these trade figures on a comparable basis, it was necessary to use Census Bureau data because the data used to calculate the \$197 million deficit is not available for trade with countries other than Canada.

The following table compares the components of the \$197 million and the \$1,185.3 million deficits Commerce prepared.

	(millions)	
Imports	\$4,000.0	\$4,473.1
Exports	3,803.0	3,287.8
Deficit	<u>\$ 197.0</u>	<u>\$1,185.3</u>

Imports

The import statistics Commerce used for both the \$197 million and the \$1,185.3 million deficits come from Census Bureau data. We reconciled the imports totaling \$4,473.1 million to the imports totaling \$4,000 million as follows:

(millions)

Imports based on customs value (as related to \$1,185.3 million deficit)		\$4,473.1
Less:		
Conversion from customs to transaction value	\$536.5	
Adjustment of preliminary data	<u>71.1</u>	607.6
Add:		
New APTA ^a imports	125.8	
Tires and tubes	8.0	
Rounding adjustment	<u>.7</u>	<u>134.5</u>
Imports (as related to \$197 million deficit)		<u>\$4,000.0</u>

^aAutomotive Products Trade Act of 1965.

The major automobile and truck manufacturers involved in U.S. automotive trade with Canada submit to the Census Bureau transaction values of their imports from Canada as an addendum to their required customs report. Our analysis indicates that there was a \$536.5 million difference between the customs value and transaction value. Also a \$71.1 million adjustment that automotive manufacturers made to the data they originally submitted was not made to the import data that resulted in the \$1,185.3 million deficit.

Certain items used in automotive production, such as ball bearings and radio receivers, were identified in the Automotive Products Trade Act of 1965 as automotive parts for trade with Canada. These items are described as new APTA imports and cannot be identified as automotive parts for trade with countries other than Canada.

New APTA imports totaling \$125.8 million were not included in calculating the \$1,185.3 million deficit because the table on which this deficit appeared showed trade between the United States and all other countries and because Commerce wanted the figures for all countries to be comparable. Omitting \$8 million for tires and tubes from the imports used in calculating the \$1,185.3 million deficit and using different rounding methods accounted for the remaining difference.

Exports

We did not reconcile the export figures because Commerce used different data for each figure--namely import statistics Canada compiled for the \$3,803 million exports and export statistics Commerce compiled for the \$3,287.8 million exports.

Commerce officials began using Canadian import statistics in their second annual report. They explained that there are two major reasons for using Canadian import statistics rather than U.S. export statistics.

First, the Census Bureau does not receive all export documents. The extent of this problem was mentioned in a report entitled "The Reconciliation of U.S. - Canada Trade Statistics, 1970." Officials of Commerce and of Statistics Canada, an agency of the Canadian Government, determined that U.S. exports of approximately \$517 million were not included in the exports totaling \$9.1 billion that the Census Bureau reported. The reported exports were understated primarily because the Bureau did not receive all the documents.

Second, Commerce officials said that, because of the lack of sufficient detail in U.S. export commodity classifications, exports cannot be cataloged with sufficient detail to identify a large number of exports used in automotive production. There are about 10,000 import commodity classifications, but there are only about 4,000 export commodity classifications. In addition, the Automotive Products Trade Act of 1965 provides for identifying automotive imports but not for identifying automotive exports. Commerce officials informed us that Canada had established commodity numbers for automotive imports; therefore, U.S. automotive exports to Canada can be identified more accurately by using Canadian import statistics.

Tariff Commission comments

Tariff Commission officials said they did not agree with use of the \$197 million deficit as a measure of U.S. automotive trade with Canada. They objected to using another country's import statistics to estimate U.S. exports. Also, they believe the market value of an export or import to be a more appropriate measure of trade than the transaction value because many transactions are intracompany and the goods are shipped at values established by the company for accounting purposes.

ANALYSIS OF DIFFERENCE BETWEEN DEFICITS OF \$1,185.3 MILLION AND \$1,374.8 MILLION

As previously mentioned, Commerce calculated the \$1,185.3 million deficit and the Tariff Commission calculated the \$1,374.8 million deficit using legally defined values for imports and values defined by regulations for exports. A summary of our analysis of the difference between these reported deficits follows.

<u>Item</u>	<u>Value</u> (millions)
Deficit calculated by Commerce	\$1,185.3
Add:	
Items excluded by Commerce	\$125.8
Net difference due to discretionary inclusions	58.5
Preliminary vs. final data	2.0
Amount not analyzed	<u>3.2</u>
Total	<u>189.5</u>
Deficit calculated by Tariff Commission	<u>\$1,374.8</u>

Items Commerce excluded

Commerce excluded \$125.8 million of new APTA imports from its table which showed the \$1,185.3 million deficit. These imports were described earlier in this report.

Commerce officials said they excluded the new APTA imports because the table which showed the \$1,185.3 million deficit in U.S. automotive trade with Canada also compared U.S. automotive trade with that of all other countries and because they wanted the trade figures to be comparable. However, the Tariff Commission table, which included new APTA imports and showed the \$1,374.8 million deficit, compared trade between only the U.S. and Canada.

Discretionary inclusions

Commerce and Tariff Commission officials informed us they included certain parts that were not identified as being used 100 percent for automotive purposes in their statistics on U.S. automotive trade with Canada. Officials of the two agencies conducted independent studies, using different criteria, to identify the parts they would include in their statistics of automotive trade with Canada.

The following table summarizes the adjustment that resulted from the differences in discretionary inclusions.

	<u>Number of classifications</u>	<u>Dollars (millions)</u>
Imports included by Commerce only	5	\$ 4.4
Exports included by Commerce only	37	78.4
Net exports		\$74.0
Imports included by Tariff Commission only	20	52.1
Exports included by Tariff Commission only	34	<u>67.6</u>
Net exports		15.5
Net difference		<u>\$58.5</u>

Preliminary versus final data

Of the difference, \$2 million is attributable to a timing difference in the foreign trade data each agency used. Although both used Census Bureau data, Commerce used preliminary data whereas the Tariff Commission used final data.

Amount not analyzed

A \$3.2 million difference remains, of which \$1.9 million relates to imports and \$1.3 million to exports. The values represent significantly less than 1 percent of their respective category totals and are at least partly due to the use of different rounding methods by the two agencies.

GAO OBSERVATIONS

The \$1,185.3 million deficit calculated by Commerce and the \$1,374.8 million deficit calculated by the Tariff Commission were derived from Census Bureau data. Both calculations result in trade figures which tend to measure the market value of items being imported or exported. The \$197 million deficit calculated by Commerce, however, was derived by using other data. The method used to calculate this deficit produces a trade figure that tends to measure the monetary impact of imports and exports.

We believe that both approaches to measuring imports and exports have statistical validity. When fully explained, they can provide a better insight into the overall results of U.S. automotive trade with Canada.

- - - -

B-178239

We have discussed these matters with Commerce and Tariff Commission representatives and have considered their comments in preparing this report.

We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James B. Axtell". The signature is written in a cursive style with a large initial "J" and a long, sweeping underline.

Comptroller General
of the United States