

Transshipments are particularly important in a North American context. Not only is the discrepancy in reported trade with Mexico among the largest, but the U.S. is likely to be the largest intermediary country for Canadian trade. Statistics Canada recently published a reconciliation of Canada's trade with Mexico.²⁹ It was found that of the \$4.2 billion difference between Canada's reported exports to Mexico and Mexico's reported imports from Canada, \$2.6 billion (62 percent) was due to trade that was transhipped through the U.S. Transshipments were even more important for North-bound trade, with 73 percent of the \$7.3 billion difference attributable to transshipments through the U.S.

Trade reconciliations are performed on a country-by-country basis and do not represent changes to official trade data.³⁰ However, it is possible to make some estimates of the effect of transshipments on Canada's overall trade patterns. Trade reconciliation exercises have been conducted with some of our largest trading partners in recent years, including the E.U. and Japan in addition to those already mentioned.³¹ Although these reconciliations were performed for different years,³² by applying the same ratio of transshipments to the 2001 data, we can come up with an estimate of the effects of transshipments on our trade with the U.S. Removing exports that are reported as going to the U.S. rather than their actual final destination, Canada's reported exports to the U.S. would be lowered by \$4.8 billion in 2001, the consequence of which would be to lower the U.S. share of our merchandise exports from the reported 87.4 percent to 86.2 percent – a drop of only 1.2 percentage points. Although relatively small in terms of Canada's total trade, recognizing the effect that transshipments can have on official trade statistics is essential for researchers or those working on trade policy, particularly in the case of our smaller trading partners.

Potentially of greater impact than the current size of transshipments could be changes in the rate of transshipments over time. Trends towards increased globalization, such as increased integration between Canadian and U.S. transportation infrastructures, and the reduced scrutiny over country of origin of imports that could result from more liberal trade agreements would likely have the effect of increasing the importance of transshipments. This could potentially distort observed trade growth patterns and change measured trade balances for countries and entire regions. Unfortunately, trade reconciliations are only performed for short time periods, and therefore we have no way of knowing what has happened to the transshipment rate over time.

For analysts, there is little that can be done to address the transshipment issue other than to be aware of the limitations of trade data, to examine and set out differences carefully, and to hope that the statistical authorities will continue to work towards improving the quality of official trade statistics.

²⁹ Trade reconciliation with Mexico, Statistics Canada, 2002.

³⁰ For a summary of these findings, see CanadExport, Vol. 19, No. 1, January 15, 2001 Supplement: Canada Trade Review, Third Quarter 2000, "The Impact of Transshipments on Canada's International Trade Statistics: Department of Foreign Affairs and International Trade.

³¹ Canada's combined exports to these countries account for 74% of Canadian exports to non-U.S. destinations based on Canadian export statistics.

³² The most recent trade reconciliation for Japan covered the 1994 data year, and that for the E.U. covered 1993 to 1997.