

STATISTICS DIRECTORATE

National Accounts and Economic Statistics - International Trade Statistics

Revision of the Balance of Payments Manual, Fifth Edition (draft annotated outline), Chapter 9, Good and Services Account

**OECD International Trade Statistics Meeting & OECD-EUROSTAT meeting of Experts in Trade-in-Services Statistics
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This is the near final draft Annotated Outline of Chapter 9 of the revised Balance of Payments Manual, as prepared for and discussed by the Inter Agency Trade Task Force at the meeting 23-25 March 2004 in Addis Ababa. It is now submitted to the OECD ITS/TIS expert meeting for discussion. It provides the basis for discussion for:

- i) agenda item 13 (mostly trade in goods and matters concerning both goods and services)*
- ii) item 14 (trade in services).*

The IMF expect to circulate the final Annotated Outline for a worldwide consultation before the OECD meetings.

If delegates have recent experience or papers that shed light on any of the issues raised in the chapter, they are invited to communicate them to the meeting.

Delegates are invited to prepare their views on the questions raised in this (draft) Annotated Outline and discuss them at the OECD meeting.

For further information please contact:
andreas.lindner@oecd.org
william.cave@oecd.org

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REVISION OF THE *BALANCE OF PAYMENTS MANUAL*, FIFTH EDITION (DRAFT ANNOTATED OUTLINE), CHAPTER 9, GOOD AND SERVICES ACCOUNT

CHAPTER 9. GOODS AND SERVICES ACCOUNT

A. Introduction to the Current Account

9.1 The current account will be introduced, as in Chapter 2 Overview.

B. Introduction to the Goods and Services Account

9.2 This section will deal with the purpose of the goods and services account. It will define goods and services, showing their special economic role as the outputs of the production process. It will be noted that the focus on goods and services in the balance of payments is not the point of production, but the point when they are exchanged between a resident and a nonresident, i.e., exported or imported. The section will show the relationship of the goods and services account and its balancing item to other international accounts.

9.3 Goods and services will be identified as outcomes of the production process, in contrast to income and transfers. The scope of goods and services will follow the *1993 SNA* definition of production as the process of combining inputs to produce an output or putting a produced fixed asset at the disposal of another entity. Production will be contrasted with property income, which involves putting a nonproduced asset at the disposal of another entity. Some examples of the borderlines between production and other entries will be given, e.g., payment to contractor vs. compensation of employees; rent of land vs. rental of buildings; use of internet domain names; charges by financial institutions for early redemption of term deposits; rebates; government fees.

9.4 The manual will maintain the *BPM5* classification of goods and services, which reflects in part the means by which products are supplied and sources of data. While the *BPM5* distinction between goods and services items will still be made, it will be noted that there is increasing blurring of the distinction between goods and services and that the goods-services distinction is based on data sources as opposed to following the *1993 SNA* definition, (paras. 6.7-8).

9.5 The manual will give an illustrative presentation of the overall structure of the goods and services account along the following lines.

Table 9.1 Overview of Goods and Services Account

	Exports CR.	Imports DR.
General merchandise on a BOP basis		
of which re-exports		
Nonmonetary gold		
Goods for processing		
Total goods		
<i>Balance on trade in goods</i>		
Services		
Repairs on goods		
Transport		
Travel		
Information technology services		
Construction services		
Insurance services		
Financial services		
Franchise fees and payments for the use of proprietary Rights		
Other business services		
Personal, cultural, and recreational		
Government services, n.i.e.		
Total services		
<i>Balance on trade in services</i>		
Total goods and services		
<i>Balance on goods and services</i>		

9.6 Separate balances have been shown in the above table for each of goods and services. The goods balance would differ from the one shown in international merchandise trade statistics, but the international accounts balance is more comprehensive and involves a consistent f.o.b. valuation basis for both exports and imports.

[Question: Should separate balances be shown for each of goods and services?]

9.7 There is interest in separating goods and services trade that occurs between related parties, called Foreign Affiliates Trade Statistics. They are discussed as an Annex to this chapter.

C. Classification and Coverage

I. Goods

(a) General Merchandise

Concepts and Coverage

9.8 General merchandise will be defined along the lines of *BPM5* paras. 196 and 205-215. This concept will be linked to the United Nations *International Merchandise Trade Statistics: Concepts and Definitions* with differences noted.

9.9 The coverage of merchandise trade will be unchanged from *BPM5*, except for the exclusion of the personal effects of individuals who change their territory of residence (see Chapters 3 Accounting Principles and 8 Other Changes in Financial Assets and Liabilities Account of this annotated outline). However, the discussion of the treatments of financial leases and flows of goods between branches and parents will emphasize that these are cases where legal title does not coincide with economic ownership, and that the manual follows economic concepts.

9.10 It will be emphasized that international accounts statistics include all flows between residents and nonresidents, so that trade omitted (or inappropriately included) from the main data source may need to be adjusted (e.g., military equipment, aid goods, ships, airplanes, oil rigs, shuttle trade below customs thresholds, goods procured in ports by carriers, and smuggling) although recognizing that data collection problems may mean that the data are poor. Goods whose export or import is illegal will be specifically included in the scope of this item, although practical data problems will be recognized.

9.11 It will be recognized that “general merchandise” will typically be a large and very broad item, so that compilers may wish to provide more detailed breakdowns for particular products or groups of products as supplementary items. For example primary products, industry of origin, major commodities that are particularly important to the economy may be specified. However, it is not proposed to have international standards for these breakdowns within the international accounts, but to encourage breakdowns that are related to national conditions or that media used to disseminate international accounts statistics refer to other sources for further detail. (Note: the proposal below for a reconciliation table for differences between balance of payments and international merchandise trade statistics is designed to enhance users’ linkages between these statistics.)

9.12 It will be noted that transit trade is excluded from the merchandise trade of the territory of transit. It will be noted that the distinction between transit trade and re-exports is becoming blurred by trade liberalization, so that a high proportion of re-exports may be, in effect, transit trade, or involve minor additional services such as reconsignment. In such cases, the economic interpretation of re-exports is unlike other exports and more like transit trade. Two options to deal with this situation are:

- (a) to show re-exports separately, when significant; or
- (b) to exclude re-exports from both imports and exports. (The estimate of imports for re-export would be slightly smaller than re-exports, with the difference shown as exports of services for transport, etc. Any timing differences between import and re-export would be ignored unless information about particularly large consignments being held over the end of the reporting period were available.)

The first solution is proposed, as being less elaborate than the second, while making it possible to see the extent of re-exports relative to both exports and imports.

[Question: Which treatment is preferred no change, re-exports to be shown separately, or re-exports be excluded from merchandise?]

Particular Issues

9.13 The manual will specify the treatment of a number of specific cases. If an entry is not included under general merchandise, the manual will state where it should be included, if at all. Except where noted, all the treatments follow existing guidelines in *BPM5*, *BPT*, or *International Merchandise Trade Statistics: Concepts and Definitions (IMTS)*. A rationale for any deviations from the change of ownership principle will be given.

- (a) banknotes and coin not in current circulation and unissued securities (*BPM5* para. 215). It will be noted that movements of banknotes and coin in circulation and issued securities represent financial account transactions;
- (b) books, newspapers, and magazines (*BPM5* para. 221);
- (c) electricity, gas, and water (*BPM5* para. 215);
- (d) empty bottles (*IMTS* para. 40);
- (e) fish and other marine products caught and sold abroad directly from the compiling economy's ships (*BPT* para. 196);
- (f) goods acquired by travelers, diplomats, nonresident workers, etc. (*BPM5* para. 208);
- (g) goods changing ownership that are temporary or not related to significant economic activity (*BPM5* para. 208);
- (h) goods changing ownership without crossing frontiers (*BPM5* para. 208);
- (i) goods crossing frontiers but not changing ownership (*BPM5* para. 209);
- (j) goods dispatched by post or courier (*BPM5* para. 215);
- (k) goods delivered to or dispatched from offshore installations, embassies, etc. (*BPT* para. 201);
- (l) goods in bonded warehouses (*IMTS* paras. 89-90);
- (m) goods lost or destroyed (*BPT* para. 213);
- (n) goods procured in port by carriers (defined in *BPM5*, paras 156 and 201) will be included under general merchandise (in contrast, in *BPM5*, these were shown as a separate item under goods);
- (o) goods supplied between unincorporated branches and parents (*BPM5* para. 205);
- (p) goods temporarily exported, for display, exhibitions etc. (*BPT* para. 214);
- (q) goods transferred from or to a buffer stock organization (*BPM5* para. 215);
- (r) goods for merchanting (see *BPM5* paras. 207 and 262; net changes in inventories shown as imports to the country of the merchant—and, in principle, exports in the country of location—possibly including negative entries; otherwise not shown; merchant's margin shown in country of merchant as export, goods shown at full value including merchant's margin in country of import);
- (s) goods under financial leases (*BPM5* para. 206);
- (t) goods under operating leases (*BPT* para. 209);
- (u) livestock driven across frontiers (*BPM5* para. 215);
- (v) migrants' effects' (to be excluded from BOP, contrary to *BPM5* para. 215);
- (w) minerals from the sea bed (*IMTS* paras 38, 58);
- (x) ships, aircraft, and other mobile equipment that changes hands outside the country of residence of the original owner;
- (y) ships, aircraft, and other mobile equipment that enters a territory on a temporary basis (*BPT* para. 210);
- (z) returned goods (*BPM5* para. 210, *BPT* para. 205);
- (aa) salvage landed from vessels (*IMTS* paras 38, 58);
- (bb) software (*IMTS* paras. 27 and 48);
- (cc) waste and scrap (*BPM5* para. 206);
- (dd) samples (*BPM5* para. 209)

[Questions: Should the treatment of merchanting be reconsidered, given that it does not follow the change of ownership principle and is asymmetric as between exports and imports (See also proposal below under "other goods")? Do any of the other treatments need to be reconsidered?]

9.14 Where published international merchandise trade statistics differ from estimates of general merchandise on a balance of payments basis, the manual will suggest that a reconciliation table be provided, so that the reasons are available to users. A sample reconciliation table is shown in Table 2.1 below (based on Appendix B in *BPM4*; a similar appendix is not included in *BPM5*). It will be recognized that such a table may not be able to be published fully, particularly for short periods, because of confidential items. Nevertheless, it should be able to be prepared internally as it is simply a tabulation of adjustments already made.

**Table 9. 2. Reconciliation between Merchandise Trade Statistics
and General Merchandise on a BOP Basis**

	Exports	Imports
Merchandise trade as published		
Coverage adjustments (major factors specified)		
Classification adjustments (major factors specified)		
Timing adjustments (major factors specified)		
Valuation adjustments fob/cif adjustment for imports (other major factors specified)		
Other adjustments (major factors specified)		
General Merchandise on a BOP basis		

(b) Other goods

9.15 The treatments of *goods for processing* where the processor does not acquire ownership (i.e., the processing is done for a fee or commission) will be spelt out, following the existing treatment which is described in *BPM5* paras. 197-199. The related financial account entries will be elaborated. The difference with the *1993 SNA* will be noted (i.e., the *1993 SNA* only treats the processing as an export of goods if there is substantial change) and will be continued with a rationale of the difficulty of separately identifying goods subject to minor processing. A rationale for the treatments will be provided (e.g., the creation of one type of good from another is an economic event that should be treated as a transaction, although legal title does not change hands; data availability concerns; the large flows in each direction should be shown separately because of their different characteristics from other goods flows). It will be noted that where goods for processing change ownership, they are treated as general merchandise.

[Question: Would it be preferable to merely show the processing as a service charge, like repairs?]

9.16 It is proposed to show separately *goods for processing abroad* and *goods for processing in the compiling economy* as these each have quite different relationships to the economy. Goods for processing abroad comprises:

- (i) goods owned by residents of the economy being sent for processing abroad (credit); and
- (ii) goods owned by residents of the economy being returned after processing abroad (debit).

Goods for processing in the compiling economy comprises:

- (i) goods owned by nonresidents of the economy being received for processing in the economy (debit); and
 - (ii) goods owned by nonresidents of the economy being returned after processing in the economy (credit).
- The existing treatment combines to separate goods processed abroad from goods processed in the compiling economy.

[Question: Would it be desirable to separate goods for processing abroad and goods for processing in the compiling economy?]

9.17 The option of showing *goods purchased and sold by merchants* as a separate category will be raised, instead of showing the margin as a service. (In that case, “merchants” would need to be defined more narrowly than its usual meaning, as those who undertake “merchanting” as defined in *BPM5* para. 262. Alternatively, a specific term would need to be developed.)

- This proposal would avoid the need for an exception to the change of ownership principle, avoid the possibility of a negative import flow, remove the asymmetry between exports and imports, allow the gross flows to be netted out if desired, while bringing the treatment into line with goods for processing.
- If this treatment were adopted, the goods flows would be recorded gross, and there would be no item for merchanting services. If adopted, the flows would be shown separately from other goods flows.

[Question: (i) Should the treatment of merchanting be changed?]

[Question: (ii) Should the treatment of goods in transit, re-exported goods, goods for processing, repair, storage, and merchanting be reviewed together with a view to developing either a coherent approach or a rationale for different approaches to them?]

Implications for supply and use/input-output tables would need to be considered.

9.18 *Nonmonetary gold* will be discussed, as per *BPM5* para. 202. There will be a cross-reference to transactions in monetary gold (Chapter 7, Financial account) and the monetization and demonetization of gold (Chapter 8, Other changes in financial assets and liabilities account). The possibility of reclassifying financial gold as a financial asset is discussed under Chapter 5, Classifications. If that change is adopted, only industrial gold would be included in goods.

Timing

9.19 The discussion will follow *BPM5* paras. 216-218 and Chapter 3, Accounting Principles. In principle, exports and imports of goods should be recorded when economic ownership of the good changes from a resident to a nonresident, or vice versa. The manual will note that this principle for recording change of economic ownership may not coincide with the recording in the books of the parties involved. In

view of the difficulties in obtaining the data on the correct conceptual basis balance of payments compilers often use trade statistics.

9.20 It will be noted that trade statistics are usually recorded on the basis of customs documents reflecting the physical movements of goods across the national or customs frontier of an economy, which is taken for balance of payments statistics as an approximation to change of economic ownership. It will be stated as preferable the customs data reflecting the timing of the goods crossing the frontier, rather than those reflecting the time when customs declarations are processed.

9.21 In cases when data source records large individual flows of goods in one period, but ownership changes and corresponding financial transactions occur in another period; the manual will recommend that adjustments be made to the flows of goods. However, it will be recognized that identification of timing differences is not always practical and it would only be considered for particularly significant individual transactions. This issue was discussed in *BPM5* para. 217.

9.22 In some cases, goods leave the territory without a transaction having occurred, e.g., for storage or on consignment. Ideally, these goods flows would be excluded from exports, with adjustments made later if and when the goods are subsequently sold. Goods on temporary loan should be excluded. It may be practical to make adjustments for large commodity shipments or major trading corporations. In other cases, it may be necessary to accept data based on the time of the goods leaving the territory as the best available approximation. This issue was discussed in *BPM5* para. 218.

Valuation

9.23 The general principles for valuation (transactions/market price) will be stated briefly. The issues will be discussed along similar lines to *BPM5* paras. 219-229, *BPT* paras. 218-249 and 281-286, as well as *BPM4* paras. 236 to 247.

9.24 Valuation on the f.o.b. basis will be stated as the standard, that is the price including costs of freight and insurance to the ship's rail or other carrier, but excluding subsequent freight, insurance, and taxes. The definition will be discussed following *IMTS* paras. 115-120. The valuation for balance of payments statistics coincides with the "f.o.b.-type" valuation in *IMTS*, as f.o.b. is, strictly speaking, a shipping concept that is not applicable to other modes of transport (see *IMTS* para. 118). It will be noted that the arrangements between exporters and importers as to who pays for components of associated services and taxes can vary. Payments for loading, storage, handling, and insurance as well as import duties and other taxes may be arranged between exporter and importer for each transaction according to the circumstances. In order to provide a consistent basis for the valuation of the goods and the inclusion of associated services, the f.o.b. valuation basis is adopted for both exports and imports. It will be noted that this will differ from the transaction price except when the contractual terms are f.o.b. This section will cross-reference the consequent effects on transport and insurance (discussed under services below).

9.25 A rationale for the use of f.o.b. valuation of imports will be given. It will be noted that, even though the f.o.b. valuation basis may not align with the value at the time of change of ownership, a consistent valuation and split between goods and service components is considered to be a higher priority. It will be noted that national accounts and international trade statistics typically value imports at c.i.f. value, which reflects the good plus the costs incurred up to the time of arrival in the port of destination.

9.26 Market prices will be specified as indicating the price received by the seller after taking into account the application of rebates, discounts, refunds, adjustments, etc. paid by the seller.

9.27 Export taxes are included in exports f.o.b., so that the tax is shown as being paid and received in the territory of export. If an importer of a good had contractually agreed to pay export taxes, then the amount of the taxes should be added to the contract price to get the f.o.b. price.

9.28 Import duties are excluded from imports f.o.b., because the duties only become payable after the good arrives in the territory, and are therefore outside the scope of the balance of payments. If an exporter of a good had contractually agreed to pay import duties, then the amount of the duties should be deducted from the contract price to get the f.o.b. price. An example will be given.

9.29 In the cases of gifts, aid, barter, plus transactions within a company (e.g., between a parent and a nonresident branch), prices may not be assigned by the parties. The manual will state that, in these cases, a market equivalent price should be used. Similarly, an artificial or unrealistic price may be designated by the parties (e.g., for tax minimization, transfer pricing, avoidance of exchange controls, or for pro forma reasons in the absence of a known price). In these cases, the manual will recommend that a market equivalent price should be used, to the extent feasible. It will be noted that such adjustments to the value of goods will require offsetting adjustments to other items (e.g., understated price of imports supplied by a subsidiary to a direct investor may be treated as an addition to dividends).

9.30 When goods on consignment or for auction leave the territory without the selling price having been determined, the ideal result would be to exclude them from exports until they are sold. While this treatment may be practical for large transactions or traders, in other cases, it may be necessary to accept data based on physical movement of the goods, valued on an estimate of the selling price.

2. Services

Concepts and coverage

9.31 Services will be introduced, along similar lines to *MSITS* paras. 1.1-17 and Box 1. As in Box 1 of *MSITS*, it will be noted that the international accounts measure has some variations from the 1993 *SNA* definition of services, it is still considered to be a useful grouping. It will be noted that for some components (most notably *travel*, *government services n.i.e.*, and *construction services*), the service provided/consumed is actually a mixture of goods and services

9.32 The manual will refer to the more detailed discussion of services in *MSITS*. Any differences from *MSITS* will be noted. (The only changes include a rearrangement of computing and information services; different terminology for royalties and construction; and a lower level of detail.)

9.33 The standard classification of services is shown in Table 9.3, and will be broadly the same as *BPM5*. The classification will be described as a mixture of transactor-based (for travel and government services n.i.e.) and product-based (other cases) components. It is not proposed to introduce the full *MSITS* classification of services and the associated memorandum items as standard components. It is proposed that there be a link table between the classification of services in the balance of payments standard components with the Central Product Classification (CPC). Such a table would provide specific information on the coverage of items and assist in the use of the data for other purposes, notably the construction of supply and use tables in the national accounts. A reconciliation of the CPC and services classification will be given, along the lines of *BPM5* Appendix III, or the detailed version in *MSITS* Table A.III.1 will be cited.

**Table 9.3. Comparison between Classification of Services:
Proposed Classification and *BPM5* Classification**

Proposed classification	<i>BPM5</i> classification
0. Repairs on goods	(included in goods)
1. Transport	1. Transportation
<i>of which:</i>	
<i>Passenger</i> [†]	
<i>Freight</i> [†]	
<i>Other</i> [†]	
1.1 Sea transport	1.1 Sea transport
1.1.1 Passenger	1.1.1 Passenger
1.1.2 Freight	1.1.2 Freight
1.1.3 Other	1.1.3 Other
1.2 Air transport	1.2 Air transport
1.2.1 Passenger	1.2.1 Passenger
1.2.2 Freight	1.2.2 Freight
1.2.3 Other	1.2.3 Other
1.3 Other transport	1.3 Other transport
1.3.1 Passenger	1.3.1 Passenger
1.3.2 Freight	1.3.2 Freight
1.3.3 Other	1.3.3 Other
2. Travel	2. Travel
2.1 Business	2.1 Business
Expenditure by border and seasonal workers [†]	
Other [†]	
2.2 Personal	2.2 Personal
Health-related [†]	Health-related*
Education-related [†]	Education-related*
Other [†]	Other*
3. Information technology services	3. Communications services
3.1 Communications services	
3.2 Computer services	
3.3 Internet provision services	
3.4 Other information provision services	
4. Construction services	4. Construction services
4.1 Construction abroad	
4.2 Construction in the compiling economy	
5. Insurance services	5. Insurance services
	Gross premiums**
	Gross claims**
6. Financial services	6. Financial services
	7. Computer and information services
8. Franchise fees and payments for the use of proprietary rights	8. Royalties and license fees
9. Other business services	9. Other business services

Proposed classification	BPM5 classification
9.1 Merchanting and other trade-related services	9.1 Merchanting and other trade-related services
9.2 Operational leasing services	9.2 Operational leasing services
9.3 Miscellaneous business, professional, and technical services	9.3 Miscellaneous business, professional, and technical services
Legal, accounting, management consulting, and public relations [†]	Legal, accounting, management consulting, and public relations*
Advertising, market research, and public opinion polling [†]	Advertising, market research, and public opinion polling*
Research and development [†]	Research and development*
Architectural, engineering, and other technical services [†]	Architectural, engineering, and other technical services*
Agricultural, mining, and on-site processing [†]	Agricultural, mining, and on-site processing*
Services between related enterprises n.i.e. [†]	
Other business services [†]	Other*
10. Personal, cultural, and recreational services	10. Personal, cultural, and recreational services
10.1 Audiovisual and related services	10.1 Audiovisual and related services
10.2 Other personal, cultural, and recreational services	10.2 Other personal, cultural, and recreational services
Health services [†]	
Education services [†]	
Other services [†]	
11. Government services, n.i.e.	11. Government services, n.i.e.
Alternative breakdown of travel services:	
Goods [†]	
Transport services [†]	
Accommodation services [†]	
Food and beverage serving services [†]	
All other expenditure [†]	

Note: [†] indicates supplementary information

Note: * indicates *supplementary information*:
** indicates memorandum items

[Question: Are there areas, including those identified in MSITS, where more detail classification should be recommended?]

Particular Issues

(a) Repair on goods

9.34 The treatment on *repairs on goods* will be spelled out. Repairs will be treated as a service. Repairs will be distinguished from goods for processing. It will also be noted that “renovations and enlargements” are included under goods for processing. Other exclusions will be noted as in *BPM5* para. 200.

[Question: Should repairs on goods be classified as a service?]

(b) Transport

9.35 Transport will be discussed along the lines of *BPM5* Chapter XI. The classification will be unchanged. There will be a reference to *MSITS* paras 3.53-76 which has a more detailed classification, adding items for space transport, inland waterways, pipeline transport and electricity transmission,

[Question: Should there be an expansion of the modes of transport beyond the BPM5 level of detail of sea transport, air transport, and other transport, for example as recommended in MSITS?]

9.36 It will be noted that international transport of passengers should be included in this item.

[Question: Would it be more appropriate to include international transport of passengers with travel services?]

9.37 A breakdown of total transport services into freight transport, passenger transport, and other transport is proposed as an alternative breakdown for those countries that are unable (for example for reasons of confidentiality) to provide the recommended breakdown into the air, sea, and other modes of transport.

9.38 In addition, the manual will discuss the coverage of freight and insurance, and adjustments that are necessary to make them compatible with the f.o.b. valuation of goods, along the lines of paras. 248 to 257 in *BPM4*. This section will discuss alternative arrangements for transporting and paying for the transport of goods.

(c) Travel

9.39 Travel will be discussed along the lines of *BPM5* Chapter XII. The question of whether international transport of passengers should be included in this item, rather than under transport, as at present, was raised under transport above.

9.40 Supplementary detail is recommended for business category of travel services, to separately identify expenditure by border and seasonal workers (who are not travelers, although their expenditure is included here) from all other expenditure by business travelers.

9.41 As supplementary items, an alternative five-way breakdown of total travel services is recommended into (i) total goods, (ii) transport services, (iii) accommodation services, (iv) food and beverages, and (v) all other expenditure. This would allow for closer links with the tourism satellite accounts.

9.42 It will be noted that “shuttle trade” is included under goods, not travel, because travel excludes goods for resale, as noted in *MSITS* para. 3.78. The inclusion of expenditure in the territory by students and patients classified as nonresidents under travel, not personal, cultural, and recreational services will be noted, as in *BPM5* para. 244. The accompanied baggage of travelers should be included under travel, although some taxed items may be identified in customs data on goods.

(d) Information Technology Services

9.43 This item will be explained in about the same level of detail as *MSITS* paras. 3.87-91 and 3.116-120. However, *information technology services* will be introduced as a single item that combines telecommunications and computing services, which were treated as separate items. A new set of components will be used, but with the same total coverage:

- (i) *communications services* (which includes telecommunications, postal, and courier services);
 - (ii) *computer services*;
 - (iii) *internet provision services*, and
 - (iv) *other information provision services*.
- The components will be changed to allow for a clearer classification of, in particular, the provision of internet services between residents and nonresidents—both from providers to final consumers and between the various tiers of providers of such services. Communication and computing overlap in internet provision services.

9.44 Borderlines between the components of the various goods and the services components will be elaborated for example, software (“off-the-shelf” software should be included in goods if separately identifiable, but may come included with hardware, while custom software is included in services) consistent with *IMTS* paras. 27 and 48, and *MSITS* para 3.118. License fees for use of software are included in services under franchise fees and payments for the use of proprietary rights. Software downloaded over the internet would be included under computer services.

9.45 In view of the close substitutability of software included in goods, information technology services, and franchise fees etc., some compilers and users may wish to combine these elements.

9.46 The recommendations of the OECD Task Force on Software Measurement in the National Accounts will be considered.

(e) Construction Services

9.47 Construction services will be discussed along the lines of *BPM5* para. 254. There will be a cross-reference to the distinction between when a contractor from abroad undertakes construction with a resident institutional unit and when construction services are treated as imported services. The conditions for construction activity to give rise to a separate unit will be explained as discussed in Chapter 4 Economic Territory, Units, Institutional Sectors, and Residence.

9.48 Expenditures by nonresident construction enterprises in the economy in which they are working will be classified to construction services following *MSITS* para. 3.92. Thus, the standard components will be *construction abroad* and *construction in the compiling economy*.

Construction abroad comprises:

- (i) construction services provided to nonresidents by enterprises resident in the compiling economy (credit); and
- (ii) the goods and services purchased in the host economy by these enterprises (debit).

Construction in the compiling economy comprises:

- (i) construction services provided to residents of the compiling economy by nonresident construction enterprises (debit); and
- (ii) the goods and services purchased in the compiling economy by these nonresident enterprises (credit).

(f) Insurance Services

9.49 The treatment of *non-life insurance services* will be articulated. The manual will note that, to calculate the value of insurance services, including reinsurance, the following formula will be used:

	premiums earned
<i>plus</i>	adjusted premium supplements
<i>less</i>	adjusted claims.

These terms will be defined and elaborated. The Advisory Experts Group in National Accounts (AEG) agreed, in principle, with this approach for determining non-life insurance services.

9.50 The AEG also supported the proposal for a new treatment of reinsurance, where all reinsurance flows are treated on a gross basis and the same approach as that used for direct insurance is followed. The manual will incorporate further elaboration of the approach adopted in the update of *1993 SNA*. The manual will note that some aspects of the formula for calculating insurance services may be insignificant or impractical to measure for some economies. Because insurance involves services, property income, current transfers, and financial transactions, a comprehensive description will be given in an Annex. It will be noted that financial reinsurance (finite risk insurance) is treated as a loan.

(g) Financial Services

9.51 In *BPM5*, *financial services* includes only those services that are explicitly charged. Coverage will be extended to include financial intermediation services indirectly measured (FISIM), consistent with the *1993 SNA* paras. 6.124-125 and as developed during the SNA Review, (see *SNA News and Notes*, Issue 16, April 2003 for specific methods adopted by Eurostat).

- This change will bring about consistency with the national accounts, and to give a fuller picture of this fast-growing aspect of international service provision.

9.52 In addition to explicit fees and FISIM, there are other potential extensions of the scope of financial services, for example buy/sell spreads could be seen as similar to wholesalers' margins. Possible extensions to the scope of financial services are being considered by the OECD Task Force on Financial Services. The manual will adopt any of these extensions that are adopted by the ISWGNA.

9.53 The manual will note that FISIM and extensions to financial services are issues that may be insignificant or too difficult to measure for some economies. Calculation of FISIM involves corresponding adjustments to interest.

(h) Franchise Fees and Payments for the Use of Proprietary Rights

9.54 *Franchise fees and payments for the use of proprietary rights* will be explained along the lines of *BPM5* para. 260 and *MSITS* para. 3.121. It will include payments for the use of intangible nonproduced assets such as patents, copyrights, and industrial processes and designs. That part of royalties and license fees that covers income receivable by a unit for putting nonproduced assets at the disposal of another unit should be classified as primary income rent.

- The component will be renamed because the previous term “royalties” is also used to cover other types of payments, for example, as noted in the *1993 SNA* para 7.87.

9.55 It will be noted that sales of the right to use nonproduced nonfinancial assets, or of the assets themselves, are included in the capital account. The issues may be clarified based on the work done by the Canberra II Group.

(i) Other Business Services

9.56 The following components will be included:

- (i) Merchanting and other trade-related services will be discussed along the lines of BPM5 para 262 and MSITS Box 6. A question was raised on the treatment of merchanting in Section C. 1 (b) above. It will be noted that wholesaling activity where the goods are present in the territory of the owner is recorded under goods and is not separately identified.
- (ii) Operational leasing services will be discussed along the lines of MSITS para. 3.125. They will be distinguished from financial leases.
- (iii) Legal, accounting, management consulting and public relations will be discussed along the lines of MSITS paras. 3.126-128.
- (iv) Advertising, market research, and public opinion polling services will be discussed along the lines of MSITS para. 3.129. Call centers will be stated as being included under this item.
- (v) Research and development will be discussed along the lines of MSITS para. 3.130.
- (vi) Architectural, engineering, and other technical services will be discussed along the lines of MSITS paras. 3.131-132.
- (vii) Agricultural, mining, and on-site processing will be discussed along the lines of MSITS para. 3.133. The borderline between on-site processing and goods for processing will be explained.
- (vii) *Services between related enterprises n.i.e.* will be discussed along the lines of MSITS para. 3.135.
- (viii) *ther business services* will be discussed along the lines of MSITS para. 3.134.

(j) Personal, cultural, and recreational services

9.57 *Audiovisual and related services* will be discussed along the lines of MSITS para. 3.137. Clarification will be given to distinguish the coverage of this subcomponent from other personal, cultural, and recreational services.

9.58 *Health services* and *education services* will be discussed along the lines of MSITS para. 3.138. The manual will note that expenditure in the territory by students and patients who are classified as nonresidents should be included under travel, but not under personal, cultural, and recreational services (as in BPM5 para 244). *Other services* will be discussed along the lines of MSITS para. 3.138.

[Question: Is the breakdown of other personal, cultural, and recreational services in this way suitable?]

(k) Government services n.i.e.

9.59 *Government services n.i.e* will be discussed along the lines of *BPM5* para. 266. The definition of government services n.i.e will be clarified to identify more clearly the types of activities that are included, in particular emphasizing the residual nature of this category. Accordingly, where possible, particular transactions should be classified to the appropriate goods and services components, and payments for rent of land (without buildings) should be included in primary income, not in services.

(l) Other Issues

9.60 Various borderlines will be discussed:

- (i) the borderline between the provision of services and the provision of labor will be articulated.
- (ii) the borderline between a service and income will be discussed. In particular, the contrast between putting a produced fixed asset at the disposal of another unit (a service) and putting a nonproduced asset at the disposal of another unit (income), for example in relation to the fee payable on securities lending and gold swaps (also noted in Chapter 10 Primary Income Account). The work of the Technical Group on Reverse Transactions will be taken into account when the manual is drafted.
- (iii) the borderline between the acquisition of services (resulting from production) and requirement to pay taxes (not linked to the costs or amount of production, rather to the payment of a fee in order carry out an activity) will be discussed.

[Question: Are there any other borderlines between services and other items that should be mentioned?]

9.61 It will be noted that the provision of technical assistance provided by an entity resident in the donor economy should be recorded as an export of a service of the economy of the resident of the donor, and the use of technical assistance should be recorded as an import of the service of the recipient economy. It will be noted that technical assistance covers a variety of different services, and should be classified to appropriate types of service, such as legal and accounting services, research and development, and should not be classified to government services, n.i.e., by default.

Timing

9.62 Following the economic principle, the time of recording of services transactions is the time at which the service is delivered. For services that are provided over a period of time, progress payments may be made (for example, for construction, architectural, or engineering services) so that a trade credit asset/liability is eliminated. Similarly, advance payments may be made by the purchaser of the output, which create a trade credit asset/liability. These would be recorded following normal accrual principles (see Chapter 3 Accounting Principles). It will be noted that there may be small timing differences between the provision of a service, on the one hand, and the time it is entered into the books of account of the relevant parties, on the other.

Valuation

9.63 Transactions will be valued at market prices, following the principles in Chapter V of *BPM5*, Chapter 3 of *MSITS*. General principles are described in Chapter 3 Accounting Principles of this Annotated Outline, including those relating to transfer pricing.

Appendices:

Volume and price components

Links between the goods and services account and the tourism satellite account

Link between the services classification and that of the *Manual on Statistics of International Trade in Services*

Differences between IMTS and BOP

Bridge table between BOP services classification and CPC

Foreign Affiliates Trade Statistics. The discussion will refer to the relationship to the definition of direct investment.

Link between BOP and the four modes of supply as used in GATS (See *MSITS* paras. 2.72-2.101)

References:

BPM5 ch 9-13, App 3

1993 *SNA* ch 6

International Merchandise Trade Statistics: Concepts and Definitions (IMTS)

International Merchandise Trade Statistics: Compilers Guide

Manual on Statistics of International Trade in Services (MSITS)

Eurostat "Allocation of Financial Intermediation Services Indirectly Measured (FISIM) in the European Union Countries" *SNA News and Notes*, Issue 16, April 2003)

Changes from *BPM5*:*(a) Changes Proposed*

Goods procured in part by carriers will be included under goods rather than as a separate item.

Repairs on goods will be recorded as services.

The treatments of insurance services to be reviewed in line with the review of insurance transactions for the update of the 1993 *SNA*.

FISIM will be introduced as a part of financial services while incorporating any further extensions agreed by the ISWGNA as a result of the work of the OECD Task Force on Financial Services.

The calculation of reinsurance will be brought into line with the treatment of insurance services, which will place more emphasis on the national accounts concept.

The classification of expenditures by nonresident construction enterprises in the economy in which they are working to be changed to show separately construction abroad and construction in the compiling economy.

Introduction of information technology services (four-way breakdown) to replace telecommunications services and computing services.

Additional supplementary detail proposed for *travel*.

Drop the term "royalties" as it is used to cover several types of payments, including rent. Use the term "Franchise fees and payments for the use of proprietary rights" for payments for the use of intangible nonproduced assets.

(b) Changes raised as an option

Possibilities for dealing with re-exports in a manner more consistent with transit trade are raised.

Review of treatment of goods for processing.

Showing merchanting on a gross basis.

Separate data on related party trade in goods and services.

Glossary:

business services

c.i.f.

Central Product Classification (CPC)

claims

communications services

computer services

consignment

construction services

FATS (Foreign Affiliates Trade in Services)

financial reinsurance (finite risk insurance)

financial lease (also finance lease)

financial services

FISIM (Financial intermediation services indirectly measured)

f.o.b.

free trade zones

general merchandise

good

goods for processing

goods procured in ports by carriers

government services

information provision services

information technology services

insurance (general, direct, life, nonlife)

intangible fixed asset

internet provider services

inventories

maintenance

merchandise

merchanting

nonmonetary gold

operating lease

personal, cultural, and recreational services

patent

premium supplements

re-exports

reinsurance

repair of goods

service

shuttle trade

telecommunications services

tourism satellite account

trade balance

transit trade

transport services

travel services

waste