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MANUAL ON STATISTICS OF INTERNATIONAL TRADE IN SERVICES 2010 (MSITS 2010)

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I. General introduction and foundations of the Manual

A. Introduction

1.1. The *Manual on Statistics of International Trade in Services* (MSITS) addresses the needs of a variety of producers and users of such statistics. While it is primarily a guide for statistical compilers, it is also a useful tool for governments and international organizations that use statistical information in connection with international negotiations on trade in services. Furthermore, it can aid enterprises and others that need to monitor developments in international services markets.

1.2. The first version of MSITS was approved and adopted by the United Nations Statistical Commission at its thirty-second session in March 2001 and was officially published in 2002. It represented an important advance in providing a clearer, more detailed and comprehensive system for the measurement of services trade.

1.3. This version, known as *MSITS 2010*, is particularly important for trade agreements, since these now often cover services in addition to goods. Statistics are consequently needed on both to guide negotiations and to support implementation of these agreements. The most well known and wide-reaching agreement involving services is the *General Agreement on Trade in Services* (GATS), which became effective in 1995. This need for statistics has fuelled the demand for the development of a more comprehensive and better integrated approach to statistical issues pertaining to trade in services.

1.4. The term *international trade in services* is construed broadly in *MSITS 2010*. It covers trade in services in the conventional sense of transactions (exports and imports) between residents and non-residents. In addition, it covers services delivered through locally established, but foreign controlled enterprises. The latter transactions are covered by *Foreign Affiliates Statistics* (FATS)¹. Also discussed are

¹ The name of FATS has been changed from *Foreign Affiliates Trade in Services* to the more general *Foreign*

cases where individuals are temporarily present abroad to supply a service.

1.5. Although *MSITS 2010* extends the concept of *trade in services*, it does not extend the concept of *services*, and it conforms almost entirely to existing international statistical standards. Discussion of the usage of the terms *services* and *international trade in services* is provided in Boxes 1.1 and 1.2, respectively, and can be found at the end of this Chapter.

1.6. The conceptual framework of *MSITS 2010* is not only built around the requirements of GATS negotiations, but also on the concepts defined in the System of National Accounts (SNA) and the Balance of Payments Manual (BPM) and those related to FATS. *MSITS 2010* is written along the lines of those three pillars, worked out in Chapters II, III, IV and V. Since the publication of the first version of *MSITS*, SNA and BPM have been significantly revised, as have related classifications such as the Central Product Classification (CPC) and the International Standard Industrial Classification of all Economic Activities (ISIC). To keep its concepts and definitions consistent, *MSITS* has been updated accordingly.

B. Overview of changes to the Manual

1.7. Aside from updates to MSITS due to changes in related conceptual frameworks and classifications, the opportunity was taken for an overall review. A questionnaire was sent by the inter-agency Task Force on Statistics of International Trade in Services (SITS) to all national, regional and international institutes that either compile or use trade in services statistics. Respondents were given the opportunity to comment on specific questions and to add other remarks if so desired. The general outcome of this worldwide consultation was that only minor updates were recommended, like the inclusion of a breakdown by partner country to the second, third and fourth recommendations in the priority list (see paragraphs 1.24 et seq).

Affiliates Statistics. For historical consistency the abbreviation FATS has been maintained.

1.8. Chapter III reflects the updates in the recently released sixth edition of the Balance of Payment Manual (BPM6). Chapter IV now separates more clearly, inward and outward FATS, and is aligned with updates given in BPM6, the Organisation for Economic Co-operation and Development (OECD) Benchmark Definition of Foreign Direct Investment 4th edition (BD4) and the OECD Handbook on Economic Globalisation Indicators. A more in-depth discussion of modes of supply is given in a new chapter (Chapter V). BPM6 differs from its previous version on a number of issues, including some in the Goods and Services Account. Following the recommendation of the 2008 SNA on a stricter application of the change-of-ownership principle, certain economically important items were reviewed and rearranged in the classification of goods and services, for example, *goods for processing* (without change of ownership of the goods), *repairs on goods*, and *merchandising*.

1.8. The Extended Balance of Payments Services Classification (EBOPS) is an extension of the main services components of the Balance of Payments. It was significantly changed by introducing *Manufacturing services on physical inputs owned by others* and *Maintenance and repair services, n.i.e.* as two new components and removing *Merchandising* from *Other business services*. See <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010anexes.htm>, showing the correspondence between the updated EBOPS 2010 and the revised Central Product Classification (CPC, Ver.2), EBOPS 2010 and ISIC Categories for Foreign Affiliates in services (ICFA, Rev.1), as well as EBOPS 2010 and the GATT Services Sectoral Classification List (W/120)².

1.9. With respect to FATS, the main difference introduced in more recent guidelines lies in the concept of control (i.e. majority ownership of voting power) of foreign affiliates instead of majority ownership of ordinary shares or of voting power. In addition, the concept of ultimate controlling institutional unit (UCI) replaces that of the ultimate beneficial owner (UBO). Chapter IV provides further clarifications on inward and

² The GATT Services Sectoral Classification list, known as W/120, is a classification system that has been used to structure WTO Members commitments. It is reproduced in full at Annex IV.

outward FATS, and also describes the links between FATS and the international supply of services. Finally, the ISIC Categories for Foreign Affiliates in services (ICFA) was revised to take into account the revisions introduced in ISIC Rev.4.

1.10. Annex I (Presence of natural persons supplying services under GATS) in 2002 *MSITS* has been elaborated and is now included in Chapter V (Statistics on the international supply of services by mode); Annex V on the relationship between *MSITS 2010* and tourism statistical recommendations has been updated.

C. Foundations of the Manual

GATS modes of supply

1.11. An important feature of *MSITS 2010* is a description of the modalities through which services may be supplied, of which GATS identifies four: *cross-border*; *consumption abroad*; *commercial presence* and *presence of natural persons*. Distinctions between these modes are based on whether the service supplier and the consumer are present in one country or another for the transaction to be effected.

1.12. *MSITS 2010* draws on work conducted by the (OECD) and the Statistical Office of the European Communities (Eurostat), as well as on the experience of a number of countries in collecting data on services supplied through subsidiaries and branches abroad. *MSITS 2010* reflects an emerging international consensus on the need for statistics on *commercial presence* of enterprises in which a foreign investor has control. These enterprises are classified, as a first priority, on an activity basis (i.e. by industry of the producer) rather than by type of service produced.

1.13. Industry groupings drawn from the new version of the International Standard Industrial Classification for all economic activities (ISIC, Rev.4), are provided for use in reporting these statistics to international organizations. These groupings, known as the *ISIC Categories for Foreign Affiliates in services* (ICFA), allow the activities of services enterprises to be viewed in the context of the activities of all enterprises. Although detail by product for foreign-owned enterprises is encouraged to enable comparability between FATS and trade between residents and non-residents, compilation on a product basis will remain only a longer-term goal for most countries because of current limitations on data collection.

1.14. The most pertinent information on the activities of affiliates may be considered to be data on their sales or output. Services delivered through transactions between residents and non-residents are mostly measured in terms of sales, and a comparable measure must be available for affiliates in order to measure services delivered through foreign affiliates on a parallel basis. However, additional information is generally required for an adequate assessment of the economic effects of affiliate operations and of measures to liberalize the supply of services through the *commercial presence* mode. Accordingly, *MSITS 2010* recommends multiple indicators and variables for FATS, rather than sales only.

1.15. Since the publication of the first version of *MSITS*, significant improvements have been made in developing concepts and definitions for statistics on the supply of services through the *presence of natural persons*. This newly developed framework is included in Chapter V.

International standards for economic statistics

1.16. The approach of *MSITS 2010* is to build on internationally agreed standards for compilation. First and foremost among these standards is the already mentioned BPM6, which contains recommendations for the definition, valuation, classification and recording of resident/non-resident trade in services. Also important is the 2008 SNA, whose concepts and definitions underpin many of *MSITS 2010*'s recommendations about data on services delivered through foreign affiliates.

1.17. *MSITS 2010* provides descriptions of the major services involved in international trade as well as the GATS nomenclature and provisions. However, for a range of new services there is insufficient agreement on a detailed taxonomy and corresponding statistical treatment.

1.18. *MSITS 2010* does not give more than summary practical guidance to national compilers. For trade in services between residents and non-residents practical guidance will be provided by the IMF *Balance of Payments Compilation Guide*.³ With respect to the compilation of FATS some practical guidance is provided in the *Eurostat Foreign Affiliates Statistics (FATS) Recommendations Manual (2009 edition)*. It is recognized, however, that the successful implementation

³ Washington, D. C., 1995. The IMF BPM6 Compilation Guide was not available at the time of writing.

of *MSITS 2010*'s recommendations will be greatly aided by further guidance and technical support from international agencies to supplement existing provisions. The Task Force on SITS has, therefore, committed itself to provide compilation guidance to help producers of the statistics in the actual implementation of the recommendations of *MSITS 2010*.

1.19. The treatment in *MSITS 2010* of both balance of payments statistics on trade in services and FATS, even within the constraints of current statistical frameworks, represents a significant step toward building links between these two bases. This linkage poses a challenge to statisticians who may draw on expertise and information spread among central banks, national statistical offices and government ministries. As statistics are developed, more cooperation will be required among institutions involved.

1.20. Measurement of trade in services is inherently more difficult than measurement of trade in goods. Services are more difficult to define. Some services are defined through abstract concepts rather than by any physical attribute or physical function. Unlike trade in goods, for trade in services, there is no package crossing the customs frontier with: an internationally recognized commodity code; a description of the contents; information on quantity, origin and destination; an invoice, nor is there an administrative system based on customs duty collection that is practiced at assembling these data. The required information on services trade, once defined, is dependent on reaching a common understanding of concepts with data providers. It depends on information that may be reported either from business accounting and record keeping systems, or by individuals, and on a variety of data sources, including administrative sources and surveys and estimation techniques.

1.21. National agencies need to weigh the demand of users for more detail about services trade against the cost of collection, the burden of extra information provision on enterprises and the need for certain minimum quality thresholds. As with other statistical data collections, there is a requirement in most countries to protect the confidentiality of individual enterprises' data. These constraints and considerations limit, in a very real sense, the amount of detail on international trade in services that it is practical to provide. The level of detail set out in *MSITS 2010* accordingly represents a compromise between the need that trade negotiators, analysts and policy makers have for information, and the difficulties of data collection that national agencies may encounter.

D. Set of recommended elements for phased implementation

1.22. *MSITS 2010* recommends a complete set of elements for compilers to implement that build on internationally agreed standards so as to progressively achieve comparability of published statistics on the international supply of services. These elements, if fully implemented, would represent a considerable increase in the detail of information available. It is recognized that many countries will see the full implementation of the recommendations as a long-term goal. It is also recognized that active cooperation between data compiling institutes at the national level is necessary to integrate the various elements of trade in services from balance of payments, foreign direct investment and foreign affiliates, into one framework. The main elements are listed below and represent a summary of the recommendations.

1.23. The first four are proposed as *core* elements to tackle first. It is suggested that these core elements should be given particular priority and that the other elements can be implemented incrementally thereafter. The four core elements would, when implemented, provide a basis for a common internationally comparable basic data set. All countries, including those that are beginning to develop such statistics, can follow this phased approach to begin to structure available information in line with this new international standard framework. The suggested sequence of elements takes into account the difficulty that many compilers may find in their implementation by commencing with the easier elements. However, the order is intended to be quite flexible so that countries can meet the priority needs of their own institutions.

1.24. *MSITS 2010* recommends the inclusion of a breakdown by partner economy for services transactions between residents and non-residents. The aim being, to first, report partner detail at the level of services trade as a whole; second, for each of the main types of services in BPM6 and, as a longer term goal, for the more detailed EBOPS items. In the case of FATS and foreign direct investment (FDI), the aim is to report partner detail both in the aggregate and for the major industry categories within ICFA. In both cases, it is recommended that countries give a higher priority to providing data with respect to their most important trading partners.

Recommended core elements

BPM6

1.25. Implement the BPM6 recommendations, including the definition, valuation, classification and recording of services transactions between residents and non-residents.⁴

EBOPS 2010: first part -- disaggregation

1.26. Compile balance of payments data according to EBOPS,⁵ which involves disaggregating the BPM6 standard components for services into EBOPS subcomponents. Where the compilation of the main EBOPS classification is developed and carried out in stages, compilers should commence by separately identifying those EBOPS subcomponents of major economic importance to their own economies. Where data for related supplementary items are available as part of this compilation process, these supplementary items should also be compiled. As indicated in paragraph 1.24, the aim would be to report partner country detail, first at the level of services trade as a whole and then for each of the main types of services in BPM6 and EBOPS.

FDI statistics

1.27. Collect complete statistics on FDI (i.e. the flows, income and period-end positions) classified by ISIC, Rev.4 activities to be complementary to FATS. For those countries that must delay the implementation of FATS, FDI statistics provide useful and complementary information on *commercial presence*.⁶ It is further recommended to report partner country detail both in the aggregate and for the major activity categories.

FATS: basic variables

1.28. Record certain basic FATS variables, such as sales (turnover) and/or output, employment, value added, exports and imports of goods and services and number of enterprises. To achieve comparability when reporting to international organizations, these

⁴ See Chapter 3 annexes

⁵ See paras. 3.43 et seq, and at Annex I.

⁶ See para. 4.15 et seq and Box 4.1.

are classified by specified activity categories based on ISIC, Rev.4, i.e. ICFA.⁷ Again it is recommended to report partner country detail both in the aggregate and for the major industry categories within ICFA.

Other recommended elements

EBOPS 2010: second part - completion

1.29. Complete the implementation of EBOPS⁸ to the extent relevant to the compiling economy, including the supplementary items. As above, supplementary items should be compiled where the data are available as part of the data collection process for the related EBOPS components. Other supplementary items and complementary groupings should be compiled where there is a demand for these data in the compiling economy. An elaboration of the full EBOPS classification, its supplementary items and complementary groupings together with their correspondence to CPC, Ver.2 is shown in <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010/annexes.htm>.

FATS: further details

1.30. Augment the basic FATS variables by compiling data on additional aspects of the operations of foreign affiliates, such as assets, compensation of employees, net worth, net operating surplus, gross fixed capital formation, taxes on income, research and development expenditures and purchases of goods and services.⁹

1.31. Detail of sales by product is desirable, not least because of the potential comparability between FATS data and trade between residents and non-residents. While compilation on this basis may well have to remain a long-term goal for most countries, as a first step toward a product basis, countries may wish to disaggregate sales in each industry as between services and goods. In addition, countries that are building their statistical systems for FATS on existing data systems that already include product detail, may wish to use this detail from the outset because it could help them in monitoring commitments under GATS that are specified in terms

⁷ See paras. 4.45 et seq, and Annex II.

⁸ See paras. 3.43 et seq, and Annex I

⁹ See paras. 4.44 et seq.

of services products. Similarly, countries that are building their FATS data systems from the ground up, should consider from the outset, the feasibility of providing for a product dimension.¹⁰

Trade between related¹¹ and unrelated parties

1.32. Within the statistics on trade in services between residents and non-residents, separately identify the trade with related parties from that with unrelated parties.¹²

GATS modes of supply

1.33. Allocate the transactions between residents and non-residents over the GATS modes of supply. The simplified procedure set out in Chapter V may be used as a starting point in compiling this allocation.

Presence of natural persons

1.34. Collect statistics on natural persons under the GATS framework, both those from the compiling economy present abroad and foreign natural persons present in the compiling economy. The statistics would be collected in the context of the supply of services, taking into account the needs, resources and special circumstances of the compiling economy. In this process, the framework and definitions set out in Chapter V should be followed.

Metadata requirement

1.35. In general, as countries implement the recommendations of *MSITS 2010*, it is expected that they provide explanatory notes along with published data in order to enhance the transparency of their methodologies and users' ability to compare data internationally. These notes should include information about data coverage and definitions, particularly where these deviate from *MSITS 2010*'s recommendations. Metadata on how data are collected or estimated, where coverage is deficient or where data deviate from internationally agreed standards (as described in *MSITS 2010*) provide users with important background information. The provision of such explanatory notes

¹⁰ See paras. 4.42 et seq.

¹¹ Trade with related enterprises is defined to include trade with all enterprises with which there is a direct investment relationship.

¹² See paras. 3.55 et seq.

along with the actual data should be a practice followed by countries in a broad range of statistics.

E. Organization of the Manual

1.36. Chapter II of *MSITS 2010* discusses user needs and describes links with existing international frameworks. It explains that the approach of *MSITS 2010* is through a statistical framework for measurement of international trade in services, and introduces GATS and modes of supplying services.

1.37. Chapter III addresses services trade between residents and non-residents, describes EBOPS 2010 in detail and explains how its components should be measured.

1.38. Chapter IV describes the domain of FATS, the criteria used to define the coverage of FATS, the classifications used and the variables recommended for compilation.

1.39. Chapter V gives a more in-depth explanation of the GATS modes of supply, including measuring flows of the supply of services through the presence of natural persons.

1.40. Supplementary information is provided in the annexes:

- Annex I presents the EBOPS 2010 classification;
- Annex II presents the FATS variables grouped according to ISIC Rev 4 Categories for Foreign Affiliates in services (ICFA);
- Annex III shows a relevant extract of the GATS defining trade in services;
- Annex IV presents the GATS sectoral list of services; which is generally used by trade negotiators
- Annex V deals with the links and differences between *MSITS 2010*, the International Recommendations for Tourism Statistics 2008 and the Tourism Satellite Account: Recommended Methodological Framework 2008; and
- Other annexes, which are only available on-line, cover the correspondence between EBOPS 2010 and CPC, Ver.2, EBOPS 2010 and W/120, and EBOPS

2010 and ICFA Rev.1. An annex on different types of analyses of trade in services is also provided.¹³

1.41. A glossary and bibliography conclude the Manual.

¹³ All annexes are available at <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010annexes.htm>.

Box 1.1: Services definition

The term '*services*' covers a heterogeneous range of intangible products and activities that are difficult to encapsulate within a simple definition. Services are also often difficult to separate from goods with which they may be associated in varying degrees.

MSITS 2010 generally respects the 2008 SNA use of the term *services*, which is defined as follows (2008 SNA para. 6.17): '**Services are the result of a production activity that changes the conditions of the consuming units, or facilitate the exchange of products or financial assets.** These types of service may be described as transformation services and margin services respectively. Transformation services are outputs produced to order and typically consist of changes in the conditions of the consuming units realized by the activities of producers at the demand of the consumers. Transformation services are not separate entities over which ownership rights can be established. They cannot be traded separately from their production. By the time their production is completed, they must have been provided to the consumers.'

The 2008 SNA then qualifies transformation services as follows (paras. 6.18 and 6.19): 'The changes that consumers of services engage the producers to bring about, can take a variety of different forms as follows:

- a. Changes in the condition of the consumer's goods: the producer works directly on goods owned by the consumer by transporting, cleaning, repairing or otherwise transforming them;
- b. Changes in the physical condition of persons: the producer transports the persons, provides them with accommodation, provides them with medical or surgical treatments, improves their appearance, etc.;
- c. Changes in the mental condition of persons: the producer provides education, information, advice, entertainment or similar services in a face to face manner.

The changes may be temporary or permanent. For example, medical or education services may result in permanent changes in the condition of the consumers from which benefits may be derived over many years. On the other hand, attending a football match is a short-lived experience. In general, the changes may be presumed to be improvements, as services are produced at the demand of the consumers. The improvements usually become embodied in the persons of the consumers or the goods they own and are not separate entities that belong to the producer. Such improvements cannot be held in inventories by the producer or traded separately from their production.'

The 2008 SNA defines margin services as follows (para 6.21: "Margin services result when one institutional unit facilitates the change of ownership of goods, knowledge-capturing products, some services or financial assets between two other institutional units. Margin services are provided by wholesalers and retailers and by many types of financial institutions. Margin services resemble change-effecting services in that they are not separate entities over which ownership rights can be established. They cannot be traded separately from their production. By the time their production is completed they must have been provided to the consumers."

The 2008 SNA recommends the use of CPC, Ver.2 for the classification of products or outputs (where services products are approximately classified in sections 5 through 9) and of ISIC, Rev.4 for the classification of activity. In practice, services activities are mainly taken to be those in sections G through S of ISIC, Rev.4¹⁴, with some exceptions in other sections. In BPM6, the concept of services is essentially that of the 2008 SNA, even though the BOP services components *travel*, *construction* and *government goods and services n.i.e.* include some goods. On the other hand, under certain circumstances international trade in goods may indistinguishably include such service charges as insurance, maintenance contracts, transport charges, intellectual property payments and packaging.

¹⁴ Electricity, gas, steam and air conditioning supply (ISIC, Rev. 4 Section D), Water supply; sewerage, waste management and remediation activities (ISIC, Rev. 4 Section E) and Construction activities (ISIC, Rev.4 Section F) are not covered as the main production is generally considered as being more related to goods.

Box 1.2: International trade in services in *MSITS 2010*

Before the publication of *MSITS 2010*, the conventional statistical meaning of *international trade in services* was that described in BPM6, which defines international trade in services as being trade between residents and non-residents of an economy. This also corresponds very closely to the concept of trade in services in the 'rest of the world' account of the 2008 SNA. Such trade is described in Chapter III of *MSITS 2010*.

This concept of international trade in services combines with the concept of international trade in goods to form international trade in the BPM6 Goods and Services Account. But as described in Box 1.1, it is not always possible to clearly separate the value of trade in goods from the value of trade in services.

Services differ from goods in a number of ways, most commonly in the immediacy of the relationship between supplier and consumer. Many services are non-transportable, i.e. they often require the physical proximity of supplier and customer, for example, the provision of a hotel service requires that the hotel is where the customer wishes to stay, a cleaning service for a business must be provided at the site of the business, and a haircut requires that both hairstylist and client be present.

For international trade in such non-transportable services to take place, either the consumer must go to the supplier or the supplier must go to the consumer. Suppliers may also prefer providing their services by being present in the country of the consumer rather than cross-border. International trade agreements concerning services, in particular those embodied in GATS, make provision for agreement on suppliers having a presence in the country of the consumer or vice-versa.

Therefore, *MSITS 2010* extends the scope of *international trade in services* to cover the supply of services through foreign affiliates established abroad. Such supply of services and its related statistics, described here as *Foreign Affiliates Statistics* (FATS), are explained in Chapter IV.

MSITS 2010 also covers the supply of services through the presence of foreign individuals, either as foreign service suppliers themselves or employed by a foreign service supplier, which is either the mother enterprise or a foreign affiliate of the mother enterprise. However, non-resident persons employed by host country enterprises that are not owned by a foreign parent are outside the scope of *MSITS 2010*. Most services supplied through the presence of natural persons are covered by the BPM6 (i.e. services account) and FATS frameworks. An in-depth discussion of it is given in Chapter V.

In *MSITS 2010* this extended scope of international trade in services is also referred to as international supply of services.

Note: Although *MSITS 2010* extends the general scope of the term 'international trade in services' to accommodate the GATS provisions, it does not suggest that provision and acquisition of services by foreign affiliates established abroad be referred to as exports and imports of services. In international statistical terms this is reserved to reflect trade in services between residents and non-residents of different economies.

II. Conceptual framework for the development of statistics on international trade in services

A. Introduction

2.1. This Chapter identifies the need for a framework within which to compile statistics on international trade in services as broadly defined in GATS and describe relevant aspects of existing statistical systems and standards. It sets out the approach and framework adopted in *MSITS 2010* taking into account the extension of the concept of trade in services as described in Chapter I.

2.2. This Chapter

- discusses the users' statistical requirements. It considers both general requirements and the detailed information needs of *General Agreement on Trade in Services* (GATS) with regard to classification detail, information by origin and destination, and information by modes of supply (paragraph 2.4 et seq);
- reviews standard statistical systems and classifications related to trade in services, and describes relevant aspects of existing statistical standards for which *MSITS 2010* seeks consistency (paragraph 2.26 et seq);
- describes *MSITS 2010*'s approach and its main framework, as built on the 2008 SNA and BPM6 statistical systems, and identifies areas where it goes beyond these systems (paragraph 2.50 et seq).

2.3. The *MSITS 2010* international trade in services framework has four major components:

- BPM6 concepts and classification related to international trade in services (transactions between residents and non-residents);

- BPM6 extensions, providing for more detailed information on transactions by product category and by partner country;

- Foreign Affiliates Statistics (FATS) that complement BPM6, dealing with aspects of international supply of services as defined in GATS, that are beyond the scope of BPM6 (e.g., transactions between residents);

- A statistical approach for the treatment of modes of supply with a particular focus on measuring the presence of natural persons.

B. A statistical framework on international trade in services

1. Globalization and multilateral services trade negotiations

2.4. Rapid technological advances in the past few decades in transport, computing and telecommunications, including the development of the Internet and electronic commerce, have resulted in enterprises availing themselves of more distant resources for production and enabled them to serve ever wider markets. This trend towards globalization, reinforced by liberalization policies and the removal of regulatory obstacles to economic activities, has fuelled the steady growth of multinational enterprises, international investment and trade in goods and services. Better communication and transport have also facilitated the movement of people for the purposes of tourism, migration, employment and trade in general.

2.5. Service industries are the largest recipients of international investment flows, accounting for approximately 60 percent of global outflows for the period 2005-07.¹⁵ Services comprise about one fifth of worldwide trade in balance of payments terms. There are currently few reliable international comparisons of FATS, but according to information available for OECD economies,¹⁶ it is estimated that

¹⁵ United Nations Conference on Trade and Development, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (New York and Geneva), 2009.

¹⁶ OECD, *Measuring Globalisation, the Role of Multinationals in OECD Economies, Volume II, Services*.

the value of services delivered to markets through foreign affiliates is at least as high as the value of exports (or imports) of services recorded in the balance of payments.

2.6. For the United States in particular, in 2007 services delivered to foreign markets by majority-owned foreign affiliates of United States companies, and to United States markets by majority-owned affiliates of foreign companies, well exceeded (approximately twice) the respective values of the exports and imports of services recorded in the United States balance of payments.¹⁷

2.7. The development of statistics on international service supply has lagged behind the changing reality of the marketplace. *MSITS 2010* is designed to encourage governments to implement statistical concepts that provide a better overview for economic analysis, development, policy-making and trade negotiations.

2.8. An important response of the international community to the rapid expansion of trade has been the creation, on 1 January 1995, of the World Trade Organization (WTO) as a result of the Uruguay Round of multilateral trade negotiations. The WTO provides a common framework for the conduct of trade relations among its members. Its main functions are to facilitate the implementation, administration and operation of the multilateral trade agreements; to provide a forum for further negotiations; to review national trade policies and to secure solutions to trade disputes. The three principal WTO agreements are the General Agreement on Tariffs and Trade (GATT) of 1994, the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The GATS is the first set of legally enforceable disciplines and rules at the multilateral level to cover international trade in services.¹⁸

2.9. Governments require statistics to support the negotiation of specific commitments and, thereafter, to monitor developments in the areas concerned.

¹⁷ United States Bureau of Economic Analysis, *Survey of Current Business* (Washington, D.C.), October 2009.

¹⁸ World Trade Organization, *The Results of the Uruguay Round of Multilateral Trade Negotiations: The Legal Texts* (Geneva, 1995), annex 1B.

Statistics can aid the evaluation of market access opportunities, help to prepare decisions on negotiating priorities and strategies, facilitate the assessment of the extent of liberalization achieved in specific service markets and provide a statistical background for the settling of disputes. The private business sector also needs information to identify potential opportunities. The analysis of market developments requires linking trade data with output data, whether in terms of activities or of products.

2.10. *MSITS 2010* acknowledges the tight constraints under which statistical compilers operate, whether in national statistics offices, central banks or other institutions. These include the need not to burden private enterprises unduly, while still providing a clear ultimate goal for a conceptually complete framework.

2. The General Agreement on Trade in Services

Structure and guiding principles

2.11. The GATS is a multilaterally agreed legal framework for trade in services, which provides a system of enforceable obligations and commitments for services trade, applying to all members of WTO. It has three main objectives: to progressively liberalize trade in services through rounds of negotiations; to encourage economic growth and development through liberalization of trade in services and to increase participation of developing countries in world trade in services. By the same token, the agreement expressly recognizes the right of members to regulate the supply of services in order to meet national policy objectives.

2.12. GATS establishes a set of rules and disciplines governing the use by WTO members of measures affecting trade in services. Such measures may consist of laws, regulations, administrative actions and decisions with respect to the purchase, payment or use of a service or the presence of foreign service suppliers. The GATS disciplines extend across all government levels, including non-governmental bodies in the exercise of delegated powers, with two exceptions (see paragraph 2.14).

2.13. The GATS defines the 'supply of a service' to include the production, distribution, marketing, sale and delivery of a service.

2.14. The agreement covers all services, except the core of air transport services¹⁹ (i.e. measures affecting air traffic rights and directly related services), and services provided in the exercise of governmental authority (i.e. services supplied neither on a commercial basis, nor in competition with one or more service suppliers). While defining trade in services in terms of four modes of supply, the GATS contains no definition of what actually constitutes a service. It is no different in this regard from its counterpart in merchandise trade, the GATT, which contains no definition of a good.

2.15. The GATS comprises: the text of the agreement, including a set of *general obligations*, many of which apply directly and automatically to all WTO members and all services; several Annexes covering specific sectors (e.g. air transport services, financial services) or trade-related policy matters and members' schedules of *specific commitments* defining the sectors and modes of supply in which a member has undertaken access obligations.

2.16. First and foremost among the *general obligations* is the principle of *most-favoured-nation* (MFN) *treatment*, which forbids any form of discrimination between services and service suppliers originating in different member economies. This means that, regardless of the degree of foreign competition that a member allows in a sector, it must apply the same conditions to services and service providers from all other WTO members.²⁰ Another general obligation (transparency) requires WTO members to publish all trade-related measures and establish national enquiry points to respond to other members' information requests.

2.17. *Specific commitments*, relating to market access, national treatment and any additional undertakings, are specified and bound in national schedules as a result of negotiations.²¹ While the GATS requires all member

¹⁹ This exclusion is subject to periodic review.

²⁰ An Annex on MFN exemptions allowed WTO members to list exemptions for measures existing at the date of entry into force of GATS (or date of accession). These exemptions should in principle last no longer than 10 years, be subject to review and (re)negotiated in subsequent trade rounds. New exemptions can be granted only in special circumstances and require a waiver under the WTO agreement. Around 100 members maintained such exemptions at the time of writing.

²¹ When commitments are 'bound' in national schedules, this means that in general they cannot be easily modified or withdrawn; because 'unbinding' is a difficult

governments to submit such a schedule, it does not obligate them to assume commitments in any particular sector or type of transaction (mode of supply). In turn, this leaves scope to adjust the level and structure of commitments to country-specific objectives and constraints. Specific commitments may be undertaken with regard to any service sector and to any mode of supply covered by the GATS. For a given sector and mode, the relevant commitment may vary between full competition and denial of any degree of market access and national treatment.

2.18. In many cases, members have opted for an intermediate solution, subjecting their commitments to particular limitations. The GATS contains an exhaustive list of market access limitations, including quota-type ceilings on the number of service suppliers, their operations or employees, and restrictions on the legal form of establishment or the participation of foreign capital. Frequently used national treatment limitations concern the eligibility of foreign suppliers for subsidies and restrictions on foreign land ownership.

2.19. The assumption of specific commitments does not prevent governments from regulating the services or the suppliers concerned for quality and other policy purposes. The agreement seeks to ensure, however, that the relevant standards, requirements and procedures do not constitute unnecessary barriers to trade in services. .

2.20. Under GATS, WTO members are committed to entering into successive rounds of trade liberalizing negotiations.²² The agreement provided that the first such round was to begin no later than five years from its date of entry into force. Accordingly, a new round of negotiations began on 1 January 2000, and was integrated in 2001 in the Doha Development Agenda.

Services Sectoral Classification list

2.21. In 1991, the GATT Secretariat produced a note setting out a classification of service sectors, (document No. MTN.GNS/W/120, *Services Sectoral Classification list*, hereinafter W/120) based on consultations with

process, the commitments are virtually guaranteed conditions for foreign exporters and investors.

²² Commitments are often negotiated bilaterally at the sectoral and mode level, and then extended to all WTO member economies in compliance with the MFN principle; to support the negotiation process, it would thus be useful to have statistical information by origin and destination at a detailed product level.

members. The list identifies relevant sectors and sub-sectors so as to enable members to undertake specific commitments. W/120 should, therefore, be viewed as an optional classification system of services sectors for trade negotiating purposes, rather than as a statistical classification.

2.22. The 12 major categories in the W/120 list are:

1. Business services.
2. Communication services.
3. Construction and related engineering services.
4. Distribution services.
5. Educational services.
6. Environmental services.
7. Financial services.
8. Health-related and social services.
9. Tourism and travel-related services.
10. Recreational, cultural, and sporting services.
11. Transport services.
12. Other services not included elsewhere.

2.23. However, members have tended to avoid any major changes to ensure the stability and comparability of commitments over time, even though international statistical classifications such as CPC, BPM6 and EBOPS have been revised. Services trade negotiators may also use other classifications in negotiations, as has been the case for basic telecommunications, financial services and maritime transport.

The four GATS modes of supply

2.24. In GATS, trade in services is defined as the supply of a service:

- From the territory of one [WTO] Member into the territory of any other Member;
- in the territory of one [WTO] Member to the service consumer of any other Member;
- by a service supplier of one [WTO] Member, through commercial presence in the territory of any other Member;
- by a service supplier of one [WTO] Member, through presence of natural persons of a Member in the territory of any other Member.

2.25. The GATS modes of supply are thus defined depending on the location of the supplier and the consumer when a service is supplied taking into account

their nationality or origin (see Chart 1.1). These modes are generally referred to as:

- Cross-border supply (Mode 1), where both the supplier and the consumer remain in their respective territories (which would correspond to the traditional notion of trade, covering, for example, services supplied by telephone or the Internet);
- consumption abroad (Mode 2) where consumers are outside their home territory to consume services (international tourist activities and amusement parks abroad are typical examples);
- commercial presence (Mode 3) where service suppliers establish (or acquire) an affiliate, branch or representative office in another territory to provide their services (for example a foreign bank investing in a host economy to create a subsidiary in order to supply banking services); and
- presence of natural persons (Mode 4) where an individual (either the service supplier himself if he/she is a self-employed person or his/her employee) is present abroad in order to supply a service (for example, an independent architect oversees a construction project or a computer specialist is sent abroad by his employer to supply an information technology (IT) service).

A more detailed description of modes of supply is provided in Chapter V.

C. Statistical systems and classifications related to international trade in services

2.26. *MSITS 2010* seeks consistency with international standards related to trade in services. In particular, compatibility with the following systems and classifications is given the highest priority; BPM6, the 2008 SNA, ISIC, Revision 4 and CPC, Version 2.

2.27. The key standards on which *MSITS 2010* builds are noted below. A fuller treatment of transactions between residents and non-residents and foreign affiliates' systems appears in Chapters III and IV, respectively. Chapter V describes how information drawn from these statistical systems can be associated to assess international supply of services for each of the modes.

Statistical systems and related frameworks

*System of National Accounts, 2008*²³

2.28. The *System of National Accounts (SNA), 2008* is an integrated system of accounts related to the economic activities and sectors of the economy of a country. 2008 SNA provides a definition of services and distinguishes transformation services from margin services (see 2008 SNA Chapter 6).

2.29. To capture the transactions between an economy and all others, the 2008 SNA provides an account called the 'rest of the world', which it also refers to as the 'external transactions account'. Within this account is an 'external account of goods and services', in which trade in goods and services are separately recorded.

2.30. The 2008 SNA identifies 'foreign-controlled corporations' as sub-sectors of the two institutional sectors - financial corporations and non-financial corporations. Foreign-controlled enterprises are defined more broadly in the 2008 SNA than foreign affiliates covered by FATS, as described in Chapter IV. The 2008 SNA identifies 'foreign-controlled corporations' as sub-sectors of the two institutional sectors - financial corporations and non-financial corporations. Foreign-controlled enterprises are defined more broadly in the 2008 SNA than the foreign-controlled subset of foreign affiliates covered by FATS, as described in Chapter IV. The difference is that the 2008 SNA considers some 'associated enterprises' which are enterprises in which

the non-resident ownership is between 10 per cent and 50 per cent, as foreign-controlled (e.g. control of the board or other governing body, control of the appointment and removal of key personnel, control of key committees of the corporations), whereas *MSITS 2010* recommends to concentrate on enterprises that are controlled through the majority ownership of voting power, i.e. excluding associated enterprises. Enterprises covered in FATS are, therefore, a subset of foreign-controlled enterprises as defined in the 2008 SNA.

2.31. However, *MSITS 2010* encourages countries that can do so to provide supplementary statistics covering other cases such as majority ownership of voting power by multiple unaffiliated foreign direct investors, ownership of voting power of exactly 50 per cent of voting power by a foreign direct investor, and cases where effective control is deemed to have been achieved through a minority stake in an enterprise.

2.32. 2008 SNA statistics on foreign-controlled enterprises relate to those enterprises operating in the compiling economy ('inward') that are controlled by non-residents. The national accounts statistics for a given compiling country do not provide information on enterprises established abroad ('outward') that are controlled by residents of that country (though these enterprises would be covered by the national accounts statistics of their respective host countries).

2.33. The 2008 SNA provides the definitions of most of the economic variables that Chapter IV recommends should be collected for FATS. These include the priority variables (output, sales, employment and gross value added) as well as the lower priority items (financial and non-financial assets, net worth, net operating surplus, gross fixed capital formation, taxes on income and compensation of employees). The 2008 SNA also provides the definition of an enterprise, which is required for compiling the priority variable *number of enterprises*.

Sixth edition of the IMF Balance of Payments and International Investment Position Manual (BPM6)

2.34. BPM6 describes the concepts that underlie the international investment position, the balance of payments and the other changes in the assets and liabilities account. The balance of payments is a statistical statement that summarizes transactions of residents of an economy with non-residents during a period. A transaction is an interaction between two

²³ United Nations publication, Sales No....

institutional units that occurs by mutual agreement or through the operation of the law, and involves an exchange of value or a transfer. Transactions between residents and non-residents consist of those involving the change of economic ownership of goods or the provision of services, acquisition of assets, compensation of employees, dividends, etc. and those (such as taxes, debt forgiveness, grants, personal transfers, etc.) that are classified as transfers. An economic owner bears the risks and rewards of the ownership.

2.35. The 2008 SNA and BPM6 have a common conceptual framework. The definitions of residence, valuation and time of recording, and the principles of accrual accounting recommended in *MSITS 2010*, are the same as those in both BPM6 and the 2008 SNA.

2.36. The international transactions in trade in services that take place between residents and non-residents of an economy that are described in *MSITS 2010* are based on the BPM6 classification and definition of services. However, the detail recommended in Chapter III of *MSITS 2010* is greater than that of BPM6.

2.37. The scope of *international trade in services* between residents and non-residents in *MSITS 2010* is the same as that in BPM6.

1. International Recommendations for Tourism Statistics 2008 and Tourism Satellite Accounts: Recommended Methodological Framework 2008

2.38. The *International Recommendations for Tourism Statistics 2008*²⁴ (IRTS 2008) were developed by the World Tourism Organization (UNWTO) and the United Nations. IRTS 2008 provides the comprehensive methodological framework for collection and compilation of tourism statistics and should be viewed as an important foundation of the System of Tourism Statistics. The development of this system is closely linked to the second set of international recommendations related to tourism statistics which are the *Tourism Satellite Accounts: Recommended Methodological Framework 2008*,²⁵ (TSA-RMF 2008) developed by Eurostat, UNWTO, OECD and the United Nations.

²⁴ United Nations publication, Sales No....

²⁵ United Nations publication, Sales No. E.01.XVII.9 [update].

2.39. TSA-RMF 2008 sets out a framework to measure the economic contribution of tourism in an internationally comparable way. IRTS 2008 and the TSA-RMF 2008 respect the relevant definitions and norms of the 2008 SNA. The coverage of the expenditure of individuals travelling in a country other than that of their residence, as described in *MSITS 2010*, and the international tourism expenditure, as described in the IRTS 2008 and TSA-RMF 2008, differ to some extent. The relationship between them is described in Annex IV. The balance of payments data on travel as defined in Chapter III, paragraph 3.113 et seq, are one source of data on inbound and outbound tourism expenditure as defined in tourism statistics recommendations. These recommendations, consistent with BPM6, also allow for a breakdown of non-resident visitors' expenditure according to a breakdown of products, with special emphasis on tourism characteristic products that may be useful for GATS.

International Merchandise Trade Statistics

2.40. The United Nations *International Merchandise Trade Statistics: Concepts and Definitions, 2010*²⁶ (IMTS, 2010) contains the recommendations of the Statistical Commission regarding statistics of international merchandise trade.²⁷ The implementation of these recommendations results in data that meet the needs of a variety of national and international users. These are comparable with other statistics compiled in the framework of the 2008 SNA and BPM6. IMTS provides a brief description of flows of goods between residents and non-residents that are not covered by merchandise trade statistics and identifies those services of which the value is included in the value of imported and exported goods.

International migration frameworks and the Recommendations on Statistics of International Migration

2.41. The *Recommendations on Statistics of International Migration, Revision 1*²⁸ (RSIM Rev. 1) sets out a framework for reporting statistical information that measures international migration flows

²⁶ United Nations publication, Sales No. E.98.XVII.16.

²⁷ At the time of revising *MSITS*, *IMTS* was also revised and harmonization of both manuals was ensured to the extent possible.

²⁸ United Nations publication, Sales No. E.98.XVII.14.

and stocks, including how population censuses can help gather information on foreign persons. The framework builds on the taxonomy of traveller inflows and outflows, and it gives priority to the identification of internationally mobile individuals who satisfy simple general definitions of non-migrants and short and long-term migrants. The minimum period of stay for inclusion among the short-term migrant category is three months, and for the long-term category, one year or more²⁹. Persons staying for periods shorter than three months are considered as non-migrants. Therefore, the use of the term *migrant* is somewhat broader than that of *residents* in BPM6, where an actual or intended stay of a year or more is required. A fuller taxonomy of migrants and other travellers is provided in RSIM, Rev. 1.³⁰ See also Chapter V and the referenced International Labour Organization (ILO) publication³¹, which provides an extensive discussion on sources of migration statistics.

OECD Benchmark Definition of Foreign Direct Investment

2.42. Foreign direct investment has assumed a crucial role in the internationalization of economic activities. The fourth edition of the *OECD Benchmark Definition of Foreign Direct Investment*³² (BD4) provides operational guidance, within the concepts of BPM6 and as an elaboration of it, on how foreign direct investment data should be compiled to meet internationally agreed standards. The OECD Benchmark Definition also provides recommendations on indicators of globalization based on statistics of foreign direct investment and activities of multinational enterprises (AMNE). The AMNE statistical concepts described in the OECD Benchmark Definition are consistent with FATS concepts of *MSITS 2010*.

²⁹ There are exceptions for the inclusion under short-term migrants such as, for example, persons travelling for purposes of education and training. They are considered as non-migrants if the length of stay is less than 12 months.

³⁰ Ibid., box xx.

³¹ R.E. Bilsborrow, Graeme Hugo, A.S. Oberai and Hania Zlotnik, *International Migration Statistics: Guidelines for Improving Data Collection Systems* (Geneva, International Labour Organization, 1997).

³² Paris, 2009.

OECD Handbook on Economic Globalisation Indicators

2.43. The *OECD Handbook on Economic Globalisation Indicators*³³ provides a framework of methodological and statistical guidelines for constructing indicators, on an internationally harmonized basis, for use by policy makers and for the systematic monitoring over time of the progressive degree of worldwide economic integration. It also provides detailed recommendations for compiling statistics of AMNE which are consistent with the OECD Benchmark Definition. GATS' obligations and commitments relate to many aspects of the presence of enterprises established abroad that supply services through Mode 3, *commercial presence*.

2.44. As explained in paragraphs 4.1 et seq., FATS provide information on the activities of majority-controlled foreign affiliates. Although the OECD Handbook covers a wider canvas than FATS (foreign direct investment, technology, trade), FATS in *MSITS 2010* have been conceived in a way that is consistent with the framework that is defined in the OECD Handbook as well as the OECD Benchmark Definition.

Eurostat Foreign Affiliates Statistics (FATS) Recommendations Manual (2009 edition)

2.45. The *Eurostat Foreign Affiliates Statistics (FATS) Recommendations Manual* was adopted in 2007 for the implementation of the EU FATS Regulation. The Recommendations Manual was updated in 2009. This ensures harmonized FATS statistics of the European Union members. Its concepts and definitions are built upon the BD4 which guarantees consistency with *MSITS 2010*.

D. Other statistical systems related to trade in services

2.46. Other related international statistical guidelines should be considered if deemed necessary. For instance, for certain economies where households are becoming important international service suppliers and consumers, the *Household Accounting: Experience in Concepts and Compilation, Volume 1 (Household Sector Accounts)* and *Volume 2 (Household Satellite Extension)*³⁴ as well as the *Handbook on Non-Profit Institutions in the*

³³ Paris, 2008.

³⁴ United Nations publication, Sales No. 00.XVII.16.

*System of National Accounts*³⁵ may provide useful guidance.

Statistical classifications

Central Product Classification (CPC), Version 2

2.47. *CPC, Version 2* is a part of the international family of economic and social classifications. It constitutes a comprehensive classification of all goods and services. It is the standard for all products that are an output of an economic activity, including transportable and non-transportable goods and services as well as originals. For the description of goods, *CPC, Ver.2* is fully harmonized with the *Harmonized Commodity Description and Coding System 2007*³⁶ (HS) of the World Customs Organization.

2.48. *CPC, Ver.2* covers the whole spectrum of outputs of the various industries and can serve the different analytical needs of statistical and other users. It is particularly useful for services. *CPC, Vers.2* serves as a guideline for the elaboration of classifications for specific areas of the economy, including international trade in services. For example, the Provisional *CPC* was used for the elaboration of the categories of services that were used mostly for setting up the initial schedules of commitments at the end of the Uruguay Round and for the changes, including in the context of WTO accessions, that have been made since. The *CPC, Ver 2* is used to describe the balance of payments services components recommended in *BPM6* and further defined in *EBOPS* (see paragraph 2.56).

International Standard Industrial Classification of All Economic Activities, Revision 4

2.49. The *International Standard Industrial Classification of All Economic Activities (ISIC), Revision 4* is a basic tool for fostering international comparability of data across a wide range of economic and social statistics, including production, value added, employment and other economic statistics. It is a standard classification of economic activities linked as far as possible with the way economic processes are organized in units. An industry is defined as the set of production units engaged primarily in the same or similar kinds of economic activity. Criteria relating to the economic transactors (e.g. financial institutions) and to types of transactions (intermediate and final

consumption, capital formation etc.) reinforce the considerations for identifying stages of production. In line with the United Nations programme for the harmonization of international economic classifications, *ISIC, Rev.4* categories are correlated with those of *CPC, Ver.2*.³⁷ A correlation table indicates the main kinds of activities that produce particular goods and services.

ILO International Standard Classification of Occupations (ISCO), 2008

2.50. The *ISCO, 2008* provides a sound basis for international comparability of statistics on the categories of foreign natural persons who are participating in the delivery of traded services. This framework might also be used for conducting negotiations concerning Mode 4, mainly in professional services³⁸. The availability of statistical information on employment in all or the selected categories, for example, from the latest population census or a labour force survey, could provide an interesting source of information for negotiating and monitoring purposes. Further work may have to be done, however, to identify the main occupational groups included, or likely to be included, in future commitments.

E. Approach and framework of *MSITS 2010*

2.51. To address the needs identified in paragraphs 2.2 et seq, two basic principles underlie *MSITS 2010*'s approach:

- Consistency with international standards related to trade in services, extending them where necessary and feasible; and
- a phased implementation.

2.52. These principles facilitate the introduction and progressive implementation of a set of distinct elements in a flexible way to meet each country's priorities, while at the same time improving inter-country comparability. Throughout its coverage of international services

³⁷ Correlation tables can be found at <http://unstats.un.org/unsd/class/default.asp>.

³⁸ Some examples of *CPC* Prov. categories that correspond to the classification of *ISCO-2008* and are covered by the commitments are: legal professionals (*ISCO 261* and *CPC 861*), accountants (*ISCO 2411* and *CPC 862*), engineering professionals (part of *ISCO 214* and *CPC 8672*), architectural professionals (*ISCO 216* and *CPC 8671*) and medical professionals (*ISCO 22* and *CPC 9312*).

³⁵ United Nations publication, Sales No. 03.XVII.9.
³⁶ Brussels, World Customs Organization, 2005.

supply, links are provided between *MSITS 2010* and relevant international standards.

Approach of MSITS 2010

2.53. *MSITS 2010*'s framework has two main building blocks for describing the international supply of services:

- Transactions between residents and non-residents (based on BPM6); and
- supply of services through the operations of foreign affiliates based on Foreign Affiliates Statistics (FATS).

It is complemented by a description of how to use these statistics with respect to international agreements.

2.54. The scope of *MSITS 2010* is described in five parts: BPM6 services and related transactions; BPM6 extensions; FATS; statistics on supply of services through the presence of natural persons and the need to develop statistics by trading partner. The five components are presented in paragraphs 2.53 et seq.

2.55. *MSITS 2010*'s statistical framework with regard to resident/non-resident transactions is based on BPM6, which contains, among other things, recommendations for the definition, valuation, classification and recording of resident/non-resident trade in services. BPM6 is a primary source of statistical guidance on international trade in services, international investment transactions and economic flows associated with the movement of workers. Extensions to BPM6 are developed in *MSITS 2010* to provide for a more detailed treatment of service transactions between residents and non-residents by product category and by partner countries.

2.56. *MSITS 2010* does not set out to change the BPM6 broad service components but it does call for more detail so as to identify services that feature significantly in international trade in their own right. Examples of this more detailed treatment are in the areas of transport, insurance and pension services, charges for the use of intellectual property, business and professional services and personal, cultural and recreational services.

2.57. In addition to trade in services between residents and non-residents, services may be supplied through foreign affiliates in host countries. The FATS

system, which draws to a great extent on the concepts and definitions contained in the 2008 SNA, has been designed to provide information on the activity of foreign affiliates that is out of the scope of BPM6. *MSITS 2010*'s framework is based on FATS as a complement to, and in parallel with, BPM6.

2.58. *MSITS 2010* proposes in Chapter V a statistical approach that may be used in allocating BPM6 and FATS service transactions to the GATS modes of supply. It proposes a simplified approach as a starting point. The approach draws on the correspondence between commercial presence and FATS, as well as between the other modes of supply and transactions between residents and non-residents, as captured in BPM6 services components. It also includes systematic criteria for the allocation of modes of supply and simplifying methods and guidelines for the treatment of complex transactions. Although most of the information required to measure the supply of services through mode 4 is available through the BPM6 services components and FATS system, *MSITS 2010* also outlines the issues arising in a more comprehensive analysis of services provision through Mode 4.

2.59. The descriptions of BPM6, its extensions, FATS and issues surrounding modes of supply are discussed only briefly in this Chapter because fuller descriptions are provided in other chapters of *MSITS 2010*.

Statistics on trade in services from the balance of payments

2.60. Balance of payments statements summarize notably the economic transactions of an economy with the rest of the world for a specific period. Two key concepts are involved: *transaction* and *residence*. A *transaction* itself is defined as an interaction between two institutional units by mutual agreement that reflects the creation, transformation, exchange, transfer or extinction of economic value, and involves changes in the volume, composition, or value of an institutional unit's assets and liabilities. It involves purchases of goods or services, acquisition of assets, compensation of employees, dividends, etc. and those (such as taxes, debt forgiveness, grants, personal transfers, etc.) that are classified as transfers. *Residence* is central because the identification of transactions between residents and non-residents underpins the BPM6 system. The definition of residence that is used in BPM6 is identical to that in the 2008 SNA. Since political boundaries may not always coincide with those appropriate for economic purposes, the *economic*

*territory*³⁹ is used as the relevant geographical area for the characteristic of residence. Each institutional unit can be a resident unit of only one economic territory, determined by its center of predominant economic interest.

Main BPM6 standard services components

2.61. BPM6 statistics are arranged within a coherent structure to facilitate their use and adaptation for many purposes, including policy formulation, analytical studies, projections, bilateral comparisons of particular components or total transactions, and regional and global aggregations. The 12 main BPM6 standard services components are:

1. Manufacturing services on physical inputs owned by others.
2. Maintenance and repair services not included elsewhere (n.i.e.).
3. Transport.
4. Travel.
5. Construction.
6. Insurance and pension services.
7. Financial services.
8. Charges for the use of intellectual property, not included elsewhere (n.i.e.).
9. Telecommunications, computer and information services.
10. Other business services.
11. Personal, cultural and recreational services.
12. Government goods and services not included elsewhere (n.i.e.).

2.62. These 12 services components together match the GATS product coverage, with some exceptions. First, for the most part, many transactions falling under the component *government goods and services not included elsewhere (n.i.e.)* are excluded from GATS.⁴⁰ Second, some transactions considered as services under GATS are recorded under *goods* in BPM6. This concerns the value of most wholesale and retail trade services (including those related to merchandising of

³⁹ For a definition of economic territory, see paragraph 3.4.

⁴⁰ Article 1 of GATS, describing the scope of the agreement, excludes services supplied in the exercise of governmental authority, meaning any service that is supplied neither on a commercial basis nor in competition with one or more service suppliers (see <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010annes.htm>).

goods, see Chapter III). Third, some BPM6 components, especially *travel* and *construction*, include transactions in goods. Fourth, BPM6 includes charges for the use of intellectual property, some parts of which are not captured by the Services Sectoral Classification list W/120 (see Chapter V).

The Extended Balance of Payments Services Classification 2010

2.63. The Extended Balance of Payments Services Classification was devised for the first edition of MSITS, based on the experience gained with the implementation of the *Joint OECD-Eurostat Trade in Services Classification*⁴¹ at the end of the 1990s. The first version of EBOPS was a disaggregation of the Joint Classification. Based on its previous version, EBOPS 2010, as recommended in *MSITS 2010*, is a disaggregated sub-system of the BPM6 services classification. The relationship between EBOPS 2010 and the BPM6 classification of services is presented at <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010annexes.htm>, along with correspondence tables linking the EBOPS 2010 with CPC, Ver.2.⁴² This provides greater detail and a necessary, although partial, statistical link between domestic production and trade in services. There is an ongoing need for a convergence of the product classifications of industry and trade, for comparative purposes. *MSITS 2010* takes account of this development work to more closely align the structural components of EBOPS and CPC. The correspondence clarifies the definition of EBOPS 2010 through the use of the detailed categories of CPC, Ver.2. As described in Chapter III, EBOPS 2010 contains main categories that are identical to the 12 major BPM6 standard services components, as well as further details that are consistent with BPM6. The harmonization is bolstered by the standardization of the

⁴¹ Organisation for Economic Co-operation and Development and Eurostat, *OECD Statistics on International Trade in Services* (Brussels/Luxembourg and Paris, 2000), Appendix 1. The Joint Classification represented a first attempt to take account of GATS particularly as regards financial services, and it also reflects the statistical implications of the completion of the European Communities' Single Market in Services, which entailed a great number of directives relating to financial, telecommunications, transport, tourism and audiovisual services.

⁴² Some countries may have their own concordance between EBOPS and national product classification as well as national industrial activity classifications.

coding systems for identification and reporting purposes.

Statistics on services supplied through foreign affiliates

2.64. Affiliates are often established abroad to deliver services that require close contact between the supplier and the consumer. In *MSITS 2010*, and following GATS coverage, domestic sales by foreign affiliates are covered by the term 'international supply of services' (see Box 1 in Chapter I). However, because foreign affiliates are resident entities in their host country, their sales in these countries are not recorded in the balance of payments, which are only concerned with transactions between residents and non-residents. Transactions in services that are taking place between the foreign affiliate and the parent entity, however, are recorded as trade between residents and non-residents (this may also include trade through the movement of persons such as intra-corporate transferees). As the final service supply to the consumer takes place through the affiliate (commercial presence), these transactions may be counted towards intermediate input of foreign affiliates (see Chapter V).

2.65. FATS was designed to capture sales by foreign affiliates. In addition, FATS includes a range of other statistical indicators so as to assess diverse aspects of the globalization phenomenon and to monitor the commercial presence mode of supply in a variety of contexts, such as those relative to trade, domestic output and employment.

Foreign direct investment (FDI)

2.66. FDI is usually a precondition for the establishment of a *commercial presence*. FDI statistics are thus a relevant complement to FATS as information on the *commercial presence* mode of supply. Where countries do not compile FATS, FDI statistics may be the only available quantitative information relating to this mode of supply. FDI reflects the objective of obtaining control or a significant degree of influence by a resident entity in one economy on the management of an enterprise resident in another economy. Direct investment includes the initial transaction between the two entities and all subsequent financial transactions between them and among affiliated enterprises, both incorporated and unincorporated. The BPM6 defines an entity or group of related entities that is able to exercise control or influence over another entity that is resident of a different economy, as a direct investor.

2.67. The entity subject to control or a significant degree of influence is called a direct investment enterprise, often referred to as a foreign affiliate. Direct investment relationships arise when a direct investor owns equity that entitles it to 10 per cent or more of the voting power (either directly or indirectly) in the direct investment enterprise.

2.68. In inward and outward direct investment statistics, where feasible, the direct investment enterprise should be classified by its industrial activity in the host country and by the industrial activity of its direct investor.

2.69. A foreign direct investor can be an individual or household, an incorporated or unincorporated public or private enterprise, an investment fund, a government or international organization, a non-profit institution in an enterprise that operates for profit, an estate, a trustee in bankruptcy or other trust or any combination of the above. For two or more individuals, or other entities, to be considered a combination, they must be in a direct investment relationship, or have a family relationship for individuals. A direct investment enterprise is a subsidiary or an associate (either incorporated or unincorporated) operating in a country other than the direct investor's country of residence.

2.70. The conceptual basis for compiling foreign direct investment statistics has been defined in BPM6 and in the OECD Benchmark Definition, involving such concepts as direct investor, direct investment enterprise, control or significant degree of influence on management and at least 10 per cent voting power or the equivalent.⁴³ Control is defined in the Framework of Foreign Direct Investment Relationship (FDIR) and is deemed to exist if there is majority ownership of the voting power at each stage of the chain of ownership⁴⁴.

FATS: concepts and classification

2.71. FATS measure, among other aspects, the commercial presence abroad of service suppliers and are, therefore, closely related to statistics on FDI (see the immediately preceding paragraphs). Data on the activities of foreign-controlled affiliates in the compiling economy are usually referred to as *inward FATS*. Those relating to the controlled foreign

⁴³ For additional detail on direct investment concepts and definitions, see Box 4.1.

⁴⁴ See BPM6, Chapter 6 and OECD, BD4

affiliates of the compiling economy that are established abroad are referred to as *outward FATS*.

2.72. FATS cover a broad range of business variables including sales (turnover) and/or output, employment, value added, exports and imports of goods and services and number of enterprises..

2.73. Ideally, it would be possible to attribute these variables on the basis of either the industrial activities of producers, or the types of products produced and sold. Data on a product basis would identify the specific types of services delivered through the *commercial presence* mode of supply and could most readily be compared with data on services delivered through trade between residents and non-residents. However, some FATS variables, such as value added and employment, do not lend themselves to a product classification. Also, for some countries, FATS may be developed as a subset of domestic enterprise or other statistics that are classified only on an activity basis. For some purposes, the data may need to be viewed in conjunction with data on stocks and flows of foreign direct investment, which would normally be classified by activity but not by product.

2.74. *MSITS 2010* recommends that FATS variables be classified by activity according to the ISIC Categories for Foreign Affiliates in services (ICFA) Rev.1, a group of categories derived from ISIC Rev.4 (see Chapter IV and at <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010a/nnexes.htm>). ICFA covers all kinds of activities, including goods production. ICFA was designed to provide the best possible link with EBOPS 2010 to facilitate the comparability of the two sets of statistics (see <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010a/nnexes.htm> for the link between ICFA and EBOPS 2010). This basis of presentation allows activities of services enterprises to be viewed in the context of the activities of all enterprises. In addition, where a cross-classification by product is possible, it provides a framework for displaying services produced as a secondary activity by enterprises classified as goods producers.

FATS and other statistical frameworks

2.75. FATS, as conceived in *MSITS 2010*, build upon existing statistical frameworks. They fall within the overall domain of the 2008 SNA and observe the conventions of both BPM6 and BD4 in relation to

foreign direct investment. They look to CPC and ISIC for product and activity classifications and to International Labour Organization (ILO) standards for employment variables. They also have been defined in a way that is consistent with the standards defined in the OECD Handbook on Economic Globalization Indicators for the measurement of AMNE and BD4.

2.76. FATS, as described in Chapter IV, capture the activities of foreign-controlled foreign affiliates that form a subset of enterprises on the register of direct investment enterprises, as defined in the FDIR, and cover a wide variety of indicators on both their domestic and foreign operations.

2.77. FATS defines control as majority ownership, i.e. more than 50 percent of the voting power at each stage of the chain of ownership.

2.78. Ownership structures can be very complex. Actual management responsibilities may bear little or no relationship to the formal legal structure of the enterprise. Although it does not cover every possible case, Chapter IV provides practical guidance on determining statistical coverage under different ownership structures (more comprehensive treatment of these issues is outlined in the OECD Handbook on Economic Globalization Indicators).

Statistics on services supplied through presence of natural persons

2.79. Given the high political and economic interest of governments in monitoring the movement and presence of foreign persons, there exists a particular need for measuring related international transactions. Although the emphasis here is on measuring the supply of services through the movement (flow) and presence (stock) of natural persons in an economy (i.e. Mode 4, as well as implications for in the supply of services in general), some aspects go beyond and are more closely linked to the concept of labour mobility (temporary or permanent, whether it be related to services, agricultural or manufacturing activities). While it is important to identify all diverse needs, the focus here is to identify those directly related to GATS.

2.80. Supply of services through presence of natural persons (Mode 4) and labour mobility may be distinguished by the type of contracts underpinning the transactions. While Mode 4 is characterized through a service contract between the supplier in one economy

and the consumer of another economy, labour mobility if characterized by employment contracts.

Balance of payments statistics on trade in services through presence of natural persons (Mode 4)

2.81. Mode 4 categories of persons considered in *MSITS 2010* are generally referred to as:

- *Contractual service suppliers*, whether *employees of a foreign service supplier* or *self-employed*. These persons enter the territory of the consumer in the context of a service contract;⁴⁵
- *intra-corporate transferees and foreign employees directly recruited by foreign established companies*: the service supplier has a commercial presence abroad and sends its employee to its affiliate, or foreigners (i.e. not nationals of the host economy, either non-resident or resident) are directly recruited by the affiliate.⁴⁶ The supply of the service to the consumer is carried out through a commercial presence⁴⁷; and
- *service sellers / persons responsible for setting up commercial presence*. There is initially no actual service supply for this category of persons.⁴⁸

⁴⁵ Some self-employed persons may also establish in the host market and operate from that base (i.e. supply services from within this territory). Although a Mode 4 commitment guarantees the right for this person to be present in this territory, it is considered that the supply of the service is carried out through a commercial presence.

⁴⁶ For foreigners directly recruited by the foreign affiliate there may be ambiguity with respect to their coverage under Mode 4 as one could consider, in particular for foreigners recruited from within the host economy, that these individuals are seeking to access the employment market of the host economy.

Intra-corporate transferees are a particularly relevant grouping as many commitments are made and negotiations carried out with respect to this category of persons.

⁴⁷ The Mode 4 commitment guarantees the right for the (foreign) service supplier to have (foreign) natural persons working in the affiliate. The supply of the service to the consumer is through the affiliate.

⁴⁸ Their movement in order to conduct negotiations is guaranteed by commitments under Mode 4.

2.82. A more detailed description of the distinction between services and employment contracts and more generally on measuring Mode 4 is provided in Chapter V.

2.83. Balance of payments services transactions include the value of trade in services produced through Mode 4. The main difficulty in measuring Mode 4 trade therefore, lies in the separate estimation of this mode of supply within given services transactions.

Balance of payments statistics relating to labour mobility

2.84. Balance of payments labour-related income and transfer flows (personal remittances, of which compensation of employees, personal transfers, worker's remittances) can be used to assess the benefits to home economies with respect to international migration including labour mobility.

2.85. While these flows give information on a country's income generated through transfers of people moving abroad or migrating, personal remittances are not a substitute for the value of trade under Mode 4, as described above. Important differences exist in terms of coverage of persons. For example, personal remittances refer to persons receiving income related to employment with entities of the host countries (whether in services and non-services sectors) and making transfers to their country of origin. Except for foreigners employed in foreign affiliates, they are not considered as Mode 4. In addition these flows also cover earnings of persons employed by international organizations. In conclusion, personal remittances are only supplementary information of a different type (i.e. relating to the movement of persons in general) that may be useful from an analytical perspective of labour mobility but not as a measure for GATS Mode 4.

Statistics on the number of persons involved in Mode 4

2.86. In addition to international transactions related to mode 4, to have a fuller picture of the implications of these movements, statistics on the number of foreign persons moving (flows) and present (stocks) in a host country, are an important complement.

2.87. The *Recommendations on Statistics of International Migration, Revision 1* sets out a framework for reporting statistical information that measures international migration flows and stocks.

Although this framework does not provide the full breakdown necessary for the analysis of GATS mode 4, it should serve as a basis for the collection of this type of information. The 2008 *International Recommendations for Tourism Statistics* may also serve as a basis for collecting statistics on the number of persons involved in Mode 4. Chapter V provides further information with respect to the use of these frameworks.

2.88. Various sources exist to collect this information, such as administrative sources (population registers, permit data, visas), census data, enterprise surveys, labour force surveys or other types of household and border/passenger surveys etc.⁴⁹

Analysis of international supply of services by origin and destination

2.89. Statistics by origin and destination are needed for analytical and policy purposes, and for use in bilateral and multilateral negotiations. Country or regional analysis of supply of services, whether associated with international transactions, foreign direct investment, or FATS, is a necessary complement to both product and economic activity classification systems. To the extent feasible, an identical geographical basis should be used for all related sets of statistics. The geographical allocation of services transactions in the balance of payments is to the country where the provider or acquirer of the service is resident.

F. Summary of recommendations

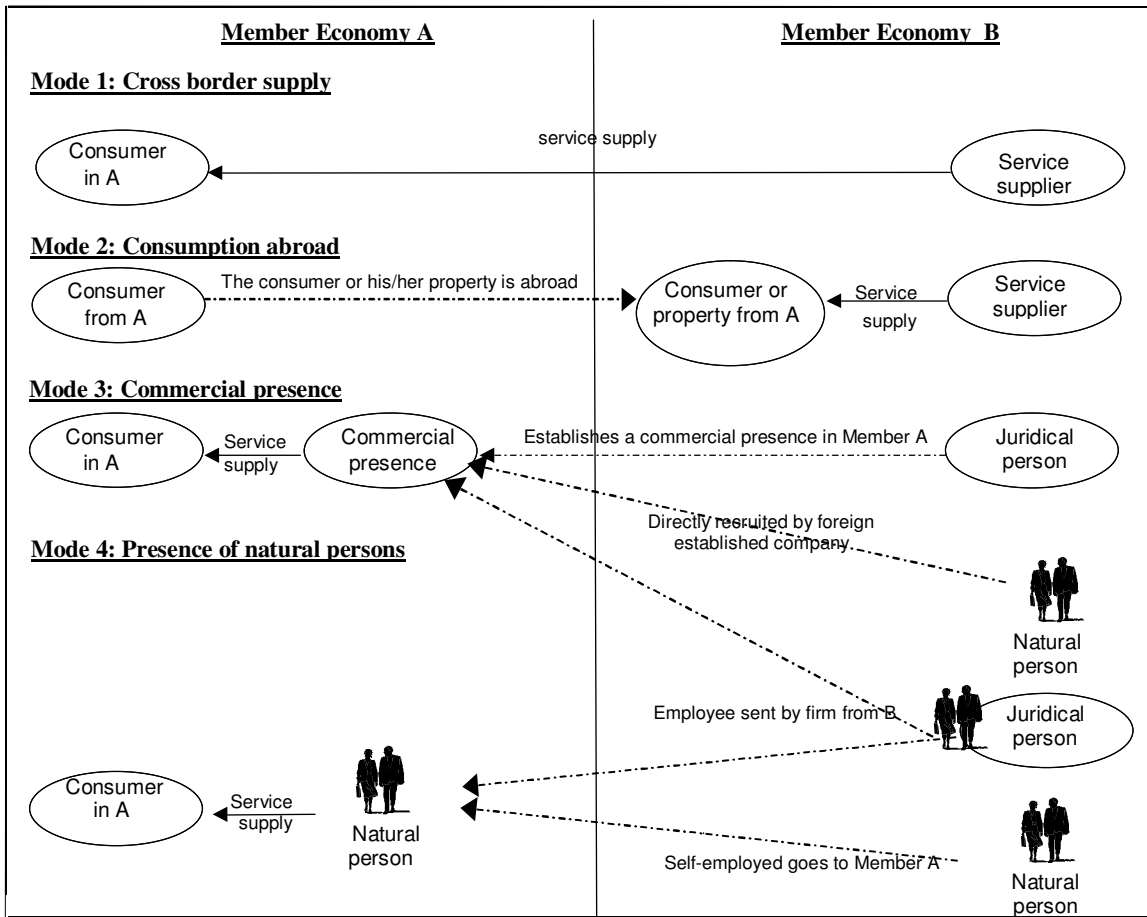
2.90. In this Chapter, *MSITS 2010* recommends:

1. The compilation of international trade in services statistics to internationally agreed standards. These standards, principles and guidelines should be applied to guarantee international comparability and consistency.
2. That BPM6 recommendations on the principles of recording (residence, valuation, time of recording, currency of recording and conversion) be followed.
3. To report partner country detail for the 12 major BPM6 services components.

⁴⁹ These sources are also used to collect information on labour mobility.

4. The collection of complete statistics on FDI (i.e. the flows, income and period-end positions) classified by ISIC, Rev.4 activities, and that these statistics are complementary to FATS. These data should be reported by partner country detail, both in the aggregate and the major industry categories.

Chart 1.1: Synthetic view of modes of supply⁵⁰



⁵⁰ For commercial presence and presence of natural persons, the service might be supplied to either Member Economy B or a third member economy. A more detailed description of modes of supply is provided in Chapter V. A natural person of a member economy is defined in GATS Article XXVIII(k) as a national of that member economy or a natural person which has a right to permanent residence in that member economy. A natural person which is not a national of a member economy, but is a permanent resident of it, may be covered only when the member economy concerned does not have nationals or, subject to additional qualifications in its acceptance to the GATS, accords substantially the same treatment to permanent residents as to nationals in respect of measures affecting trade in services. A juridical person means any legal entity duly constituted or otherwise organized under applicable law, whether for profit or otherwise, and whether privately-owned or governmentally owned, including any corporation, trust, partnership, joint venture, sole proprietorship or association.

III. Services Transactions between Residents and Non-residents

A. Introduction

3.1. The principles adopted by *MSITS 2010* to record services transactions between residents and non-residents are consistent with those prescribed in the Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6) and the 2008 System of National Accounts 2008 (SNA). This allows compilers to use many of the same data sources for compiling both balance of payments and international trade in services statistics. It, importantly, also ensures consistency within and between each country's statistical system. The main principles for recording these transactions are described below but the BPM6 provides additional guidance on recording international transactions.

3.2. In addition to setting out the principles underlying the recording of trade in services, this Chapter discusses the concept of residence and its practical application, along with the valuation and timing of recording transactions. It also touches on the relationship between trade in services and other economic activities.

3.3. Balance of payments services transactions are defined with respect to the residency of transactors, without a distinction on the way the service is actually supplied. Services transactions can also be measured by modes of supply. This is of particular interest for trade negotiators and analysts. Services for which transactions are recorded may generally be provided cross-border, consumed abroad or through the temporary presence of the service supplier or his employees in the economic territory of the consumer. This is further described in Chapter V.

B. Concept and definition of residence and accounting principles

3.4. The residence of an institutional unit is the economic territory with which it has the strongest connection, expressed as its centre of

predominant economic interest⁵¹. Each institutional unit is a resident of one and only one economic territory determined by its centre of predominant economic interest. Specific criteria for determining residence are given below. These definitions should be used in preference to a discretionary choice between different possible aspects of economic interest.

3.5. An institutional unit is resident in an economic territory when there exists, within the economic territory, some location, dwelling, place of production, or other premises on which or from which the unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale. The location need not be fixed as long as it remains within the economic territory. Actual or intended location for one year or more is used as an operational definition. While the choice of one year as a specific period is somewhat arbitrary, it is adopted to avoid uncertainty and facilitate international consistency.

3.6. In overview, the residence of selected entities is as follows:

- The residence of individual persons is determined by that of the household of which they are a part and not by their place of work. All members of the same household have the same residence as the household itself, even though they may cross borders to work, or otherwise spend time abroad. If they work and reside abroad so that they acquire a centre of predominant economic interest abroad, they cease to be members of their original household. See paragraph 3.7 et seq. for more information;
- Unincorporated enterprises that are not quasi-corporations are not separate institutional

⁵¹ Please refer to the BPM6 and the 2008 SNA for a full discussion of institutional units and sectors. BPM6 Chapter 4, *Economic Territory, Units, Institutional Sectors, and Residence* 2008 SNA Chapter 4, *Institutional Units and Sectors*

units from their owners and, therefore, have the same residence as their owners⁵².

- Corporations and non-profit institutions may normally be expected to have a centre of economic interest in the economy in which they are legally constituted and registered. Corporations may be resident in economies different from their shareholders and subsidiaries may be resident in different economies from their parent corporations.
- A corporation, or unincorporated enterprise, may maintain a branch, office or production site in another territory in order to engage in production on a significant scale over a long period of time without creating a corporation. In many cases the branch, office or site is considered to be a quasi-corporation (that is, a separate institutional unit) resident in the territory in which it is located. See paragraphs 3.17 et seq. for more information;
- For entities such as special purpose entities that have few, if any, attributes of location, the residence is determined by their place of incorporation.
- When a non-resident has ownership of land and buildings, and natural resources other than land, the assets are deemed to be owned by a notional resident institutional unit in the economy of location, even if they do not engage in other economic activities or transactions in the economy. All land, buildings and natural resources other than land, are therefore owned by residents.

C. Residence of households

3.7. While many people are clearly strongly connected to only one economy, others may have substantial economic interests in two or more economic territories. Factors such as location of dwellings, employment, asset holdings, citizenship, migration status, income tax status, income received, expenditure, business interests and location of dependent

family members, may point to different economies. To identify the economy of residence when there are connections to two or more economies, the following definition is used to identify the centre of predominant economic interest.

3.8. A 'household' is resident in the economic territory in which household members maintain or intend to maintain a dwelling, or succession of dwellings, treated and used by members of the household as their principal dwelling. Being present for one year or more in a territory, or intending to do so, is sufficient to qualify as having a principal dwelling there. If there is uncertainty about which dwelling is the principal dwelling, it is identified from the length of time spent there, rather than other factors such as presence of other family members, cost, size, or length of tenure.

3.9. Individuals who belong to the same household must be residents of the same territory. If a member of an existing household ceases to reside in the territory where his or her household is resident, the individual ceases to be a member of that household. Because of this definition, the use of households as the institutional unit is compatible with residence being determined on an individual basis.

3.10. Further to the general principles, some other factors are used to determine residence of particular categories. These categories are students, medical patients, ship's crew, as well as national diplomats, military personnel, staff of scientific stations and other civil servants employed abroad in government enclaves. In these cases, some other connections are considered more important in determining residence. In the case of significant population movements between two particular territories, compilers in each territory should cooperate to ensure consistent definitions and measurement.

3.11. Students continue to be resident in the territory in which they were resident prior to undertaking a course of study abroad. This treatment is adopted even though their course of study may exceed a year. However, students change to being residents of the territory in which they are studying when they develop an intention to continue their presence in the

⁵² A quasi-corporation is an unincorporated entity that operates as if it were an entity separate from its owners. Thus, in the BPM6 and 2008 SNA it is treated as if it were a corporation.

territory of study after the completion of the studies. The residence of accompanying dependents of students is determined in the same manner as the persons they accompany.

3.12. Patients maintain their centre of predominant interest in the territory in which they were resident prior to the treatment, even in the rare cases where complex treatments take a year or more. As for students, the movement is considered to have a temporary motivation. The residence of accompanying dependents of patients is determined in the same manner as the persons they accompany.

3.13. Crew of ships, aircraft, oilrigs, space stations, or other similar equipment that operate outside a territory or across several territories are treated as being resident in their home base territory. The home base is determined from where they spend most time other than undertaking their duties. The home base is regarded as a stronger connection than the location of the mobile equipment or its operator, even though most of the time may be spent at the latter location.

3.14. National diplomats, peacekeeping and other military personnel and other civil servants employed abroad in government enclaves, as well as members of their households, are considered residents of the economic territory of the employing government. Those enclaves—military bases, embassies, and the like—form part of the economic territory of the employing government. They continue to be residents in their home economies even if they live in dwellings outside the enclaves. The expenditure of diplomats etc. in their host economies is included in *government goods and services n.i.e.* Other employees, such as locally recruited staff are resident in the location of their principal dwelling.

3.15. Staff of international organizations, including those with diplomatic status and military personnel are resident in the territory of their principal dwelling. The treatment of international organization staff is different from national diplomats and others discussed in the previous paragraph. This is because the latter continue to be paid from and directed by their home government and tend to have shorter

postings and rotate back to their economy of origin.

3.16. Border workers, seasonal workers and other short-term workers cross borders for a short period to undertake a job. Therefore, no special treatment is adopted. Other short-term work-related movements may occur for a particular task, such as a construction project, repairs, delivery of advice and so forth. In each case, the residence of the persons concerned is based on the principal dwelling, rather than the territory where the task is undertaken.

D. Residence of enterprises

3.17. An enterprise is an institutional unit engaged in production, and may be a corporation or quasi-corporation, a non-profit institution, or an unincorporated enterprise (part of household sector). As a general principle, an enterprise is resident in an economic territory when the enterprise is engaged in a significant amount of production of goods and/or services from a location in the territory. An enterprise is an institutional unit engaged in production, and may be a corporation or quasi-corporation, a non-profit institution, or an unincorporated enterprise (part of household sector).

3.18. In contrast to individuals and households, which may have connections to two or more economies, enterprises are almost always connected to a single economy. Taxation and other legal requirements tend to result in the use of a separate legal entity for operations in each legal jurisdiction. In addition, a separate institutional unit is identified for statistical purposes where a single legal entity has substantial operations in two or more territories e.g. for branches, land ownership, and multi-territory enterprises. As a result of splitting such legal entities, the residence of each of the subsequently identified enterprises is clear. The introduction of the terminology “centre of predominant economic interest” does not mean that entities with substantial operations in two or more territories no longer need to be split.

3.19. In some cases, a corporation has little or no physical presence, for example, its administration is entirely contracted out to other entities. Banking, insurance, investment funds

(as distinct from their managers), securitization vehicles and some special purpose entities, often operate this way. A corporation with little or no physical presence is resident in the economic territory under whose laws the entity is incorporated or registered. If it is a resident artificial subsidiary, it is combined with a parent resident in the same economy to form an institutional unit or, for some purposes, combined into a local enterprise group. However, it must not be combined with entities resident in other economies. If it has substantial operations in another economy, a branch may be identified there.

3.20. An enterprise may have a location that is used as a base to deliver services to other locations. This mode is used for transport and many kinds of services, such as on-site repairs, short-term construction and many types of business services. In such cases, the residence of the enterprise is determined from its base of operations, rather than the point of delivery of the service or location of mobile equipment, unless the activities at the point of delivery are sufficiently substantial to amount to a branch. For example, construction may be carried out by a non-resident enterprise, without the creation of a resident entity. In these cases, the work provided to the customers that are resident in the territory of the operations is classified as international trade in services (*construction*).

3.21. For major projects, such as bridges, dams and power stations, that take a year or more to complete and that are managed through a site office, the operations would usually satisfy the criteria for identification of a branch and would not be classified as trade in services.

3.22. The identification of branches as separate institutional units requires indications of substantial operation that can be separated from the rest of the entity to avoid creating numerous artificial units. The following definition of a branch is provided to aid consistent identification. A branch exists when the unit has a complete set of accounts, including a balance sheet, or it is possible and meaningful, from both an economic and legal viewpoint, to compile these accounts if they were to be required.

3.23. In addition, a branch will often exist where one or both of the following factors are present:

- The unit undertakes or intends to undertake production on a significant scale that is based in a territory other than that of its head office, for one year or more;
- if the production process requires physical presence, then the operations may involve a branch being physically located in that territory. Some indicators of an intention to locate in the territory include purchasing or renting business premises, acquiring capital equipment, and recruiting local staff;
- if the production does not involve physical presence, such as some cases of banking, insurance, other financial services, ownership of patents and ‘virtual manufacturing’, the operations should be recognized as being in the territory by virtue of the registration or legal domicile of those operations in that territory.
- The unit is recognized as being subject to the income tax system, if any, of the economy in which it is located, even if it may have a tax-exempt status.

3.24. Multi-territory enterprises function as a seamless operation across more than one economic territory. Although the enterprise has substantial activity in more than one economic territory, it is run as an indivisible operation with no separate accounts or decisions, so that no separate branches can be identified. Such enterprises may have operations including shipping lines, airlines, hydroelectric schemes on rivers shared by more than one territory, pipelines, electricity transmission lines, bridges, tunnels and undersea cables. Some non-profit institutions serving households may also operate in this way.

3.25. Governments usually require separate entities or branches to be identified in each economic territory for more convenient regulation and taxation. Multi-territory

enterprises may be exempted from such requirements, but there may be arrangements, such as a formula for payment of taxation to the respective authorities.

3.26. In the case of a multi-territory enterprise, it is preferable that separate institutional units be identified for each economy. If that is not feasible because the operation is so seamless that separate accounts cannot be developed, then it may be necessary to prorate the total operations of the enterprise into the individual economic territories. The factor used for prorating should be based on available information that reflects the contributions to actual operations. For example, equity shares, equal splits, or splits based on operational factors such as tonnages or wages could be considered. Where taxation authorities have accepted the multi-territory arrangements, a prorating formula may have been determined, which should be the starting point for statistical purposes.

E. Residence of general government

3.27. General government includes operations outside the home territory, such as embassies, consulates, military bases and other enclaves of foreign governments, including those providing training and other forms of assistance, whether they are separate institutional units, or are residents of their home territory, rather than the host territory in which they are physically located. This treatment is adopted because they usually have some degree of immunity from the host territory's laws and are deemed under international law to be extensions of the home government's territory. However, an entity created by a government under the laws of the host jurisdiction is an enterprise resident in the host economy and not part of the general government sector in either economy.

F. Residence of international organizations

3.28. International organizations are resident in an economic territory of their own, and not of the economy in which they are physically located. This treatment applies to both international organizations located in only one territory and those located in two or more

territories. International organizations are limited to those created by governments.

3.29. An international organization that operates peacekeeping and other military forces, and/or acts as the interim administration in a territory, remains as an international organization and is non-resident in that territory, even if it undertakes general government functions there. In cases where these organizations are significant, it may be desirable to identify them separately.

3.30. A separately constituted pension fund of an international organization is not treated as an international organization, but is regarded as a financial corporation. It is a resident of the territory in which it is located, and if it lacks a physical presence, of the economy where it is incorporated or registered.

G. Residence of non-profit institutions serving households

3.31. A non-profit institution serving households (NPISH) has a centre of economic interest in the economy where the institution was legally created and is officially recognized and recorded as a legal or social entity. In practice, residence of the vast majority of NPISHs may be determined without ambiguity. However, when a NPISH is engaged in charity or relief work on an international scale, it may maintain substantial operations in individual territories that may amount to branches. Such a branch is usually financed largely or entirely by current or capital transfers from abroad. Non-profit institutions serving households should not be treated as international organizations.

H. Valuation of transactions

3.32. The market price is used as the basis for valuation of transactions in international trade in services. Market prices for transactions are defined as amounts of money that willing buyers pay to acquire something from willing sellers. The exchanges are made between independent parties and based on commercial considerations only,—sometimes called 'at arm's length'. These transactions will generally be valued at the actual price agreed between the supplier and the consumer.

3.33. The BPM6 identifies some of the more common circumstances under which it may not be possible to establish a market price and recommends, that in such circumstances, the development of a proxy measure by analogy with known market prices established under conditions that are considered essentially, the same as those pertaining to the un-priced or mis-priced transaction.

3.34. International transactions in services are in practice referred to as trade in services; a credit entry represents an export of services and a debit entry, an import of services.

3.35. Transactions in services should be recorded on a gross basis, that is, transactions in imports and exports transactions should be separately compiled, rather than recorded net.

3.36. Particular problems may arise in valuing international transactions between affiliated enterprises integrated under the same management but situated in different economies. Transactions may not be market transactions because there is a lack of independence among the parties to the exchange, and the prices used in portraying such transactions in the books of the enterprises (called 'transfer prices') may or may not be market prices. In some cases, transfer pricing may be motivated by income distribution or equity build-ups or withdrawals.

3.37. The BPM6 notes that replacing book values (transfer prices) with market-value equivalents is desirable where distortions between market and transfer prices are large and when availability of data (such as adjustments by customs or tax officials or from partner economies) makes it feasible to do so. Selection of the best market value equivalents to replace book values is an exercise calling for cautious and informed judgment.⁵³

3.38. Transactions may take place in a range of currencies, including the domestic currency of either the provider or the consumer of the

services. To produce meaningful statistics, however, it is necessary for the compiler to convert all transaction values to a common unit of account. Most often, the common unit will be the national currency of the service provider, which will facilitate the use of such statistics in conjunction with other economic statistics relating to the domestic economy. However, if this currency is subject to significant depreciation relative to other currencies involved in the international transactions of the economy, misleading growth in money terms may result. A similar effect may be observed if a country is experiencing currency value inflation. In both cases, it may be more analytically useful to express all transactions in another, more stable currency.

3.39. In principle, the most appropriate exchange rate to be used in converting transaction values from the currency of transaction to the currency of compilation, is the market rate prevailing at the time that the transaction takes place. The use of a daily average exchange rate for daily transactions provides a very good approximation. If daily rates cannot be applied, average rates for the shortest period should be used. Some transactions, such as the accrual of interest, occur on a continuous basis over a period of time. For such flows, therefore, an average exchange rate for the period in which the flows occur should be used for currency conversion. The mid-point between buying and selling rates at the time of the transaction should be used so that any service charge (the spread between the mid-point and those rates) is excluded. This service charge is included as part of financial services (see paragraph 3.191). However, because the actual mid-point rate at the time at which the transaction occurs may not be available to the compiler, an accepted practice is to take the average mid-point rate for the period for which the data are being compiled.

3.40. The BPM6 should be consulted for recommendations on conversion where there are multiple official exchange rates, or black or parallel market rates.⁵⁴

⁵³ For further discussion on transfer pricing, see BPM6 chapters 3 and 11.

⁵⁴ See BPM6, Chapter 3

I. Time of recording of transactions

3.41. The appropriate time to record transactions in services is when they are delivered or received (the ‘accruals basis’). Some services, such as some transport or hotel services, are provided within a discrete period, in which cases, there is no problem in determining the time of recording. Other services are supplied or take place on a continuous basis. For example, construction, operating leasing, and insurance services. When construction takes place with a prior contract of sale, the ownership of the structure is effectively transferred progressively as the work proceeds. When services are provided over a period of time, there may be advance payments or settlements at later dates for such services (freight, insurance, construction, and so forth). The provision of services should be recorded on an accrual basis in each accounting period, i.e. they should be recorded as they are rendered not when the payment occurs.

J. Scope of resident/non-resident trade in services

3.42. This Chapter describes in detail, the measurement of international trade in services in the conventional balance of payments sense of transactions between residents and non-residents of an economy. The scope of these statistics is determined by the scope of the services components of BPM6, which are as follows:

1. *Manufacturing services on physical inputs owned by others*
2. *Maintenance and repair services n.i.e.*
3. *Transport*
4. *Travel*
5. *Construction*
6. *Insurance and pension services*
7. *-Financial services*
8. *Charges for the use of intellectual property n.i.e.*
9. *Telecommunications, computer, and information services*
10. *Other business services*
11. *Personal, cultural, and recreational services*
12. *Government goods and services n.i.e.*

3.43. The service categories are described in the revised Extended Balance of Payments Services Classification (EBOPS 2010), which is completely consistent with BPM6, but provides for more detailed breakdowns in a number of areas. The EBOPS 2010 classification is presented in detail in Annex I at the end of this Manual.

K. The Extended Balance of Payments Services Classification (EBOPS)

3.44. The revised version of this classification, EBOPS 2010, updates that recommended in the previous *MSITS*. It provides for further breakdowns of the BPM6 classification to meet a number of user requirements, including the provision of information required in connection with the General Agreement on Trade in Services (GATS). A number of supplementary items are included in EBOPS 2010⁵⁵ and are not always confined to services transactions. They are included to provide additional information on the transactions that are to be recorded. In many countries, the information to be included in these supplementary items (e.g. for insurance) may be obtained as part of the process of data collection.

3.45. These supplementary items provide useful additional information for analytical purposes, including data quality assessment, and should be compiled at the same time as the related EBOPS 2010 components. However, if the data are not available but are deemed important for the compiling economy, the compiler may choose to set up additional data-collection systems to obtain the relevant data.

3.46. The further detail recommended in EBOPS 2010 recognizes the requirements of trade negotiations, primarily those conducted under GATS, as well as the importance of services in studies of globalization. *MSITS 2010* recognizes that not all countries have the same

⁵⁵ Some of the items identified as supplementary in the BPM6 are standard items in EBOPS 2010, as the latter is a more detailed classification.

needs for data, and that compilers will make decisions on the data to be compiled based on individual country needs.

3.47. The BPM6 and EBOPS classifications of services are primarily product-based, and may be partially described in terms of the international classification of products, CPC Ver.2. A similar, but more detailed, approach has been used in *MSITS 2010*. A detailed correspondence between EBOPS 2010 and CPC Ver.2 and can be found online at <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010annexes.htm>.

3.48. However, there are a number of EBOPS 2010 components for which a correspondence with the CPC Ver. 2 cannot be established. In these areas, *travel, construction and government goods and services, n.i.e.*, a wide range of goods and services may be traded or consumed. These three areas of EBOPS 2010, which are discussed further below, emphasize the transactor and the mode of consumption of goods and services, rather than the type of product consumed. It should be noted that it is not possible to establish a one-to-one correspondence between EBOPS 2010 and CPC Ver.2 because, in places, CPC Ver.2 calls for more detail than is shown in EBOPS 2010, while elsewhere, the reverse is true. A further correspondence between EBOPS and the GATT Services Sectoral Classification list (W/120) has also been created and is available online at <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010annexes.htm>.

3.49. Where compiling countries choose to disaggregate beyond the EBOPS classification, CPC Ver.2 should be followed to the extent possible.

3.50. It may not be possible for all countries to develop statistics at the detailed component level specified in EBOPS 2010. Therefore, as a first priority, compilers should develop the statistics on international trade in services at the level described in BPM6. Compilers should then work towards disaggregation of these components to the level specified in EBOPS 2010, in an order that reflects the economic significance of the various services components to their economies. Compilers should also

attempt to compile the supplementary items where the data are available as a by-product of the compilation of the related EBOPS 2010 components, or where their importance to users has been identified.

3.51. Although data that are of a higher frequency would be useful for a range of analytical purposes, *MSITS 2010* recommends that EBOPS-level data and the supplementary items be produced on an annual basis. Quarterly data compiled at a more aggregated level should be consistent and reconcilable with the annual data.

L. EBOPS, analytical and GATS information needs

3.52. In the 2008 SNA, the ‘purchaser’s price’ is the amount paid by the purchaser, excluding any deductible value-added or similar tax. It includes any transport charges that are paid separately by the purchaser to take delivery at the required time and place (irrespective of who provides these services). For services, the concept of market price in BPM6 is equivalent to the concept of purchaser’s price in the 2008 SNA, because no wholesale, retail or transport distribution costs are involved. However, for goods, like BPM6, *MSITS 2010* identifies the pricing level as f.o.b. at the border of the exporting country. In general, the f.o.b. price will not necessarily be the same as the purchaser’s price because the f.o.b. price may include separately invoiced distribution costs (wholesale and/or retail margins as well as transport costs to the border of the exporting country). Further, the purchaser’s price will cover costs that take the goods to the purchaser’s choice of location, which may be beyond the customs frontier. Therefore, those distribution costs, which are separately identified services in the 2008 SNA framework, are not separately identified in the balance of payments framework.

3.53. As indicated in the previous paragraph, excluded from EBOPS are most distribution services of wholesalers and retailers, but they are included in W/120, used in GATS negotiations. In the 2008 SNA, wholesalers and retailers are defined as entities that purchase and resell goods with no, or only minimal processing (e.g. cleaning, packaging and so

forth). They supply a service to producers and consumers of goods by storing, displaying and delivering a selection of goods in convenient locations, thus making them easy to buy. These services are not part of the international services transactions because the margins that represent those distribution services are included either in the free on board (f.o.b.) values of the goods to which they relate, or are provided by the importer. However, given the interest in such information, compilers may wish to provide estimates of distribution services, including those related to the merchandising of goods and those already included in EBOPS *trade related services* (discussed in paragraph 3.296 et seq) as a complementary grouping *total trade-related transactions*. See also Chapter V, Box 5.4.

3.54. There are other EBOPS items which do not fully respond to analytical and GATS information needs, such as freight transport and insurance (i.e. because of adjustments brought to the data) or construction. Further information on these are provided in 3.104 et seq., 3.145 and 3.187.

3.55. In addition to *total trade-related transactions*, given their analytical usefulness, a number of other complementary groupings are proposed in EBOPS, such as for audiovisual transactions, cultural transactions, environmental transactions, health services, education services (see paragraphs 3.280 et seq).

M. Services transactions between related (affiliated) enterprises

3.56. Information on the value of all transactions between affiliated enterprises is helpful in understanding the degree to which globalization of services supply is taking place. *MSITS 2010*, therefore, recommends that data on transactions in services separately identify transactions with related and unrelated enterprises. Although that breakdown would be most informative at the level of the detailed EBOPS 2010 classification, it is recognized that this could place an additional burden on both suppliers and compilers of data and could raise issues of confidentiality. Therefore, *MSITS 2010* recommends that such a breakdown be

made only at the aggregate level for total services transactions. Countries willing to provide additional detail are encouraged to do so in the complementary groupings of EBOPS *Total services transactions between related enterprises*. This recommendation is given a lower priority than the compilation of the statistics at the level of detail described in BPM6.

N. Statistics by trading partner

3.57. There is a need for detailed geographical allocations of the statistics on the various types of services supplied and consumed by each economy, according to the country of residence of trading partners. Such statistics give a firm basis for the multilateral and bilateral trade in services negotiations carried out under GATS. They reveal developments in patterns of trade by type of service and are important for a variety of analytical purposes. Bilateral comparisons of one country's data with those of a trading partner, using "mirror statistics", are an important tool for investigating and improving data quality. To the extent possible, an identical geographical basis should be used for all related sets of international services statistics (including Foreign Affiliates Statistics (FATS)).

MSITS 2010 recommends that statistics on international trade in services be compiled on an individual trading partner basis, at least at the level of the 12 major components of the BPM6 classification of services, and where possible at the more detailed EBOPS 2010 level. The production of these statistics is one of the core elements recommended in *MSITS 2010*. However, it is recognized that it may be resource-intensive and difficult for compilers to develop statistics by trading partner for reasons including disclosure and incomplete information. *MSITS 2010*, therefore, recommends that statistics be compiled at a detailed partner country level where compilers identify such statistics as being of most relevance in their economies. This means that countries should give priority to detailing their trade in services with their main trading partners.

O. Difference between service provision and provision of labour

3.58. Services provided by a consultant, independent contractor, or employment agency are distinguished from the provision of labour. Payments for the use of labour are not trade in services but are compensation of employees and included as part of primary income in the macroeconomic statistics framework. It may be difficult to determine whether an individual transaction is an employment payment or payment for a service provided as, in many cases, an enterprise might choose either to purchase a service from a self-employed worker or to hire an employee to perform the work. An employer-employee relationship exists when there is an agreement, which may be formal or informal, between an individual and an entity, whereby the individual works for the entity in return for remuneration in cash, or in kind. If an individual is contracted to produce a given result, then it is assumed that a service contract relationship exists between the individual (who may be considered self-employed) and the entity. Thus, the payment constitutes compensation of employees if an employer-employee relationship exists, but it constitutes a service if the individual performing the task is self-employed working under contract.

3.59. Chapter V (Box 5.2) and the BPM6 provide further guidelines on distinguishing between the provision of services and the provision of labour.

P. Outsourcing

3.60. Services that are “outsourced” i.e. where a company contracts another (specialist) company to provide services that were previously internal company functions, e.g. billing or information “help” services,—should be classified to the appropriate services item. Services supplied by “call centres” and similar types of operation should be classified according to the type of service provided. For example, call centres selling products are included in *trade-related services*, while call centres providing computer support are included in *computing services*. The complementary

grouping of call centre services is discussed in paragraph 3.296.

Q. Service Merchanting

3.61. Service merchanting refers to the purchase and sale of services without any significant transformation to the service between the purchase and sale. The degree of transformation involved in service merchanting may be harder to identify for services than for goods, for example, in the case of bundling and managing the services of different contractors. ‘Service merchanting’ of this kind is an important activity in some economies⁵⁶. The value of services exported and imported in the economy of the service arranger is recorded on a gross basis. This treatment is applicable because the arranger buys and sells the services; if the arranger acted as an agent on a commission basis, then only the commission would be recorded as the service provided by the arranger. These services are classified to the appropriate specific service classification, for example, *transport, construction, computing, or other business services*.

R. Electronic commerce

3.62. Electronic commerce, or e-commerce as it is more widely known, is a method of ordering and/or delivering products by electronic means, such as through the Internet or other computer-mediated networks. In principle, charges for electronically delivered products are included in services, while goods ordered by electronic means and supplied across the border, are generally classified as goods (except that products, e.g. software products obtained with a non-perpetual license to use,

⁵⁶ A distinction should be made between ‘service merchanting’ discussed above, and merchanting services discussed in the 2002 MSITS. The latter is no longer within the scope of services transactions as the gross values of the goods acquired and sold in that process are now included in goods. These goods are recorded as negative exports when acquired by the merchant and as exports when sold.

rather than through change of economic ownership, are included in services). Shipping charges associated with e-commerce are allocated in line with the principles outlined in paragraph 3.62 et seq. Financial services associated with e-commerce are included in financial services.

Box 3.1. Reconciling Balance of Payments Trade in Goods and Services and International Merchandise Trade Statistics

Users may be interested in deriving statistics of international trade in goods and services by aggregating statistics on international trade in services from the balance of payments statistics and international trade in goods from the international merchandise trade statistics (IMTS). However, there are conceptual differences between these two sets of statistics that should be taken into account and if these differences are not considered, aggregation may lead to double counting or omissions. Detailed merchandise trade statistics are based on the IMTS, Rev.3 while trade in services between residents and non-residents is defined within the framework of the BPM6. Differences between the IMTS and general merchandise balance of payments are shown in the table below. A few of those differences relate to transactions that may be recorded in the IMTS (as goods), but are classified in the balance of payments statistics under trade in services, as follows:

- **c.i.f.f.o.b. adjustments:** The costs of freight and insurance relating to transporting the goods from the border of the exporting country to the border of the importing country are excluded from the value of general merchandise imports in the balance of payments of the compiling economy. If provided by a non-resident they are classified as imports of services..
- **Goods for processing without change of ownership:** These are excluded from the recording of general merchandise in the balance of payments (both credits and debits). Instead, the value of the processing fee is recorded as a service under '*Manufacturing services on physical inputs owned by others*'.
- **Goods imported for projects by non-resident construction enterprises:** These goods are included in the gross value of construction.

	Exports	Imports
Merchandise trade statistics as provided in source data		
Adjustments, as relevant:		
+ <i>Goods procured in ports by carriers</i>		
+ <i>Fish catch, minerals from the seabed and salvage sold from resident-operated vessels</i>		
+ <i>Goods changing ownership entering/leaving territory illegally</i>		
+/- <i>Goods lost or destroyed in transit</i>		
+ <i>Goods acquired from other economies for processing abroad</i>		
+ <i>Goods sold abroad after processing in other economies</i>		
+/- <i>Goods changing ownership in customs warehouses or other zones</i>		
- <i>Migrants' personal effects</i>		
- <i>Goods imported for construction projects by non-resident enterprises</i>		
- <i>Goods for repair or storage without change of ownership</i>		
- <i>Goods sent abroad or returned after processing without change of ownership</i>		
- <i>Returned goods</i>		
+/- <i>High-value capital goods, if delivery differs from change of ownership</i>		
- <i>c.i.f.f.o.b. adjustment</i>		
+ <i>Net exports of goods under merchanting</i>		
+ <i>Nonmonetary gold</i>		
= Total goods on a balance of payments basis		

This list is not exhaustive but is instead indicative of the common adjustments that could be made. Some of the adjustments listed may not be necessary because international merchandise trade statistics data for the economy may treat the item in the same way. For example, an adjustment for goods entering or leaving customs warehouses is not necessary if data are sourced from international merchandise trade on a general trade basis.

S. Definitions of the components of the Extended Balance of Payments Services classification

3.63. In the remainder of this Chapter, the definitions of the various components of EBOPS 2010 are discussed in detail. The classification, shown in Annex I, is primarily product-based, but is transactor-based or based on the mode of consumption for *travel*, *construction* and *government goods and services n.i.e.* In addition, detailed correspondence tables between EBOPS 2010 and CPC Ver.2 and EBOPS 2010 and the W/120 can be found at http://unstats.un.org/unsd/tradeserv/TFSITS/msit_s2010annexes.htm, and may be used to assist the compiler in resolving classification problems and to link statistical classifications with the classifications used in GATS commitments.

Manufacturing services on physical inputs owned by others

3.64. *Manufacturing services on physical inputs owned by others* includes activities such as processing, assembly, labelling, packing and so forth, undertaken by enterprises that do not own the goods. Examples include oil refining, liquefaction of natural gas, assembly of clothing and electronics, assembly (excluding assembly of prefabricated construction, which is included in construction), labelling, and packing (excluding those incidental to transport, which are included in transport services).

3.65. The manufacturing is undertaken by an entity that does not own the goods and that is paid a fee by the owner. The ownership of the goods does not change, so no general merchandise transaction is recorded between the processor and the owner. Only the fee charged by the processor is included under this item, although this fee may include the cost of materials purchased by the processor.

3.66. An international trade element exists where the work done is by a resident of one economy for the owner of goods who is resident in another economy. The treatment of these services is not conditional on whether the goods

were previously or subsequently in the physical possession of the owner or not

Recording of related purchases and sales of goods and services

3.67. Purchases of materials by the owner (i.e. goods to be processed) may be obtained from residents of the same economy as the owner, the same economy as the processor, or a third economy. The treatment is as follows:

- When the goods are acquired from residents of the same economy as the owner, there is no international transaction.
- When the goods are acquired from residents of the same economy as the processor or a third economy, the owner of the goods to be processed records imports of general merchandise.

3.68. Sales of finished goods (i.e. goods after processing) are treated as follows:

- When the goods are sold to residents of the same economy as the owner, there is no international transaction.
- When the goods are sold to residents of the same economy as the processor or a third economy, the owner of the goods under processing records the sale as exports of general merchandise.

Recording of related goods movements

3.69. The gross values of goods associated with processing services can be identified as supplementary items for the economies where they are significant. While the manufacturing service is consistent with what is recorded in business accounts and actual transactions, the gross values of the physical movements of goods without a change of ownership are useful for analysis of processing activities. Values of the following items may be identified:

(a) for customers of manufacturing services on goods processed abroad (the owner):

- goods supplied for processing (goods sent);
- goods dispatched after processing (goods returned);

(b) for providers of manufacturing services on goods processed in the reporting economy:

- goods received for processing (goods received);
- goods dispatched after processing (goods sent).

3.70. A market-value equivalent for goods supplied/received might be required. Gross values of the goods are shown after processing, and again a market-value equivalent might be required.

3.71. Transport costs may be incurred on movements of goods undergoing processing. How these transport services are recorded is determined from the following factors:

- For goods included in general merchandise, general principles for f.o.b. valuation apply, so that transport costs up to the customs frontier are treated as being payable by the exporter, and transport costs after the frontier are treated as payable by the importer. For goods not included in general merchandise (such as materials delivered from the owner to the processor with no change of ownership), transport costs are shown according to the arrangements of the parties, that is, the amount payable by the party invoiced to pay the expense.

Recording of manufacturing fees

3.72. The value of *manufacturing services on physical inputs owned by others* is not necessarily the same as the difference between the value of goods sent for processing and the value of goods after processing. Possible causes include holding gains/losses, the inclusion of overheads (such as financing, marketing and know-how included in the finished good price), and measurement errors associated with the valuation

of goods movements where there is no sale. See Box 3.2 for an example.

Box 3.2: Recording of manufacturing fees.

The value of the fees charged for manufacturing services on physical inputs owned by others is not necessarily the same as the difference between the value of goods sent for processing and the value of goods after processing.

For example, assume that a manufacturer in Economy X owns goods worth 1000. These goods are sent to Economy Y to be processed. There is no change of ownership of the goods. After processing these goods are worth 1300. The difference of 300 comprises the processing fee of 120 charged by the processor, holding gains of 80 and overheads of 100. The value of manufacturing services on physical inputs owned by others is 120, not 300, and represents imports of services by Economy X and exports of services by Economy Y. If the costs of overheads and so forth are transactions between Economy X and non-residents, then these transactions would be recorded under the relevant items.

Assume further, that these goods are not returned to Economy X but are instead sold to Economy Z. This does not affect the recording of the services between X and Y and the same transactions in manufacturing services on physical inputs owned by others are recorded. The separate transaction with Economy Z is treated as an export of goods from Economy X.

3.73. If the processor acquires ownership of the goods, then the gross values of the sale and purchase of these goods are included in general merchandise. This is, therefore, considered manufacturing of goods on own account, in contrast to *manufacturing services on physical inputs owned by others*.

3.74. Manufacturing on own account and *manufacturing services on physical inputs owned by others* are different arrangements, and for this reason it is desirable to show them separately. This is because the role of the manufacturer on own account in designing, marketing, and financing the goods is quite different.

3.75. With globalization and outsourcing, it is becoming more common to have parts of a production process conducted in different economies. Showing these transactions on a change of ownership basis assists in identifying actual transactions. It also correctly attributes value added due to the owner for designing, marketing, financing, etc, rather than to the party that undertakes physical processes. See BPM6 for additional information on the recording of transactions relating to global manufacturing arrangements and merchanting of goods as well as examples on the measurement of manufacturing services (that change or do not change the condition of the goods) related to merchanting activities.

Maintenance and repair services n.i.e.

3.76. *Maintenance and repair services n.i.e.* includes maintenance and repair work by residents on goods that are owned by non-residents (and vice versa). The repairs may be performed at the site of the repairer or elsewhere. Maintenance and repairs on ships, aircraft, and other transport equipment are included in this item. Cleaning of transport equipment is included in transport services. Construction repairs and maintenance are included under construction. Maintenance and repairs of computers are included under computer services.

3.77. The value recorded for maintenance and repairs is the value of the repair work done, not the gross value of the goods before and after

repairs. The value of maintenance and repairs includes any parts or materials supplied by the repairer and included in the price (parts and materials charged separately are excluded from services and included in general merchandise). Both minor repairs that maintain the item in working order and major repairs that extend the efficiency or capacity of the good or extend its life are included. No distinction is made between those repairs included by the customer in intermediate consumption or those in capital formation.

Transport

3.78. *Transport* covers the process of carriage of people and objects from one location to another as well as related supporting and auxiliary services and rentals (charters) of carriers with crew. Also included are postal and courier services. Transport can be classified according to mode of transport and what is carried, passengers or freight

3.79. A transport provider may subcontract other operators to provide part of the final transport service. Such services should be recorded on a gross basis. For example, a courier service provider might contract separately to more than one transport operator. Commissions payable by providers of transport services to an agent should be separately recorded.

3.80. The EBOPS 2010 follows the BPM6 in recommending a cross-classification of transport by mode of transport and by kind of service. While BPM6 recommends the identification of three modes of transport, EBOPS 2010 distinguishes nine modes of transport;—*sea, air, space, rail, road, internal waterway, pipeline, electricity transmission, other supporting and auxiliary transport services*, as well as *postal and courier services*. The EBOPS 2010 recommends the same classification of kind of service as BPM6 i.e. *transport of passengers, transport of freight*, and *other* which includes *other supporting and auxiliary services* and *postal and courier services*. A discussion of the modes of transport and kinds of service follows.

3.81. *Sea transport* covers all international freight and passenger transport services undertaken by seagoing vessels. It does not include transport by underwater pipelines (included in pipeline transport) and cruise fares (included in travel).

3.82. *Air transport* covers all international freight and passenger transport services provided by aircraft.

3.83. The remaining modes of transport are a disaggregation of the single BPM6 mode 'other transport'.

Box 3.3: Electric Power Transmission and Distribution

Cross-border trade in electricity has become an important and growing aspect of international trade in goods and services. It is not feasible, economically or practically, to store large amounts of electricity, therefore, the electricity has to reach the consuming units as soon as it is produced. However, electricity generation may take place at plants, such as hydro-electrical plants and nuclear plants, that are distant from the population centres and/or located in areas to take advantage of the resources that may be too costly to transport over long distances.

An electrical power system comprises the electricity generating plants, the transmission network (or grid) and the distribution facilities. Electricity demand is variable, however, the high capital cost of generating plants suggests that it may be cheaper to purchase electricity to meet the high demand rather than increasing generating capacity to meet temporary fluctuations. As demand variability tends to be correlated with geography, the increased demand is normally met from distant power plants. This means that transmission networks may span several countries across vast areas.

The transmission network comprises the transmission lines and substations. After generation, the electricity is transformed to a high voltage to facilitate transmission from the power generating plant to the substations located in the population concentrations. At the substations, the electricity voltage is stepped down for distribution to the consuming units. Thus, the transmission process plays the role of transporting the electricity from the production to the wholesalers and retailers, who are responsible for supplying the consumers.

There may only be a few enterprises engaged in electricity transmission and, in many countries, it is a monopoly. These companies generally specialize in transmission and are not engaged in generation or distribution.

3.84. *Space transport* includes satellite launches undertaken by commercial enterprises for the owners of the satellites (such as telecommunication enterprises) and other operations performed by operators of space equipment, such as transport of goods and people for scientific experiments. Also included are space passenger transport and the payments made by an economy in order to have its residents included on the space vehicles of another economy.

3.85. *Rail transport* covers international transport by trains.

3.86. *Road transport* covers international freight transport by lorries and trucks and international passenger transport by buses and coaches.

3.87. *Inland waterway transport* relates to international transport on rivers, canals and lakes. Included are waterways that are internal to one country and those that are shared among two or more countries.

3.88. *Pipeline transport* covers the transport of goods in pipelines, such as the transport of petroleum and related products, water and gas. Excluded are distribution services, typically from sub-stations to the consumer, for water, gas and other petroleum products (included in *other business services, n.i.e*) and the value of the products transported (included in *goods*).

3.89. *Electricity transmission* covers the movement or transfer of electric energy at high voltage over an interconnected group of lines and associated equipment between points of supply and the points at which it is transformed to low voltage for delivery to consumers or delivery to other electric systems. Transmission is considered to end when the electricity enters distribution facilities of an electric system that deliver electricity to end-users for consumption (see Box 3.3). The electricity itself is excluded (included in *goods*) as is the electricity distribution, which is the delivery of electricity from the substation to the consumer (included in *other business services, n.i.e.*).

3.90. *Other supporting and auxiliary transport services* covers all other transport

services that cannot be allocated to any of the components of transport services previously described.

3.91. EBOPS 2010 and BPM6 provide a breakdown into kinds of transport service as explained in the following paragraphs

3.92. *Passenger services* covers the transport of people. It includes all services provided in the international transport of non-residents by resident carriers (export of services) and that of residents by non-resident carriers (import of services). Also included are passenger services performed within an economy by non-resident carriers (i.e. via internal flights).

3.93. The valuation of *passenger services* should include fares and other expenditure related to the carriage of passengers, including any taxes levied on passenger services, such as sales or value added taxes fares that are a part of package tours, charges for excess baggage, vehicles, or other personal accompanying effects and food, drink, or other items purchased on board carriers. Fees payable by the carriers to travel agencies and other providers of reservation services are also included are rentals provided by residents to non-residents, and vice versa, of vessels, aircraft, coaches or other commercial vehicles with crews for limited periods (such as a single voyage) for the carriage of passengers.

3.94. Excluded are services provided to non-resident passengers by resident carriers within the resident economies (included in *travel*), cruise fares (included in *travel*), rentals of time charters without crew (included in *operating leasing*), and rentals or charters that are financial leases (not included in EBOPS 2010).

3.95. Freight services covers the transport of objects. It may be divided into three types of freight services. The first two are related to the fact that, in line with the recommendations of the BPM6, goods are valued f.o.b. at the customs frontier of the exporting economy. The third type relates to the freight of goods where they do not change ownership. These three types are further described below. The service charge may directly be charged or included in the price.

3.96. All freight costs up to the customs frontier of the economy of the exporter are shown as incurred by the exporter. All freight costs beyond the customs frontier of the economy of the exporter are shown as incurred by the importer. In practice, whether these costs are considered to be imports or exports of freight services, depends on the residence of the freight operator.

3.97. The first type of freight services relates to international transport of the compiling economy's exports and imports of goods. Included are transport services provided by resident operators, that are supplied beyond the customs frontier on the compiling economy's exports (exports of freight services), and services provided by non-resident operators, supplied beyond the exporting economy's customs frontier, on the compiling economy's imports (imports of freight services).

3.98. The second type of *freight services* is provided by resident operators of the compiling economy, inside the customs frontier of the exporting economy, on the compiling economy's imports (exports of freight services), and by non-resident operators of the compiling economy, inside the customs frontier of the compiling economy, on the compiling economy's exports (imports of freight services).

3.99. The third type is concerned with *freight services* supplied for goods where there is no change of ownership. These include the following:

- Transit trade through an economy.
- Transport of goods between third economies (cross-trade).
- Coastal transport or other transport of goods between points within an economy.
- Movements of goods to or from entities located outside territories where the entities are residents (such as government agencies) provided by non-resident carriers.
- Goods sent for storage or processing and migrants' personal effects.

3.100. When actual arrangements for paying freight costs differ from f.o.b. terms of delivery, re-routing is needed. Re-routing of freight services may mean that a transaction that is actually between two residents is treated as a transaction between a resident and a non-resident, and vice versa, as shown in Box 3.4. The timing of the provision of freight services may differ from the timing of the change of ownership of those goods, such as goods sent abroad on consignment where the sale occurs in a different accounting period to when the goods crossed the exporter's customs frontier.

3.101. In principle, freight services should be recorded in the period they are rendered but are attributed to the importer in the period when the goods are purchased. However, in practice, the aggregated nature of recording of freight services and lack of information on individual freight movements, means that timing adjustments to deal with this issue may not be feasible, material, or appropriate, e.g. if the importer pays for the service in the period it is rendered.

3.102. *Other supporting and auxiliary transport services* includes services that are auxiliary to transport and not directly provided for the movement of goods or people. Those services that are not covered above and that relate to one mode of transport only, are recorded under the *other* category of the appropriate mode of transport (sea, air, rail, road and inland waterway transport).

3.103. Included, for example, are: cargo handling (such as loading and unloading of containers) that is billed separately from freight; storage and warehousing; packing and repackaging; towing not included in freight services; pilotage and navigational aid for carriers; air traffic control; cleaning performed in ports and airports on transport equipment; salvage operations and associated agents' fees (including freight forwarding and brokerage services). Services that relate to more than one mode of transport and that cannot be allocated to individual modes of transport are recorded under *other supporting and auxiliary transport services*.

Box 3.4. Examples of the Treatment of Freight Services and Rerouting

A piece of equipment costs 10,000 units at the factory at which it was produced in Economy A. It costs 200 to transport it to the customs frontier of Economy A, 300 to transport it from the customs frontier of Economy A to the customs frontier of Economy B, where a customs duty of 50 is levied, and it costs 100 to deliver it from the customs frontier to the customer. (For simplicity, insurance of the equipment during transport is not covered in the example.)

Under all contractual arrangements between the parties, the f.o.b. value is 10,200 and the c.i.f. value is 10,500. However, how the services are recorded depends on the arrangements for paying the transport costs and the residence of the transport provider. A few of the possible arrangements are discussed below:

Example 1:

The parties contract on an f.o.b. basis (i.e. the invoice price is 10,200; the exporter is responsible for costs up to the frontier of A and the importer is responsible for subsequent costs). In this case, no rerouting is needed. All freight is shown as being provided by the actual provider and payable by the actual invoiced party.

Example 2:

The parties contract on an 'ex works' basis (i.e. the invoice price is 10,000; the buyer pays for transport from the seller's premises).

- The freight from the factory to the customs frontier of Economy A is provided by a resident of Economy A. The 200 payable, which is actually a service provided by a resident of Economy A and payable by a resident of Economy B, must be rerouted to be shown as a resident-to-resident transaction within A, as all costs up to the frontier of the exporting economy are treated as being payable by the exporter and included in the price of the goods.
- The freight from the factory to the customs frontier of Economy A is provided by a resident of Economy B. The 200 payable, which is actually a domestic service transaction within Economy B, must be rerouted as being a service provided from B to A, as all costs up to the frontier of the exporting economy are treated as being payable by the exporter.

Example 3:

The parties contract on a c.i.f. basis (i.e. the invoice price is 10,500). The 300 payable for freight from the customs frontier of Economy A to that of Economy B is rerouted, because the contract makes it payable by the exporter, but it is treated as payable by the importer the services statistics (i.e. following f.o.b. valuation). As a result, if the freight provider is a resident of Economy A, a domestic transaction within Economy A is treated as being a balance of payments transaction. Conversely, if the freight provider is a resident of Economy B, an international transaction is treated as being a domestic transaction within Economy B.

It is not normally possible to study every contract, so general patterns of freight cost arrangements need to be identified. When contract terms other than f.o.b. are used, actual payment arrangements for freight may need adjustments to meet the f.o.b. valuation convention.

Rentals, charters, or operating leases of vessels, aircraft, freight cars, or other commercial vehicles with crews for the carriage of freight are included in freight services. Also included are towing and services related to the transport of oil platforms, floating cranes, and dredges. Financial leases of transport equipment are excluded from transport services.

Rerouting

In all cases where apparently domestic transactions are rerouted to be recorded as international transactions, or vice versa, goods trade must be recorded on a consistent basis, so that the financial payment from Economy B to Economy A equals the sum of its goods and services imports, both before and after re-routing adjustments (if the goods are recorded at f.o.b. values, the adjustments to freight, bring them into consistency with goods. If the goods are recorded at transaction values, the goods values need corresponding adjustments).

Rerouting records a transaction as taking place in channels different from that observed. For example a direct transaction between unit A and unit C may be best understood as a transaction, first between unit A and unit B, and then between unit B and unit C. Mostly this occurs when a unit that is a party to a transaction does not appear in the actual accounting records because of administrative arrangements. Social contributions paid by employers directly to a retirement scheme are an example. The economic substance of such a transaction is revealed by rerouting: showing the social contributions as part of compensation of employees payable by employers to employees, who then make social contributions to the retirement scheme. Similarly, the transfer elements of lotteries and other gambling are transactions through the gambling operator, but are rerouted to occur directly between those participating in the lottery or gambling, that is between households and possibly to charities.

Some related items that are excluded from transport services are: freight insurance (included in *insurance services*); goods procured in ports by non-resident carriers (goods, not services); repairs and maintenance of transport equipment (included in *maintenance and repair services n.i.e.*); repairs of railway facilities, harbours, and airfield facilities (included in *construction*); and rentals or charters of carriers without crew (included in *operating leasing services*). Paragraph 3.420 et seq discusses the issues relating to the attribution of residence of owners and operators of *mobile equipment, including ships and aircraft*.

Valuation of freight transport services on a transaction basis

3.105. As a complement to the freight transport data compiled according to the f.o.b. or Carriage, Insurance and Freight (c.i.f.) valuation principles for goods, a number of users, in particular for *GATS information purposes*, would need additional information on the value of freight transport services provided by residents to non-residents and vice-versa. This information is useful because it represents the actual market transactions as they occur, with no correction, adjustment, or estimation.

3.106. The transport service is recorded if, and only if, a transaction in transport services occurs between a resident and a non-resident. The recording of the separate transport service depends on the delivery terms that are specified in the contract for the sale or purchase of the goods, and realised in the market transaction.

3.107. When the transportation contract is made between two residents of the same country for transport services to be provided on an exported good, the transport service would be excluded from this measurement method, whereas part of it would be included applying the balance of payments principles. This occurs, for example, when the delivery terms specified in the contract for the sale or purchase of a good are franco domicile ("carriage paid") and when the exporter has contracted with a resident of the exporting country to provide the transportation service. The following cases

would be included in the transaction-based measurement method:

- Where a contract to provide transport services is made between a resident and a non-resident and the delivery term is specified as ex-works. The full transport service is recorded. This would include that part of the transportation service provided before the border of the exporting country.
- Transport services between residents and non-residents relating to cross-trade and coastal navigation, or cabotage.

3.108. Generally this transaction information is collected by many national compilers (i.e. before any adjustment to comply with f.o.b. valuation of goods). It is then adjusted to comply with balance of payments principles. Although not included as a recommendation in *MSITS 2010*, compilers are encouraged to make this information publicly available given its analytical interest.

Postal and courier services

3.109. *Postal and courier services* covers the pick-up, transport and delivery of letters, newspapers, periodicals, brochures, other printed matter, parcels and packages. It also includes post office counter services, such as sales of stamps, poste restante services, telegram services etc.⁵⁷ and mailbox rental services.

3.110. Postal services are often, but not exclusively, supplied by national postal administrations. Excluded are financial services rendered by postal administration entities, such as postal giro, banking and savings account services (recorded under *financial services*), mail preparation services (recorded under *other business services, n.i.e.*) and services related to postal communication systems (included in *telecommunication services*). Postal services are subject to international agreements, and the

⁵⁷ The provision of the telegram service is covered under *telecommunications services*; however the sale of telegram services over the counter at a post office is included under postal services.

service entries between operators of different economies should be recorded on a gross basis. Postal services provided by residents to non-residents (or by non-residents to residents) while they are outside their territory of residence are included in *travel*.

3.111. *Courier services* include all kinds of courier service e.g. timed, express and door-to-door delivery. Excluded are the movement of mail carried by air transport enterprises (recorded under *transport, air, freight*), storage of goods (recorded under *transport, other, supporting and auxiliary services*), and mail preparation services (recorded under *other business services, n.i.e.*).

3.112. The principles for recording postal and courier services on exports and imports of merchandise are the same as for other freight services, as discussed in paragraph 3.95. This treatment is a consequence of the f.o.b. valuation of the goods concerned in the BPM6 and the 2008 SNA.

Travel

3.113. The *travel* component of the EBOPS 2010 differs from most internationally traded services in that it is a transactor-based component. Unlike most services in EBOPS, *travel* is not a specific product, rather it is a range of goods and services consumed by non-residents in the economy that they visit. *Travel* is defined as covering goods and services, for own use or to give away, acquired from an economy, by non-residents during visits to that economy. It covers stays of any length, provided there is no change in residence.

3.114. *Travel* includes goods and services acquired by persons undertaking study or medical care while outside the territory of residence. It also includes acquisitions of goods and services by seasonal, border and other short-term workers in the economy of the employment.

3.115. The goods and services may be purchased by the persons concerned or by another party on their behalf. e.g. business travel may be paid or reimbursed by an employer, tuition and living costs of a student may be paid by a government, or health costs may be paid or reimbursed by a government or insurer. Goods and services supplied by the producer

without charge are also included, e.g. tuition and board provided by a university.

3.116. The most common goods and services entered under *travel* are accommodation, food, beverages and transport within the economy visited (all of which are consumed in the supplying economy). Gifts, souvenirs and other articles purchased for own use and that may be taken out of the economies visited, are also included.

3.117. In line with the accrual principle, goods and services acquired during the visit, but paid for earlier or later, are included in *travel*. Goods and services may be acquired by being paid for by the person going abroad, paid for on his/her behalf, or provided without a quid pro quo (e.g. free room and board received, in such case there is also a corresponding transfer), or produced on own account (as in some cases of ownership of real estate and time-share accommodation).

3.118. The goods and services for own use or to give away, purchased by, or provided to, the non-resident while on the trip that would otherwise be classified under another item, such as postal services, telecommunications, and transport, are included in *travel*. It includes transport within the economies being visited where such transport is provided by carriers resident in the particular economy being visited, but excludes the international carriage of persons, which is covered in *passenger services* under *transport services*. Also excluded are goods purchased for resale in the resident's own economy or in any other economy.

3.119. The acquisition of valuables (such as jewellery and expensive art), consumer durable goods (such as cars and electronic goods) and other consumer purchases for own use, which are in excess of customs thresholds, are excluded. These goods are included in general merchandise.

3.120. *Travel* excludes the acquisition of goods and services by diplomats, consular staff, military personnel, etc. and their dependents in the territory in which they are posted (included in *government goods and services n.i.e.*).

Box 3.5: Relationship between Travel and Tourism

Travel, as defined in MSITS 2010, is synonymous with the term *travel* used in BPM6. It is also related to the term *tourism* used in the *International Recommendations for Tourism Statistics 2008* (IRTS 2008) (as well as the *Tourism Satellite Account: Recommended Methodological Framework 2008*). However, although EBOPS 2010 proposes an alternative breakdown of *travel* by product which allows a closer link with IRTS 2008 and tourism satellite accounts, there are a number of differences in terms of the coverage between balance of payments definitions on the one hand and tourism statistics recommendations on the other.

The IRTS 2008 uses the concept of “usual environment” as an additional criterion to that of residence. The concept is designed to exclude from tourism persons that travel regularly between their place of usual residence and places of work (e.g. border or seasonal workers), study (e.g. individuals studying abroad for more than one year), or other places visited as part of the regular life routine, although these places may be in a different economic territory. There are also some additional differences in terms of the coverage of expenditure between travel and tourism expenditure. As a consequence, some of the main differences are that:

- *Travel* includes estimated values of products (such as accommodation), that may be provided free of charge. It also includes the acquisitions of goods and services by border, seasonal and other short-term workers (i.e. persons in an employer-employee relationship with a unit resident in the economy visited), and acquisitions of students and medical patients (as well as their accompanying dependents) away from their country of residence for a period of one year or more. Tourism excludes these from the definition.
- *Travel* excludes purchases of valuables and consumer durables above a custom threshold (tourism includes all irrespective of the threshold). *Travel* also excludes expenditure on international passenger transportation (included in EBOPS 2010 *passenger transport*) which tourism includes except for border, seasonal and other short-term workers.

To highlight the link between balance of payments and tourism statistics MSITS 2010 includes a supplementary item, *Tourism-related services in travel and passenger transport* (see paragraph 3.130). Annex IV also provides more guidance on the differences between MSITS 2010 conceptual framework and tourism statistics recommendations.

3.121. *Business travel* covers the acquisition of goods and services, for own use or to give away, by persons whose primary purpose of travel is for business (including the goods and services for which they are reimbursed by employers). It does not include the sales or purchases that they may undertake on behalf of the enterprises they represent. Examples of persons travelling for business purposes include carrier crews stopping off or laying over, government employees on official business; employees of international organizations on official business, employees travelling on behalf of their employing enterprise where it is not resident in the economies visited, self-employed individuals travelling for business purposes and seasonal, border, and other short-term workers who are not resident in the economy in which they are employed and whose employer is resident in that economy.

3.122. The business activities undertaken while travelling may include production or installation work, sales campaigns, market exploration, commercial negotiations, missions, conferences, conventions, other meetings, or other business purposes on behalf of an enterprise resident in another economy.

3.123. The acquisition of goods and services for own use or to give away by seasonal, border and other workers who are not resident in the economy where they are employed, and whose employer is resident in that economy is separately identified in the EBOPS 2010 subcomponent *acquisition of goods and services by border, seasonal and other short-term workers*. All other business travel is included in the EBOPS 2010 subcomponent *other business travel*. The separate identification of these items would facilitate the reconciliation with tourism statistics (see paragraph 3.129 and box 3.5).

3.124. *Personal travel* covers goods and services acquired by persons going abroad for purposes other than business, such as holidays, participation in recreational and cultural activities, visits to, friends and relations, pilgrimage and education and health-related purposes. *MSITS 2010* recommends a breakdown of *personal travel* into three sub-components based on the primary purpose of personal travel:

- *Health-related* includes expenditure for medical services, other healthcare, food, accommodation, local transport and so on,

acquired by persons travelling for medical reasons;

- *education-related* includes, expenditure for tuition, food, accommodation, local transport, health services and so on, acquired by non-resident students; and
- *other* includes expenditure by those not travelling for health or educational primary purposes. This category is usually the largest component of travel as it includes all persons going abroad for holidays, recreational and cultural activities, visits to friends and relations and pilgrimages.

3.125. An alternative presentation of *travel*, by product, is also recommended (see annex I), according to the following categories:

- *Goods*;
- *Local transport services*.
- *Accommodation services*.
- *Food and beverage-serving services*.
- *Other travel-related services*.

A further breakdown of *other travel-related services* into *health services* and *education services* is also suggested. This alternative presentation, included in the supplementary items to EBOPS, will help a more appropriate analysis from a GATS perspective (see Chapter V) and closer links to tourism statistics and supply and use tables (see box 3.5). The separate identification of expenditure on local transport, accommodation and food services will facilitate the analysis of travel expenditure. If the alternative presentation by product is made, care should be taken by compilers to ensure that no confusion exists between the health services and education services within other travel-related services (presentation by product) and health-related and education-related expenditure within personal travel (presentation by purpose of travel).

3.126. Goods and services included in the travel component may be provided through a travel agent, tour operator, time-share exchange agent, or other provider. In some of these cases, the agent may pay

the travel providers an amount that deducts a margin or commission. If the agent is a resident of the same economy as the customer, then the margin or commission is a resident-to-resident transaction. The net amount payable to service providers resident in other economies (after the margin or commission receivable by the agent is deducted) is included in travel. In other cases, the non-resident provider of the services may pay the resident agent's commission and the gross amount is payable to non-residents. Fares for cruises provided by operators resident in economies other than that of the passenger are included in *travel* (not *passenger transport*).

3.127. While the outright purchase of vacation or holiday homes has always been an alternative to using other types of short-term accommodation by non-residents, other forms of acquisition and leasehold of holiday homes have emerged.

3.128. The term 'time-share'⁵⁸ covers a wide range of these arrangements. The recording of the periodic flow of accommodation services is derived based on the following arrangements:

- The acquisition of deeded ownership of property; i.e. the ownership of land and buildings. The accommodation services provided to the owner should be imputed based on market prices.
- Payments for rights to use a property under a membership system. These payments are equivalent to pre-paying for accommodation services. After the initial acquisition, the prepayment is drawn down and the imputed accommodation services are recorded in *travel*⁵⁹.

Tourism-related services in travel and passenger transport

3.129. EBOPS 2010 *travel and passenger transport* items are related to tourism expenditure as

⁵⁸ For further guidance on the identification of time-share services see BPM6 paragraph 10.100.

⁵⁹ The BPM6 distinguishes between a membership system with a transferable right to use and a membership system with a non-transferable right to use. However, this distinction is not important for international trade in services statistics as the periodic flows are the same.

defined in the 2008 *International Recommendations for Tourism Statistics* (IRTS). However, there are a number of differences in terms of coverage between them (see Box 3.5). To highlight the link between *travel* and *passenger transport* and tourism statistics *MSITS 2010* proposes a supplementary item, *Tourism-related services in travel and passenger transport*, as an estimate of tourism as an international traded service. This supplementary item includes expenditures of persons that qualify as visitors (both overnight visitors –or tourist- and same day visitors – or excursionists-) and consequently excludes *acquisition of goods and services by border, seasonal, and other short-term workers* (i.e. those in an employer-employee relationship with a unit resident in the economy visited), as well as *passenger transport payable by border, seasonal, and other short-term workers*.⁶⁰

Construction

3.130. *Construction* covers the creation, management, renovation, repair, or extension of fixed assets in the form of buildings, land improvements of an engineering nature and other constructions such as roads, bridges, and dams. It also includes related installation and assembly work, site preparation and general construction as well as specialized services such as painting, plumbing and demolition.

3.131. *Construction* is valued on a gross basis, i.e. inclusive of all goods and services used as inputs to the work, other costs of production and the operating surplus that accrues to the owners of the construction enterprise. This valuation principle is the same as that which applies in the valuation of all production (of both goods and services), as described in the 2008 SNA.

3.132. Construction is also gross in the sense that it can be disaggregated into *construction abroad* and *construction in the compiling economy*. *Construction* credits consist of *construction abroad* credits and *construction in the compiling economy* credits. *Construction* debits consist of *construction abroad* debits and *construction in the compiling economy* debits.

3.133. This disaggregation allows for the recording on a gross basis of both the construction work undertaken and the goods and services acquired from

⁶⁰ See Annex IV for more information.

residents in the host economy, by non-resident enterprises undertaking the construction.

3.134. *Construction abroad* comprises construction work for non-residents by enterprises resident in the compiling economy (export of services) and the goods and services acquired from residents in the host economy by these enterprises (import).

3.135. *Construction in the reporting economy* comprises construction work for residents of the compiling economy by non-resident construction enterprises (import) and the goods and services acquired in the compiling economy from resident entities by these non-resident enterprises (export). Both sub-components of *construction* cover the work performed on construction projects and installations by employees of an enterprise in locations outside the economic territory of the enterprise.

3.136. The goods and services acquired from residents of the economy of the location of the construction work are recorded under construction as exports of that economy and as imports of the economy of the construction enterprise⁶¹. Goods and services acquired from residents of the home economy of the enterprise undertaking the construction by that enterprise are excluded as they represent resident to resident transactions. Goods and services acquired from residents of third economies (i.e. neither the residence of the enterprise, nor the location of the construction work) are recorded under the appropriate general merchandise or service item for the economy of the enterprise.

3.137. *Expenditure on goods and services in the host economy* includes expenditure by the construction enterprise on locally supplied items and goods and services that have been imported to the host economy, where the goods and services are for use on the construction site.

3.138. In the particular case where the construction enterprise purchases goods and services in its home economy, these still constitute part of the value of construction. However, because they have not been purchased in the host economy, they are excluded from *goods and services purchased in the host*

⁶¹ This includes goods and services that were produced in the economy of the enterprise and were then purchased by residents of the economy of location of the construction work.

*economy*⁶². Depending on the method of data collection used, it may not be possible to identify separately the goods purchased in the home economy and the host economy. For practical reasons, the compiler may need to estimate a breakdown, or otherwise attribute all goods purchased to either the host or the home economy of the construction enterprise.

3.139. It may not always be possible to identify the purchase of goods and services separately from labour costs. In this case, the compiler will need to estimate a breakdown, or alternatively allocate all costs either as goods and services or as compensation of employees.

3.140. If the external operations of a construction enterprise are substantial enough, they may constitute a branch resident in the economy of operations (see paragraph 3.17 et seq). As a result, a large-scale construction project contracted by a non-resident enterprise that takes a year or more to complete, will usually give rise to a resident branch. Accordingly, there would be a direct investment relationship between the parent and the branch and coverage within FATS. There may also be goods and services supplied between the branch and the parent, such as for materials. See paragraph 5.73 for more information.

3.141. The transfer of ownership of construction under a contract may be deemed to occur in stages as value is put in place. In such cases, stage payments made by the owner can often be used to approximate the gross value of construction, although stage payments may sometimes be made in advance or in arrears of the completion of the stage.

3.142. Construction may also be undertaken in a similar way to *manufacturing services on physical inputs owned by others*, where the customer provides goods and services to the contractor as inputs into the construction project. In this case, the inputs do not

⁶² Compilers should note that in merchandise trade statistics, the value of goods imported into the host economy for use on the construction site will be included in imports under the general and special trade systems. Where goods are purchased by the construction enterprise in its home economy and shipped to the construction site, an adjustment must be made to the merchandise trade statistics to exclude the value of any such goods from the balance of payments goods component.

change ownership. The treatment, like manufacturing services, is to record actual changes of ownership, not

physical movements of goods.

Box 3.6. A Numerical Example of the Measurement of Construction

Enterprise A, resident in country A, undertakes construction in country B valued at 10,260. To undertake the construction, enterprise A purchases inputs of materials and labour consisting of:

	units
Materials (goods and services) and labour purchased in country A	1 200
Of which:	
Goods	645
Services	120
Labour ^a	435
Materials and labour purchased from residents of country B	6 655
Of which:	
Imported from country A ^b	525
Imported from country C	1 730
Sourced in country B	2 290
Labour ^a	2 110
Total cost of purchased inputs	7 855

In addition, a gross operating surplus accrues to enterprise A of: **2 405**

Giving a gross value of construction of: **10 260**

The total value of construction is the sum of the inputs into the production process and the gross operating surplus accruing to the producing enterprise. Thus, the value of construction is 10,260 units.

What would be measured under construction between residents and non-residents?

<p>In country A <i>Construction abroad</i> Credit 10 260 ^c Debit 4 545 ^d</p>	<p>In country B <i>Construction in the compiling economy</i> Credit 4 545 ^c Debit 10 260 ^d</p>
--	--

^a Labour (compensation of employees) is recorded as primary income in the macroeconomic statistics (see paragraphs 3.59 et seq and Chapter V for an explanation of the difference between service provision and the provision of labour). The labour purchased in country B was provided by residents of country B.

^b This is a transaction between a resident and a non-resident as the goods are purchased from a resident of country B by enterprise A. Although the goods were imported from A, they are now part of the stock of goods of country B.

^c Gross value of construction.

^d Amount of goods and services purchased by enterprise A in economy B (the host economy), equal to 525+1730+2290 units

3.143. Transactions relating to existing buildings are included in construction in the same way as new buildings. Most transactions involving acquisitions of existing buildings and land are treated as being between two resident units in the macroeconomic statistics. International transactions of construction can arise when a building for an embassy, consulate, military base, or international organization is sold to, or purchased from, a resident of the economy in which the building is physically located. Transactions in construction may also occur for buildings in an area that is exchanged between economies. The change in ownership of the land component is not included in *construction*. Separate estimates should be made for the structure and land components.

3.144. Repairs on embassies, bases, etc. owned by the government that occupies them, are included in *government goods and services n.i.e.*

3.145. GATS users and a number of analysts are interested only in the service aspects. Although not recommended as a separate item in *MSITS 2010*, when an interest is identified, and if this information is available as a by-product of the data collection on construction, compilers are strongly encouraged to make this information publicly available.

Insurance and pension services

3.146. *Insurance and pension services* covers the provision of various types of insurance to non-residents by resident insurance enterprises, and vice versa.

3.147. *MSITS 2010* recommends that *insurance and pension services* be disaggregated into four separate subcomponents: *direct insurance*; *reinsurance*; *auxiliary insurance*; *pension and standardised guarantee services*. *Direct insurance* is also further broken down in to *life*, *freight* and *other direct insurance*. *Pension and standardised guarantee services* is further broken down into *pension services* and *standardized guarantee services*.

3.148. Insurance provides individual units (governments, enterprises and households) exposed to certain risks with financial protection against the consequences of the occurrence of specified events. In addition, insurers often act as financial intermediaries who invest funds collected from these units in financial or other assets to meet future claims.

3.149. Pension funds are established to provide benefits for retirement or invalidity of specific groups of employees. They are similar to insurance in that

they act as intermediaries for investing the funds for their beneficiaries and redistribute some risks.

3.150. Insurance and pension fund operation have common features, but can be distinguished in that life insurance and pension funds include a large saving component, while the objective of non-life insurance (including term life insurance) is largely undertaken to pool risk.

3.151. The transactions undertaken by insurers include charging premiums, paying claims, and investing funds. Similarly, pension fund transactions include receiving contributions, paying benefits and investing funds. To analyze the underlying economic nature of these operations, it is necessary to rearrange these processes to separately identify the service, investment, investment income and transfers elements separately.

3.152. Cross-border insurance is particularly common in specialized areas such as reinsurance and high-value items such as insurance of ships and aircraft. For some small economies, the small size of their risk pool means that a wider range of items tends to be insured with non-residents. With international mobility of population, cross-border transactions in life insurance and pensions can also occur on a significant scale.

3.153. Direct insurance and reinsurance may take place for both life and non-life policies. Direct insurance occurs between an insurance company and the public. Reinsurance is defined as insurance where both parties to the policy are providers of insurance services. That is, reinsurance allows insurance risk to be transferred from one insurer to another. Many insurers act as both direct insurers and reinsurers.

3.154. Reinsurance and direct insurance services are estimated or valued by the service charges included in total premiums. The estimation procedures recommended in *MSITS 2010* (as in BPM6) are summarised in Box 3.7.

3.155. For exports of non-life insurance services, the service charge can be estimated from total non-life insurance output by multiplying the gross premiums earned from non-residents, by the ratio of service charge to gross premiums earned for all non-life insurance operations. The same prorating technique can be used for life insurance, annuities, pension funds and standardized guarantee services. To the extent that these ratios vary for different lines of business (reinsurance, marine, term life, etc.), the calculations should be made separately.

3.156. Similarly, if it is known that there are different margins between resident and non-resident customers, data from the operations most relevant to non-resident policyholders should be used. The ratios should be calculated according to the formula in paragraph 3.163, so they take into account premium supplements and claims volatility. (See Box 3.7 for an example of calculations).

3.157. For imports of non-life insurance services, the available information is less complete than that for exports. For reinsurance, the only customers are insurance companies, so data on premiums payable and claims receivable may be readily available from them. However, premium supplements are not observable.

3.158. For direct insurance, there is a wider range of customers and available data may be more limited, such as to premiums paid and actual claims only.

3.159. To derive a service charge from these values, ratios need to be obtained using the most suitable available indicator:

- Ratios of large international insurance companies from other economies or from published accounts may be used. International trade in some types of non-life insurance is dominated by relatively large, specialized companies.
- Ratios from the resident insurance industry may be considered. In some economies, there may be equivalent lines of business.
- Ratios based on premiums payable abroad and claims receivable from abroad over a medium to long-term period. International insurance trade includes direct insurance of large items (like ships and aircraft) and reinsurance, so the use of claims receivable over the short-term for a particular economy may be highly volatile. An adjustment for premium supplements would also be needed, or there could be an understatement of the value of services.

3.160. Such ratios should be calculated as consistently as possible with those for total services and exports, so they should also take into account premium supplements and claim volatility. Although premium supplements are not readily observable for imports, some adjustment is needed to avoid an understatement of the value of services and asymmetry with exports. Premium supplements to premiums ratios observed from other cases could be used to

avoid this understatement. The same prorating techniques can be used for life insurance, annuities, pension funds and standardized guarantee services.

3.161. Premiums for insurance policies are paid in advance, while claims are only paid if the insured events happen, sometimes much later. Insurance technical reserves represent the amounts identified by insurance companies to account for these prepayments of premiums and claims incurred but not yet paid. That is, reserves can be seen as the application of usual accrual accounting principles.

3.162. Insurance companies hold assets to meet the liabilities to policy holders represented by the reserves. The management of these financial and non-financial assets is an integral part of the business of insurance. The income generated by these investments has a considerable influence on the level of premiums that insurance enterprises need to charge. Consequently, the income earned on the investment of the reserves is treated as being receivable by the policyholders, who then pay it back to the insurance enterprises as premium supplements.

3.163. Non-life insurance is distinguished from life insurance in that it pays benefits only if an insured event occurs, whereas for life insurance, there is always a payout. That is, non-life insurance is designed primarily for pooling risk, rather than as an investment. In contrast to life insurance, term life insurance benefits are only payable on the death or incapacity of the insured within a specified time-period, and so term life insurance is included in non-life insurance.

3.164. Types of non-life insurance include; accident and health, term life, marine, aviation and other transport, fire and other property damage, pecuniary loss, general liability and credit insurance. Because of the way in which insurance corporations keep their accounts, it may not always be possible to separate term insurance from other life insurance. In these circumstances, term insurance may have to be treated in the same way as life insurance for purely practical reasons.

3.165. The value of non-life insurance services can be expressed as follows:

- Gross premiums earned
 - *Plus:* premium supplements
 - *Less:* claims payable

- *Less:* adjustments for claims volatility, if necessary

3.166. Major catastrophes that may require large payments of claims are expected to occur once in several years. When these occur, the payments of claims in that year could exceed the value of premiums. If only the claims incurred in the accounting period are used in the formula, the value of insurance services could be erratic and, in some cases, could even be negative. Therefore, an adjustment in claims due is required to reflect a more long-term view of claims behaviour, in line with the decision making process in the insurance industry. The adjustment for claims volatility shows the difference between the actual claims in the period and the normally expected value of claims, where the expected value of claims removes the effects of claims volatility. In periods when large values of claims are incurred, the adjustment would be negative, while in other period the adjustment would be positive.

3.167. The formula can also be expressed as follows:

- Gross premiums earned
 - *Plus:* premiums supplements
 - *Less:* expected claims

3.168. *Life insurance* involves a stream of payments by the policyholder in return for an agreed minimum lump sum at the end of the policy, which may occur at maturity or death of the policyholder. Annuities are the reverse, in that the insurer makes a stream of payments in return for a lump sum at the beginning of the policy. Thus, a claim is always paid for a life insurance policy. The sum may be fixed or may vary to reflect the income earned from the investment of the premiums. A policy in which the claim could vary depending on the income derived from the investment is referred to as a 'with-profits' policy.

3.169. Term life insurance is a type of direct insurance during a specified period of time where benefits are paid in the case of death but in no other circumstances. Therefore, it is not considered life insurance.

3.170. The formula for deriving the value of life insurance services is basically the same as for life non-life insurance, except that payments to policyholders are called benefits instead of claims and reserves are added to account for the accrual of future benefits.

3.171. Thus, the formula for life insurance is presented as follows:

- Gross premiums earned
 - *Plus:* Premium supplements
 - *Less:* Benefits due
 - *Less:* Increases (*plus* decreases) in life insurance reserves (actuarial reserves and reserves for with-profits insurance).

3.172. The item for actuarial reserves in the formula for life insurance reflects the amounts that are payable at the end of the policy, rather than as claims in the current period. They are shown as accruing to particular policyholders because they consist of allocations to the actuarial reserves and reserves for with-profits insurance policies to build up the sums guaranteed under these policies. Changes in the actuarial reserves and reserves for with-profits insurance include the provision made for bonuses payable in future.

3.173. It is common with life insurance policies for amounts to be explicitly attributed by the insurance corporation to the policyholders in each year. These sums are often described as bonuses. The sums involved are not actually paid to the policy holders but the liabilities of the insurance corporation towards the policyholders increase by this amount. This amount is shown as investment income attributed to the policyholders. The fact that some of it may derive from holding gains does not change this designation; as far as the policyholders are concerned, it is the return for making the financial asset available to the insurance corporation.

3.174. All the income from the investment of non-life reserves and any excess of income from the investment of life reserves, over any amounts explicitly attributed to the policyholders, is shown as investment income attributed to policyholders, regardless of the source of the income.

3.175. In the case of annuities, the same principles apply, but the calculation is different because of the opposite cash flow. This is elaborated in *2008 SNA* Chapter 17 Cross-Cutting and Other Special Issues.

3.176. *Freight insurance services* relates to insurance provided on goods that are in the process of being exported or imported. Freight insurance provides coverage against theft of, damage to, or other loss of freight. Excluded from the coverage of *freight insurance services* is the insurance of the vehicles that are used to transport the goods.

3.177. Freight insurance premiums payable on internationally traded goods, before they reach the customs frontier of the economy of the exporter, are included in the f.o.b. price of the goods. Freight insurance premiums payable subsequent to the goods leaving the customs frontier of the exporter's economy, are treated as payable by the importer. This means that freight insurance services should be included in the compiling economy's balance of payments when they;

- relate to exports of goods beyond the customs frontier of the compiling economy, and are supplied by resident insurers (credits) or
- relate to imports of goods to the compiling economy, beyond the customs frontier of the exporting economy, when they are provided by non-resident insurers (debits).⁶³

3.178. In addition, *freight insurance services* includes services related to other transport of goods, where the insurance services are provided between a resident and a non-resident of the compiling economy.

3.179. *Other direct insurance* covers all other forms of casualty insurance. Included are term life insurance; accident and health insurance (unless these are provided as part of government social security schemes); marine, aviation and other transport insurance; fire and other property damage; pecuniary loss insurance; general liability insurance and other insurance, such as travel insurance and insurance related to loans and credit card

⁶³ Insurance costs up to the customs frontier of the exporting economy are included in the f.o.b. value of the goods exported. In this case, if the insurance services are provided by non-residents of the exporting economy, they should be included in *insurance services-debits* of the exporting economy and *insurance services-credits* of the economy that provides the services.

Box 3.7: Calculation of non-life insurance service

Example 1: For resident insurers with separate data on policyholders abroad:

Premiums earned from abroad.....100
Claims payable abroad.....95

Income attributable to policyholders.....20 (premium supplements)

Insurance service charge is 25 (= 100 + 20 - 95)

Example 2: For resident insurers with separate data on policyholders abroad for premiums only:

Total insurance services (to residents and non-residents combined).....50
Total premiums.....200
Of which: Premiums from residents.....120
 Premiums from non-residents.....80

Estimated insurance services provided to non-residents is 20 (= 80 / (200) * 50)

Example 3: For non-resident insurers with resident policyholders:

Premiums from residents.....40
Ratio of service charge to premiums (average from data on insurers abroad)—25%
Estimated insurance services from non-residents.....10 (= 40 * 0.25).

Example 4: With an adjustment for claims volatility

Premiums earned from abroad = 135

Income attributable to policyholders = 8 (premium supplements)

Claims payable abroad = 160

Adjustment for volatility in claims payable = -40
(i.e., expected long-term level of claims would be 120, that is 160-40)

Estimated insurance services provided to nonresidents = premiums earned plus premium supplements less expected claims (i.e., expected claims is derived as actual claims payable plus adjustment for volatility)
= 135 +8 -120
= 23
(Note: not taking into account the volatility would lead o a negative value of services: -17)"

These examples are derived from more elaborated examples included in BPM6, which also show the impact on other accounts.

3.180. *Reinsurance* is the process by which an insurance enterprise receives insurance coverage from specialized insurers to protect itself against the risk of extraordinarily large or unforeseen losses. Reinsurance allows the insurer to increase its capacity and to spread the liability when instances of major losses may strain the resources of the insurer. The reinsurance may be either proportional or non-proportional. In proportional reinsurance, the reinsurer covers a fixed percentage of the value claims of the insurer, in return for a fixed percentage of premiums. In non-proportional insurance, the reinsurance only kicks in if the insurer suffers losses that exceed a given value.

3.181. The value of reinsurance services is measured in a way similar to that for direct non-life insurance. However, there are some payments peculiar to reinsurance. These are commissions payable to the direct insurer under proportionate reinsurance and profit sharing in excess of loss reinsurance. Once these are taken into account, the output of reinsurance can be calculated as:

- Total actual premiums earned
 - *Less:* commissions payable;
 - *Plus:* Premium supplements;
 - *Less:* Adjusted claims incurred and profitsharing.

3.182. *Auxiliary services* comprises transactions that are closely related to insurance and pension fund operations. Included are agents' commissions, insurance brokering and agency services, insurance and pension consultancy services, evaluation and adjustment services, actuarial services, salvage administration services and regulatory and monitoring services on indemnities and recovery services. Unlike other insurance and pension services, auxiliary services are charged through explicit charges.

3.183. *Pension services* covers the services provided by funds established to provide income on retirement and benefits for death or disability, for specific groups of employees. These funds may be organized by the employers, by the government, or by insurance corporations on behalf of the employees. In some cases, special

units may be established to hold and manage the assets to be used to meet the pension fund obligations.

3.184. Pension schemes are funded by contributions from the employer and/or the employees and by the investment income earned on fund assets. They may also engage in financial transactions on their own account. They do not include social security schemes organized for large sections of the community that are imposed, controlled or financed by general government. However, social security schemes may also have pension entitlement liabilities if they provide pensions to public sector employees. In the case of pension funds, the amounts paid by corporations and/or employees are termed 'contributions', while the amounts accruing to the employees are generally described as 'benefits.'

3.185. There may be explicit or implicit service charges for pension schemes. If the charges are implicit, they are measured in a similar way to that for life insurance and annuities, namely:

- Gross contributions;
 - *Less:* Contribution supplements;
 - *Plus:* Benefits payable;
 - *Less:* Adjustment for change in pension entitlements.

3.186. *Standardized guarantee services* are services related to standardized guarantee schemes. Standardized guarantee schemes represent a class of identical financial guarantees (i.e. similar types of credit risk) that are issued in large numbers, usually for small amounts.⁶⁴ Examples include export credit guarantees and student loan guarantees. They are arrangements where one party (the guarantor) undertakes to cover the losses of the lender in the event that the borrower defaults. Either the borrower or lender may contract with the guarantor to repay the creditor if the debtor defaults. The guarantors are generally government units or financial corporations, usually insurance

⁶⁴ Standardized guarantees can be contrasted with two other types of guarantees: guarantees that are financial derivatives or one-off guarantees. See BPM6 Chapter 5.

companies. While it is not generally possible to estimate very precisely the risk of any one loan being in default, it is possible to make a reliable estimate of how many out of a large number of such loans will default. It is therefore possible for a guarantor to determine suitable fees to charge for a guarantee working on the same sort of principle as an insurance corporation where the fees received in respect of many policies cover the losses by a few. A guarantor working on a commercial basis will charge fees, meet claims and earn investment income in a way similar to non-life insurance. The value of the service is calculated in the same way as non-life insurance (see paragraph 3.167).

3.187. *MSITS 2010* recommends that data on gross premiums receivable and gross claims payable, be shown as supplementary items. These items are useful for GATS as well as of analytical value, and should be shown separately for *life insurance, freight insurance and other insurance*.

Financial services

3.188. *Financial services* covers financial intermediation and auxiliary services, except those of insurance enterprises and pension schemes. These services include those usually provided by banks and other financial intermediaries and auxiliaries.⁶⁵ Included are services provided in connection with transactions in financial instruments, as well as other services related to financial activity, such as deposit taking and lending, letters of credit, credit card services, commissions and charges related to financial leasing, factoring, underwriting and clearing of payments. Also included are financial advisory services, custody of financial assets or bullion, financial asset management, monitoring services, convenience services, liquidity provision services, risk assumption services other than insurance, merger and acquisition services, credit rating services, stock exchange services and trust services.

⁶⁵ Financial intermediaries collect funds from lenders and transform or repackage them (with respect to maturity, scale, risk and the like) in ways that suit the requirements of borrowers. A financial intermediary does not simply act as an agent for these other institutional units, but places itself at risk by acquiring financial assets and incurring liabilities on its own account.

3.189. *Financial services* may be charged for by: explicit charges; margins on buying and selling transactions; asset management costs deducted from property income receivable, in the case of asset-holding entities; or margins between the interest rate and the reference rate on loans and deposits (called financial intermediation services indirectly measured, abbreviated as FISIM). EBOPS 2010 identifies FISIM separately from all other financial services.

3.190. For financial intermediaries, the balance between explicit and implicit charges may vary over time and from institution to institution, so data on both are needed to get a complete picture of their supply of services.

Explicit charges

3.191. Explicit charges are levied in the case of many financial services and require no special calculation or estimation. Some explicit charges associated with deposit and lending services include application and commitment fees, early/late repayment fees/penalties and account charges.

3.192. An increase in interest rates because of late payment would not be classified as an explicit fee, but would be included with other interest and, so, taken into account as FISIM. Explicit charges also include a variety of other commissions and fees for various financial services.

Margins on buying and selling transactions

3.193. Dealers or market-makers in financial instruments may charge, in full or part, for their services by having a spread between their buying and selling prices. A dealer or market-maker is distinguished from other traders by the existence of a buy-sell spread, which shows that they serve the market somewhat like a wholesaler by providing liquidity and inventory.

3.194. Foreign exchange, shares, bonds, notes, financial derivatives and other financial instruments are often bought and sold in this way. For example, the invoiced price of a security may include a charge for the brokerage service provided, as well as charges for the international transfer of foreign currency. Although such

services are difficult to record, estimates should be included in *financial services*, if possible.

3.195. In such cases, the difference between the reference price and the dealer's buying price at the time of purchase represents the service charge to the seller. Similarly, the difference between the reference price and the dealer's selling price at the time of sale represents the service to the buyer.

3.196. The reference price is usually a mid-price between the buying and selling prices, however, some dealers may have their own internal price for determining their buying and selling prices. In contrast to the reference price, the prices actually paid or received include the financial service component. By using the reference price at the time of purchase or sale, any holding gains or losses on the dealer's trading activity are excluded from services. The service can also be measured by applying the dealers' average margin as a percentage to the value of transactions through dealers.

Asset management costs taken out of income

3.197. Some entities have the sole or predominant function of holding financial assets on behalf of their owners. For example, some mutual funds, holding companies and trusts serve this purpose. In the process of managing those assets, these enterprises incur administrative expenses, such as payments to fund managers, custodians, banks, accountants, lawyers, or their own staff. The expenses can be charged for explicitly as a fee, or implicitly by being paid out of investment income received or out of the assets of the enterprise.

3.198. The expenses implicitly paid for should be recognized as a service to the owners. For example, a hedge fund may distribute a proportion of the net income of the fund to the entity that manages the fund, which should be recorded as a charge for services. Alternatively, implicit asset management service charges can be measured at cost.

3.199. The corresponding entry is to increase the net value of investment income payable to the investor, to the gross value before deduction of the expenses. Without the recognition of the output of such services, the costs incurred would

lead to negative operating surplus for the asset management enterprises. With this treatment, these enterprises have a net operating surplus of zero.

FISIM

3.200. Actual interest can be seen as including both an income element and a charge for a service. Lenders and deposit-takers operate by offering rates of interest to their depositors that are lower than the rates that they charge to their borrowers. The resulting interest margins are used by the financial corporations to defray their expenses and to provide an operating surplus. Interest margins are an alternative to charging customers explicitly for financial services. In addition to financial intermediation, where funds are taken in as deposits and loaned, lending of own funds can give rise to FISIM.

3.201. By convention, these indirect charges in respect of interest apply only to loans and deposits, and only when those loans and deposits are provided by, or deposited with, financial corporations. While loans by holding companies, special purpose entities and other captive financial institutions to their affiliates are not normally expected to generate FISIM, they may do so if they charge a margin. Financial corporations may generate FISIM even if they have only loans or only deposits. For instance, a credit card issuer that raises all of its funds by debt securities can earn FISIM on its loans to credit card customers.

3.202. The rate of FISIM may vary due to a range of factors. These include: the accessibility of funds; the services included, such as arrangements for check-writing facilities (for deposits); perceptions of the credit risk of the borrower and the collateral provided (for loans). FISIM payable by each of the depositors and borrowers is calculated by using the concept of a 'reference' rate of interest. The reference rate should contain no service element and reflect the risk and maturity structure of deposits and loans. The rate prevailing for inter-bank borrowing and lending may be a suitable choice as a reference rate. A single rate should be used for transactions in the domestic currency, whereas different rates should be applied for loans and deposits in other currencies. The reference rate will change over time with market conditions.

3.203. For cross-border deposits and loans, different currencies may be involved, so separate reference rates should be applied for each currency that is a significant proportion of loans or deposits. For international consistency, the definition of the reference rate and the rate used should be taken from the financial markets of the home market of the currency and, preferably, be the same as used by statistical compilers in that economy.

3.204. FISIM is calculated (see Box 3.8 for a numerical example.) as follows:

- For loans from financial corporations, the difference between the interest actually payable on loans and the amount that would be payable if the reference rate were used, and
- For deposits with financial corporations, the difference between the interest that would be earned if a reference rate were used, and the interest actually earned.

3.205. Because a re-purchase agreement with supply of cash (known as a 'repo') is treated as involving a loan or deposit, it may give rise to FISIM. Similarly, a financial lease is treated as giving rise to a loan, so it may also give rise to FISIM if provided by a financial corporation. Inter-bank loans and deposits generally occur at or close to the reference rate, in which case there is no FISIM. However, where there are significant international inter-bank transactions at interest rates above the reference rate (e.g. if the debtor bank has a lower credit rating), it would be suitable for FISIM to be identified.

3.206. Estimates of cross-border FISIM can be calculated from data on the international investment position or banking data on deposits and loans from financial corporations, in conjunction with the amounts of actual interest payable and receivable and reference interest rates. For economies where cross-border FISIM is small, it can be measured with relatively simplified methods based on aggregated data.

3.207. Negative FISIM may occur, for example, when loans are at fixed interest rates and market rates rise. Negative FISIM can also occur owing to measurement error. For example, some large international transactions between banks may be

at or near the reference rate, so a small error in measuring the reference rate could cause negative FISIM.

3.208. Actual interest payable by borrowers is partitioned between a pure interest charge at the reference rate and FISIM. Similarly, pure interest receivable by depositors is calculated by applying the reference rate to depositors. Depositors are then shown as consuming a service equivalent to the difference between the actual interest and interest at the reference rate.

3.209. In summary, *financial services* include:

- Commissions and fees associated with financial transactions, such as:
 - Letters of credit, bankers' acceptances, lines of credit and other similar instruments.
 - Financial leasing.
 - Money transfer.
 - Factoring.
 - Commodity futures.
 - Arrangement of financial derivative contracts.
 - Underwriting, placement of issues, brokerage and redemption of securities, including commissions related to the income payments related to securities.
 - Clearing of payments.
- Financial advisory services.
- Custody services for financial assets or bullion.
- Financial asset management services.
- Merger and acquisition services.
- Corporate finance and venture capital services.
- Credit card and other credit granting services.
- Foreign exchange.
- Regulation and administration of financial markets.
- Credit rating.
- Service charges on purchases of IMF resources.

- Charges associated with undrawn balances under standby or extended arrangements with the IMF and
- FISIM.

3.210. *Financial services* exclude:

- Interest earned on deposits, loans, financial leases and debt securities (this is investment income, not included in EBOPS).
- Dividends earned.
- Life insurance and pension intermediation services (included in *insurance and pension*

services).

- Other insurance services.
- Non-financial advisory services provided by banks (such as management advisory services, which are included in *business and management consultancy and public relations services*) and
- Gains and losses made on purchase and sales of securities and financial derivatives on own account.

Box 3.8. Estimation of financial intermediation services indirectly measured (FISIM)

FISIM payable by lenders (or depositors) and borrowers is calculated using the concept of a ‘reference’ rate of interest. The reference rate represents the pure cost of borrowing funds, so it should be a risk-free rate that has no service element in it. A single rate should be used for transactions in the local currency, whereas different rates should be applied for transactions in other currencies. The type of rate chosen as the reference rate may vary according to the circumstances, but the inter-bank lending rate or the central bank lending rate is usually used for loans and deposits involving the domestic currency. The reference rate will change over time with market conditions.

For those to whom financial intermediaries lend, FISIM is the difference between the interest actually charged on loans and the amount that would be charged if the reference rate were used. For those from whom intermediaries borrow in the form of deposits and/or loans, FISIM is the difference between the interest that would be earned if a reference rate was used and the interest actually earned.

For example:

For resident deposit-taking corporations; all loans and deposits in domestic currency.
Inter-bank interest rate 5% per annum.

Average value of loans during the year =1000
Actual interest receivable by the deposit-taking corporations = 70
partitioned into:
50 pure interest receivable (derived as 1000 at 5%)
20 FISIM receivable (derived as 70 - 50)

Average value of deposits during the year =500
Actual interest payable by the deposit-taking corporations =10
partitioned into:
25 pure interest payable (derived as 500 at 5%)
15 FISIM receivable (derived as 25 – 10)

Total FISIM receivable by the deposit-taking corporations =35 (20+15)

Charges for the use of intellectual property n.i.e.

3.211. This section covers intellectual property products that are not included elsewhere in the EBOPS 2010. Table 3.1 provides a listing of intellectual property products and their treatment.

3.212. *Charges for the use of intellectual property n.i.e.* include;

- charges for the use of proprietary rights, such as patents, trademarks, copyrights, industrial processes and designs, trade secrets, franchises. These rights can arise from research and development, as well as from marketing, and
- charges for licenses to reproduce and/or distribute intellectual property embodied in produced originals or prototypes, such as copyrights on books and manuscripts, computer software, cinematographic works and sound recordings and related rights, such as for the recording of live performances and television/cable/satellite broadcast.

3.213. The production of books, recordings, films, software, disks, etc. is a two-stage process, of which, the first stage is the production of the original and the second stage the production and use of copies of the original. The output of the first stage is the original itself over which legal or de facto ownership can be established by copyright, patent, or secrecy. The owner of the asset may use it directly to produce copies that give the purchaser a right to use. Alternatively, the owner may license other producers to reproduce and distribute the content.

3.214. The payments made by the licensee may be described in various ways, such as fees, commissions, or royalties. The treatment of flows relating to intellectual property products is summarised in Table 3.1. In contrast to temporary rights to use, which are included in this category, outright sales of patents, copyrights relating to the results of research and development and industrial processes and designs are included under the research and

development services heading. Likewise, temporary rights for computer software and audiovisual originals are treated differently to outright sales. However, the research and development component of this category (*charges for the use of intellectual property n.i.e*) differs from the software, audiovisual and related products etc., components in one important respect. Although very unlikely, and so in practice of limited relevance, it is possible that ‘copies’ of research and development are sold which are not temporary but do restrict the rights of users to their own use, in the same way that copies of software, audiovisual and related products etc. can be acquired by purchasers but with restrictions on their use. Unlike payments for software, (and audiovisual and related products etc..) copies however, payments for copies of research and development services should be included in this category and not under 10.1 *Research and Development services*.

3.215. The time of recording of charges for the use of intellectual property follows the substance of the license agreement. If the rights to use the intellectual property are sold for a one-time fee under a non-cancellable contract, and where the licensor has no remaining obligations to perform, then the whole sum is a sale. Otherwise, charges are allocated over the life of the agreement. In practice, it may be feasible only to record the payments when they are made.

3.216. Franchise fees, trademark revenue, payments for use of brand names, etc. include aspects of property income (i.e. putting a non-financial, non-produced asset at the disposal of another unit) as well as aspects of services (such as the active processes of technical support, product research, marketing, and quality control). In principle, it would be desirable to separate the income and service elements. However, it may not be feasible to do so in practice, in which case, a convention is adopted that the entire values are to be classified as charges for the use of intellectual property. Such a convention would be taken as a starting point, but if additional information to make a split is available, the compiler should do so.

3.217. The EBOPS 2010 recommends an extended breakdown of *charges for the use of*

intellectual property n.i.e. This breakdown is as follows:

- *Franchise and trademark licensing fees* covers all payments and charges for the use of trademarks and franchises.
- *Licenses for the use of outcomes of research and development* covers fees and charges for the use of proprietary rights arising from research and development.

3.218. *Licenses to reproduce and or distribute computer software* covers the charges for the authorized reproduction and/or distribution (through licensing agreements) of produced software originals. Distribution, in this sense, is not defined as wholesale and retail sale. The sale of a copy of a computer software package that is purchased by an individual or enterprise for individual use, is not covered by a license to distribute. The sale of the software for individual or personal use is recorded in

Table 3.1: Treatment of Intellectual Property

	Use of intellectual property		Sale or purchase of intellectual property ownership rights* ³
Franchises and trademarks	<i>charges for the use of intellectual property n.i.e.</i>		Balance of payments capital account
Outcomes of research and development	<i>charges for the use of intellectual property n.i.e.</i>		Research and development services
Computer software products; audiovisual and related products:	License to use * ¹	License to reproduce and/or distribute * ²	relevant service item* ⁴
	relevant service item* ⁴	<i>charges for the use of intellectual property n.i.e.</i>	
	relevant service item* ⁴		
	relevant service item* ⁴		
(a) Customised products of all types			
(b) Non-customised products, downloaded or otherwise electronically delivered			
(c) Non-customised products provided on physical media with periodic license fee			
(d) Non-customised products provided on physical media with right to perpetual use	Goods		

*¹ Covers the case where a specific product is supplied with the right to use the intellectual property embodied in it, but not to copy it for further distribution. The transactions should be classified under the appropriate goods and services items.

*² Covers the case where authority to reproduce and/or distribute the intellectual property is delegated by its owner.

*³ Covers the case where there is a change of economic ownership of the whole of the intellectual property right in question. The seller no longer has any rights or obligations associated with the intellectual property. This case also includes second or subsequent outright sales of intellectual property rights.

*⁴ The relevant product is either computer services or audiovisual and related products, depending on the nature of the content provided.

See also paragraph 3.214 et seq

For example, the sale/purchase of a copy of a software package that is mass-produced, and is obtained by an individual to load onto a single computer is covered by a license to use that excludes reproduction and distribution; this situation would be recorded in goods and services depending on the examples (see examples (b), (c), and (d) under software in Table 3.1). If a manufacturer pays for the right to include the software on computers that it produces, then the payment would be a license to reproduce and/or distribute (charges for the use of intellectual property provided by the owner of the original).

computer services. Software sold on physical media with the right to perpetual use is included under *goods*.

- *Licenses to reproduce and/or distribute audiovisual and related products* is further broken down into two subcomponents:
- *Licenses to reproduce and/or distribute audiovisual products* covers fees and charges for the authorized reproduction and/or distribution, through licensing agreements, of produced audiovisual originals or prototypes (e.g. cinematographic works, sound recordings). Also included are rights relating to the reproduction and/or distribution of recordings of live performances and radio, television, cable and satellite broadcast. Retransmission rights for sport events are also covered. Further information on audiovisual is provided in the complementary grouping audiovisual transactions.
- *Licenses to reproduce and/or distribute other products* covers fees and charges for the authorized reproduction and/or distribution through licensing agreements of original works of authors (e.g. translation rights), painters, sculptors etc., excluding those relating to products of an audiovisual nature.

Telecommunications, computer and information services

3.219. *MSITS 2010* recommends that the BPM6 component *telecommunications, computer and information services* be further disaggregated into three sub-components — *telecommunications services, computer services, and information services*.

3.220. *Computer services* and *telecommunications services* are defined in terms of the nature of the service, not the method of delivery. To illustrate, provision of business services, such as accounting services, is included under the appropriate subcomponent of *other business services*, even if these services are entirely delivered by computers or the

Internet. Only amounts payable for transmission should be included under *telecommunications services*. Downloaded content is included in the appropriate services items.

3.221. *Telecommunications services* covers the broadcast or transmission of sound, images, data, or other information by telephone, telex, telegram, radio and television cable transmission, radio and television satellite, electronic mail, facsimile, etc., including business network services, teleconferencing, and support services. They do not include the value of the information transported. Also included are mobile telecommunications services, Internet backbone services and online access services, including the provision of access to the Internet. Excluded are installation services for telephone network equipment (included in *construction*), and database services (included in *information services*).

3.222. *Computer services* consists of hardware and software-related services and data-processing services. Table 3.1 shows the classification of various arrangements for software products and related charges for the use of intellectual property. The EBOPS 2010 recommends the breakdown of this item into *computer software and other computer services*.

3.223. *Computer software* includes:

- Sales of customised software (however delivered) and related licenses to use;
- the development, production, supply and documentation of customised software, including operating systems, made to order for specific users;
- non-customised (mass-produced) software downloaded or otherwise electronically delivered, whether with a periodic license fee or a single payment;
- licenses to use non-customised (mass-produced) software provided on a storage device such as a disk or CD-ROM with a periodic license fee; and

- sales and purchases of originals and ownership rights for software systems and applications.
- 3.224. Non-customised software on storage devices with licenses that convey perpetual use are excluded from services and included in general merchandise.
- 3.225. Software includes general business productivity software, computer game software, and other applications.
- 3.226. For national accounts purposes, it would be useful to separately identify *computer software originals*.
- 3.227. The time of recording software follows the same principles as for other intellectual property.
- 3.228. *Other computer services* includes :
- Hardware and software consultancy and implementation services, including the management of subcontracted computer services;
 - hardware and software installation, including installation of mainframes and central computing units;
 - maintenance and repairs of computers and peripheral equipment;
 - data recovery services, provision of advice and assistance on matters related to the management of computer resources;
 - analysis, design and programming of systems ready to use (including web page development and design), and technical consultancy related to software;
 - systems maintenance and other support services, such as training provided as part of consultancy;
- data-processing and hosting services, such as data entry, tabulation and processing on a time-sharing basis;
 - web page hosting services (i.e. the provision of server space on the Internet to host clients' web pages); and
 - provision of applications, hosting clients' applications, and computer facilities management.
- 3.229. Excluded from *computer services* are computer-training courses not designed for a specific user (included in *other personal, cultural, and recreational services* under *education services*) and leasing of computer without an operator (included in *operational leasing*). Also excluded are charges for licenses to reproduce and/or distribute software, which are included in *charges for the use of intellectual property n.i.e.*
- 3.230. *Information services* is divided into *news agency services* and *other information services*:
- *News agency services* include the provision of news, photographs, and feature articles to the media;
 - *other information services* includes database services, such as database conception, data storage, and the dissemination of data and databases (including directories and mailing lists), both online and through magnetic, optical or printed media and web search portals (search engine services that find Internet addresses for clients who input keyword queries). Also included are: direct non-bulk subscriptions to newspapers and periodicals, whether by mail, electronic transmission, or other means; other on-line content provision services, and library and archive services. (Bulk newspapers and periodicals are included under general merchandise.)

Downloaded content that is not software or an audiovisual or related product is included in *information services*.

Other business services

The *MSITS 2010* coverage of *other business services* is identical to that of BPM6, although with a greater disaggregation. EBOPS identifies three subcomponents: *research and development services*, *professional and management consulting services* and *technical, trade-related and other business services*. Within these three subcomponents, a number of further breakdowns are suggested.

Research and development services

Research and development services covers those services that are associated with basic research, applied research, and experimental development of new products and processes and covers activities in the physical sciences, social sciences and humanities, whether produced by the market or non-market sector....

The definition of research and development services used here, and in the CPC Ver. 2, is wider than the Frascati Manual⁶⁶ definition (which is used to define the scope of capital formation in the *2008 SNA*). The definition used in *MSITS 2010* includes other testing and other product development that may give rise to patents.

To differentiate between this difference in coverage, the EBOPS 2010 recommends a breakdown of *research and development services* into two sub groupings: *work undertaken on a systematic basis to increase the stock of knowledge* (reflecting the coverage of research and development in a 2008 SNA context) and *other*.

3.231. 'Work undertaken on a systematic basis to increase the stock of knowledge' is further broken down into two parts: *provision of customised and non-customised research and development services* and *sales of proprietary rights arising from research and development*.

- *Provision of customised and non-customised research and development*

⁶⁶ The Frascati Manual is the OECD's internationally recognised methodology for collecting and using R&D statistics.

services covers the provision of research and development services that are made-to-order (customised) and development of non-customised research and development excluding sales of proprietary rights, and sales related to licences to reproduce or use. These latter two items, *licenses to reproduce and licenses to use*, should instead be included in EBOPS category 8.2 *Licenses for the use of outcomes of research and development*. *Sales of proprietary rights arising from research and development covers the sales of proprietary rights* and includes: *patents, copyrights arising from R&D, sale of industrial processes and designs (including trade secrets) and other*. These items should be identified separately. The amounts payable for use of proprietary rights arising from research and development are included under *charges for the use of intellectual property, n.i.e.* In practice it may be difficult to differentiate all payments for *licenses to reproduce from the sale of proprietary rights, as in some cases the former will represent sales of proprietary rights*.

3.232. *Excluded are technical studies and consultancy work; both are included in professional and management consulting services.*

3.233. *Other includes testing and other product/process development activities.*

Professional and management consulting services

3.234. *Professional and management consulting services is broken down into two parts: legal, accounting, management consulting and public relations and advertising, market research and public opinion polling.*

3.235. *Services for the general management of a branch, subsidiary, or associate provided by a parent enterprise or other affiliated enterprise, are included in other business services, often under professional and management consulting services. However, reimbursements of ancillary services supplied by affiliated enterprises, such*

as transport, purchasing, sales and marketing, or computing, should be shown under the relevant specific heading. Management fees are included in other business services. Disproportionately large values of services between affiliated enterprises should be examined for signs that they are disguised dividends, for example, indicated by large fluctuations that do not reflect actual changes in the services provided. *MSITS 2010* further breaks down this item into *legal services; accounting, auditing, bookkeeping and tax consulting services; and business and management consulting and public relations services.*

- *Legal services* includes legal advisory and representation services in any legal, judicial and statutory procedures; drafting services of legal documentation and instruments; certification consultancy and escrow and settlement services.
- *Accounting, auditing, bookkeeping and tax consulting services* includes the recording of commercial transactions for businesses and others; examination services of accounting records and financial statements; business tax planning and consulting and preparation of tax documents.

3.236. *Business and management consulting and public relations services* includes advisory, guidance and operational assistance services provided to businesses for business policy and strategy, and the overall planning, structuring and control of an organization. Included are management auditing, market management, human resources, production management and *project* management consulting and such services related to improving the image of the clients and their relations with the public and other institutions.

Advertising, market research and public opinion polling

3.237. *Advertising, market research and public opinion polling* services transacted between residents and non-residents, includes the design, creation and marketing of advertisements by advertising agencies; media placement, including the purchase and sale of

advertising space; exhibition services provided by trade fairs; the promotion of products abroad; market research; telemarketing and public opinion polling on various issues.

3.238. It may be desirable, if there are substantial resident to non-resident transactions, to show separately the value of the transactions in *convention, trade-fair and exhibition organisation services* that are included in *advertising, market research, and public opinion polling*. This particular item, which corresponds to subclass 8596 of CPC Ver.2, consists of organization of economic events (trade shows or exhibitions, at regular or irregular intervals); organization of scientific or cultural meetings and congresses and supply and setting-up of exhibition equipment associated with the organization of exhibitions.

Technical, trade-related and other business services

3.239. *Technical, trade-related and other business services* is broken down into five subcomponents: *architectural, engineering, scientific and other technical services; waste treatment and de-pollution, agricultural and mining services; operating leasing services; trade-related service; and other business services n.i.e.*

- *Architectural services* includes transactions related to the design of buildings.
- *Engineering* covers the design, development and utilization of machines, materials, instruments, structures, processes and systems. Services of this type involve the provision of designs, plans and studies related to engineering projects. Mining engineering is excluded and included in *services incidental to mining, oil and gas extraction.*
- *Scientific and other technical services* includes: surveying; cartography; product testing and certification and technical inspection services.

- *Waste treatment and de-pollution, agricultural and mining services* is broken down into three parts: *waste treatment and de-pollution services; services incidental to agriculture, forestry and fishing* and *services incidental to mining, oil and gas extraction*.
- *Waste treatment and de-pollution services* includes: the treatment of radioactive and other waste; stripping of contaminated soil; cleaning up of pollution including oil spills; restoration of mining sites and decontamination and sanitation services. Also included are all other services that relate to the cleaning or restoring of the environment. If a government issues a non-tradable emission permit and, alongside this permit, provides extensive services for the non-resident purchaser, the payment will be recorded in services according to the service provided (in most circumstances as *government goods and services n.i.e.*). Other types of emission permit payments are excluded from services.⁶⁷
- *Services incidental to agriculture, forestry and fishing* includes services that are incidental to agriculture, such as the provision of agricultural machinery with crew, harvesting, treatment of crops, pest control, animal boarding, veterinary services, animal care and breeding services. Services in hunting, trapping, forestry and logging and fishing are also included here. Veterinary services are also included.
- *Services incidental to mining, oil and gas extraction* includes mining services provided at oil and gas fields, including drilling, derrick building, repair and dismantling services and oil and gas well casing cementing. Services incidental to mineral prospecting and exploration, as well as mining engineering and geological surveying, are also included here.

3.240. *Operating leasing* is the activity of renting out a produced asset under an arrangement that provides use of the asset to the lessee, but does not involve the bulk transfer of risks and benefits of ownership to the lessee. The services include resident/non-resident leasing (rental) and charters, without crew, of ships, aircraft and transport equipment, such as railway cars, containers and rigs. Operational lease payments relating to other types of equipment are also included and may be distinguished by the following characteristics:

- The lessor normally maintains a stock of assets that users can hire or rent on demand, or at short notice;
- the assets may be rented out for varying periods and the lessee may renew the rental when the period expires;
- the lessor is frequently responsible for maintenance and repair of the asset as part of the service that is provided to the lessee.

3.241. Operating leasing of dwellings and other buildings are included in this item. If no objective basis exists on which to split the payment between rent on land and rental on the buildings, the whole amount should be treated as rental on the building when it is believed that the value of the building exceeds the value of the land. If the value of the land exceeds the value of the building then the whole amount should be excluded from operating leasing and treated as rent on the land, included in the primary income account. Likewise, rent of land alone and rent of other natural resources are excluded from services.

3.242. Excluded from operating leasing is the rental of buildings by international organizations, embassies, etc. (included in *government goods and services n.i.e.*). The leasing of telecommunications lines or capacity is included in *telecommunications services*. The rental of ships and aircraft with crew

⁶⁷ See BPM6 para 13.14. Note that the treatment of other emission permits is part of the 2008 SNA research agenda and that a number of issues are under discussion by the ISWGNA. For permits issued under cap and trade schemes, a tax on the production accounts of the emitter, should be accrued to the point in time when emissions occurred. Transactions between government and non-residents when permits are issued are transactions in assets.

is included in *transport services*. Rental of dwellings (accommodation) and vehicles to non-residents during their stays in economies other than their economies of residence, is included in *travel*.

3.243. Operating leasing should be distinguished from financial leasing. In a financial lease, the lessee undertakes most or all of the risks and benefits of ownership. There is a change in economic ownership although the legal title remains with the owner. Although similar, a financial lease is seen as a loan and therefore the transactions are excluded from services.

3.244. *Trade-related services* covers commissions on goods and service transactions payable to merchants, commodity brokers, dealers, auctioneers, and commission agents. For example, these services include the auctioneer's fee or agent's commission on sales of ships, aircraft and other goods. If the trader owns the goods being sold, the trader's margin is generally included indistinguishably in the value of the goods.

3.245. Any margins not included in the f.o.b. price of the goods are included in *trade-related services*. Excluded from *trade-related services* are franchising fees (included in *charges for the use of intellectual property n.i.e.*); brokerage on financial instruments (included in *financial services*), and transport-related charges, such as agency commissions (included in *transport services*).

3.246. *Other business services n.i.e.* includes: distribution services for water, steam, gas and petroleum products, where these are identifiable separately from transmission services; air conditioning supply; the placement of personnel (the services provided by these personnel are recorded under the relevant services item); security and investigative services; translation and interpretation; photographic services; building cleaning; real estate services to businesses and any other business services that cannot be classified to any of the business services listed above. Also included is electricity distribution. Electricity transmission is recorded under *transport* (see Box 3.3).

Personal, cultural and recreational services

3.247. This comprises two subcomponents, *audiovisual and related services* and *other personal, cultural and recreational services*.

3.248. *Audiovisual and related services* covers services associated with audiovisual activities (movies, music, radio, television) as well as services relating to performing arts. The coverage of this EBOPS item is, therefore, broader than the CPC Version 2.0 item 962 *audiovisual and related services*.

3.249. In EBOPS, *audiovisual and related services* is further broken down into *audiovisual services* (corresponding to CPC Version 2.0 item 961 *audiovisual and related services*) and *artistic related services* (corresponding to CPC Version 2.0 items 962 *Performing arts and other live entertainment event presentation and promotion services* and 963 *Services of performing and other artists*).

3.250. *Audiovisual services* relates to the production of motion pictures (on film, videotape, disk, or transmitted electronically), radio and television programmes (live or on tape) and musical recordings. Performing arts and other live entertainment event presentation and promotion services (i.e. live performances such as concerts, plays) are excluded from this item and included in *artistic related services*. However the recording of live performances is included in audiovisual services and for these recordings the same treatment as for other audiovisual products applies. Included in audiovisual services are amounts receivable or payable for rentals of audiovisual and related products and charges for access to encrypted television channels (such as cable and satellite services).

3.251. Mass-produced audiovisual products (movies, music, including recordings of live performances) that are purchased or sold outright or for perpetual use, are included under audiovisual services if downloaded (i.e. delivered electronically). However, those on CD-ROM, disk, etc., are outside the scope of the EBOPS 2010 standard categories (included under general merchandise). Similar products obtained through a license to use (other than when conveying perpetual use) are included in audiovisual services, as is the use of other on-line content related to audio and visual media. Charges or licenses to reproduce and/or distribute audiovisual products are excluded from audiovisual services and included in *charges for the use of intellectual property n.i.e.*

3.252. Also included are purchases and sales of ownership rights for entertainment such as radio and television broadcast originals, sound recordings, motion picture, videotape, television and radio programme originals, etc. over which legal or de facto ownership can be established by copyright. Table 3.3 summarises the treatment of intellectual property associated with audiovisual services as defined in EBOPS, as well as other types of intellectual property.

3.253. It would be useful to separately identify *audiovisual originals* as the information on these products would be of use to national accounts compilers and analysts. Further information on audiovisual is provided in the Complementary Grouping *audiovisual transactions*.

3.254. *Artistic related services* includes the services provided by non-resident performing artists (actors, musicians, dancers, etc.), authors, composers and sculptors to residents and vice-versa. It also includes services provided by independent models as well as set, costume and lighting designers. Transactions are included if they are not employees of the entity making payments (otherwise it is compensation of employees). Also included are presentation and promotion services for performing arts and other live entertainment events. However the recoding of such events is included in *audiovisual services*.

3.255. Mass-produced artistic related products (e.g. books), as well as related purchases and sales of ownership rights of literary or other artistic originals (excluding those covered under audiovisual), should be treated in the same way as *audiovisual products* as described above.

3.256. Transactions relating to the selling of exclusive rights (e.g. the exclusivity of a publisher to publish literary works of an author) are not covered (this right for exclusivity is considered as an asset, contract for future production, and the payment is included in the capital account).

3.257. *Other personal, cultural and recreational services* is divided into four parts: *Education services, health services, heritage and recreational services* and *other personal services*.

3.258. *Education services* comprises services relating to all levels of education whether delivered

through correspondence courses, via television, satellite, or the Internet, as well as by teachers, and so forth, who supply services directly in host economies. Excluded are education services provided to non-residents who are present in the territory of the service provider (included in *travel*).

3.259. *Health services* comprises general and specialized human health services provided by hospitals, doctors, nurses and paramedical and similar personnel, as well as laboratory and similar services, whether rendered remotely (through telemedicine or telediagnosis) or on-site. Included are diagnostic-imaging services, pharmaceutical, radiology and rehabilitation services. Excluded are health services provided to non-residents who are present in the territory of the service provider (included in *travel*) and veterinary services (included in *services incidental to agriculture, forestry and fishing*).

3.260. *Heritage and recreational services* includes services associated with museums and other cultural, sporting, gambling and recreational activities, except those acquired by persons outside their country of residence (included in *travel*). The amounts paid for gambling, including lottery tickets and placed in bets, consist of two elements:

- a service charge receivable by the unit organizing the lottery or gambling. (This charge may also have to cover taxes on gambling); and
- a transfer to cover the amounts payable to the winners and, in some cases, amounts payable to charities.

3.261. The value of the lottery and other gambling and betting services supplied by or to non-residents is estimated as the amount wagered by non-residents multiplied by the overall ratio of services to the total amount wagered for that gambling operator or type of gambling. This method for separately identifying the service component is similar to the method used for insurance services.

3.262. *Other personal services* includes social services, membership dues of business associations, domestic services, etc.

Government goods and services, not included elsewhere

3.263. *Government goods and services n.i.e. covers:*

- Goods and services supplied by and to enclaves, such as embassies and military bases,
- goods and services acquired from the host economy by diplomats, consular staff and military personnel located abroad and their dependents; and
- services supplied by and to governments and not included in other categories of services.

3.264. The EBOPS 2010 recommends that *government goods and services n.i.e.* be further classified according to the following breakdown:

- Embassies and consulates;
- military units and agencies;
- other.

This further breakdown is based on the transactor, i.e. the government unit undertaking the transaction, rather than the type of transaction.

Goods and services supplied by and to enclaves, such as embassies and military bases

3.265. As government and international organization enclaves are not residents of the territory in which they are physically located, their transactions with residents of the territory of location are international transactions. For the same reason, transactions of embassies, military bases, etc. with their home economies are resident-to-resident, and outside the scope of the EBOPS.

3.266. Exports of *government goods and services n.i.e.* include the supply of goods and services to embassies, consulates, military units, defense agencies and other official entities (such as aid missions, government tourism information and trade promotion offices) of foreign governments located in the compiling economy.

3.267. Imports of *government goods and services n.i.e.* include acquisition of goods and services by embassies, etc. of the government of the compiling

economy in other territories. Charges for visas and other services provided by embassies and consulates are also included in *government goods and services n.i.e.*. The supply and purchase of goods and services by international organizations, including military arrangements, peacekeeping forces and other services, such as those provided by the United Nations, are also included in *government goods and services n.i.e.*

Goods and services acquired by staff employed in enclaves and their dependents

3.268. All expenditure on goods and services by diplomats, consular staff, and military personnel, and dependent members of the same household, located abroad, in the economies in which they are located, is also included in *government goods and services n.i.e.* However, the expenditure of locally engaged staff of embassies, military bases, and so forth, and international organization staff is not included in *government goods and services n.i.e.* (and is usually a resident-to-resident transaction).

3.269. The supply of goods and services to foreign diplomats etc. located in the compiling economy, is shown as credits, while the expenditure of the compiling economy's diplomats etc. in the economy of their posting, is shown as debits. (Goods disposed of by diplomats etc. are similarly recorded with the signs reversed, for example, a car sold at the end of a posting is shown as a debit to the local economy.)

Other services supplied by and to governments

3.270. Services supplied by and to governments should be classified to the relevant service category (business services, health, etc.), if possible. However, some services are related to government functions that are not able to be classified to another specific service category, so are classified as government services n.i.e. For example, technical assistance on public administration is included in government services. Also, payments for police-type services (e.g. keeping order), such as those supplied with mutual agreement by a foreign government or international organization, are included in *government goods and services n.i.e.* Government supply of licenses and permits that are classified as services are also included under *government goods and services n.i.e.*

Government licenses, permits, etc.

3.271. One of the regulatory functions of governments is to forbid the ownership or use of certain goods, or the pursuit of certain activities, unless specific permission is granted by issuing a license or other certificate for a fee. If the issue of such licenses involves little or no work on the part of government, the licenses being granted automatically on payment, it is likely that they are simply a device to raise taxes, even though the government may provide some kind of certificate, or authorization, in return.

3.272. Governments also use the issue of licenses to exercise some proper regulatory function. Where the licensing is used to check the competence or qualifications of the person concerned, to check the efficient and safe functioning of equipment, or to carry out some other form of control that it would otherwise not be obliged to do, the payments made should be treated as purchases of services from government, rather than payments of taxes, unless the payments are clearly out of all proportion to the costs of providing the services.

3.273. The borderline between taxes and payments of charges for services rendered is not always clear-cut in practice. In the case of permits issued by the private sector, treatment as a tax is not an option, so the fee can only be a service or contract, lease, or license asset. In the case of licenses (government or private) that may be resold by the holder, the resale is recorded in the capital account. By convention, amounts payable by households for licenses to own, or use vehicles, boats or aircraft, and also licenses for recreational hunting, shooting or fishing, are treated as taxes. Amounts payable by households for all other kinds of licenses, permits, certificates, passports, etc., are treated as purchases of services.

T. Complementary groupings of service and non-service transactions

3.274. For various analytical purposes, compilers may wish to aggregate a number of service transactions (and non-service transactions) to provide information on areas of particular interest or concern to users. These may relate to health care, environmental issues or audiovisual or software activities. As with the components described above, it is useful if compilers follow

the same guidelines for producing these complementary aggregations. The following complementary groupings are discussed:

- Audiovisual transactions.
- Cultural transactions.
- Computer software transactions.
- Call centre services.
- Total services transactions between related enterprises.
- Trade related transactions.
- Environmental transactions.
- Health services.
- Education services.

1. Audiovisual transactions

3.275. *Audiovisual transactions* has been identified as a complementary aggregation to address the needs of analysts for information on a range of transactions relating to audiovisual activities. In addition, it is sometimes difficult to isolate *audiovisual services* from other audiovisual transactions, not only because of the technical nature of these transactions, but also because these transactions are often conducted between related enterprises. In audiovisual business networks, integration of production/distribution enterprises and co-production activities are more often the rule than the exception.

3.276. This aggregation *should* be used to show the total value of such resident/non-resident transactions. *Audiovisual transactions* is defined as covering all international transactions relating to products (goods and services) with an audiovisual content. It is a reorganization of a range of resident/non-resident transactions, including transactions that are outside the range of services covered in BPM6 and EBOPS 2010. It is recommended for its analytical usefulness and includes transactions in:

- *Audiovisual services;*
- *licenses to reproduce and/or distribute audiovisual products; and*

- *audiovisual goods* which are not covered by the above items (the list of goods needs to be defined consistently with the products defined in the services categories);

3.277. Audiovisual transactions will, therefore, include customised, original or mass-produced recordings and other entertainment or artistic products on physical media (CD-ROM, disk, etc.) or delivered electronically whether purchased or sold outright, for perpetual use, or with a periodic license fee. Audiovisual transactions include distribution rights for film and television programmes; television retransmission rights for sport events; sale of rights for video editions of films and television programmes, based either on the number of video cassettes or disks produced, or on distribution in a particular territory; music composers' rights that are linked to the sale of records paid through collecting societies; rights related to the recording of live musical or theatrical performance; sale of ownership rights for original films and television programmes, for cinema release or for broadcasting; subscription services provided for encrypted television channels, such as cable and over-the-air, or free-to-air, broadcasting.

3.278. It should be noted that fees and rights may be paid on a number of different bases, including pay-per-view, number of video cassettes or disks produced, time period, territory or size of the audience reached.

3.279. For musical works and television and radio programmes, the management and collection of these fees is often carried out by 'performing rights societies' or 'collecting societies.'

3.280. The enterprises carrying out these transactions are mainly producers of audiovisual services and goods that receive distribution rights (for example, when there is a television or radio transmission), and author/composers' rights (for example, when records are sold); television and radio channels that pay rights for retransmission and encrypted television channels (both receipts and payments should be recorded as audiovisual

transactions); or performing rights societies that act as intermediaries between producers and the media.

3.281. For national accounts purposes, it would be useful to separately identify all licenses to use audiovisual products.

2. Cultural transactions

3.282. *Cultural transactions* includes *audiovisual transactions* and other cultural related transactions in *services* and *goods*, such as performing rights related to live musical or theatrical performances; rights for theatrical releases abroad by drama companies; musical shows produced abroad; music composers' rights that are not linked to the sale of records paid through collecting societies; performing fees related to live musical or theatrical performance; fees for theatrical releases abroad by drama companies.

3.283. This complementary grouping therefore includes transactions included in:

- Audiovisual transactions, (*see list above*)
- Artistic related services;
- Licenses to reproduce and/or distribute other products;
- Heritage and preservation services (e.g. fees collected from exchanges of artefacts between museums from different countries);
- News agency services;
- Other information services excluding database and related services.
- Architectural services;
- *Advertising services, which are included in Advertising, market research, and public opinion polling;*
- Cultural related goods which are not covered by the above items (the list needs to be defined consistently with

the products covered in services categories).

3.284. The list of cultural goods and services, which is based on the CPC and the Harmonised Commodity Description and Coding System (HS), is further elaborated in the 2009 UNESCO Framework for Cultural Statistics.

3. Computer software transactions

3.285. *The computer software transactions* complementary grouping includes transactions relating to computer software goods and computer software services. It therefore includes:

- *Computer services;*
- *licenses to reproduce and/or distribute software; and*
- computer software goods which are not covered by the above items (the list of goods needs to be defined consistently with the products defined in the services categories).

3.286. *Computer software transactions* includes sales of customised software (however delivered) and related licenses to use; the development, production, supply and documentation of customised software, including operating systems made to order for specific users; non-customised (mass-produced) software downloaded or otherwise electronically delivered, whether with a periodic license fee or a single payment; non-customised (mass-produced) software provided on physical media with a periodic license fee; sales and purchases of originals and ownership rights for software systems and applications; charges for licenses to reproduce and/or distribute intellectual property embodied in produced computer software; software installation; and non-customised software provided on physical media with right to perpetual use.

3.287. For national accounts purposes, it would be useful to separately identify all *licenses to use computer software products*.

4. Call centre services

3.288. *Call centre services* is not identified as a separate category in the BPM6 or EBOPS 2010, which is why it is suggested as a complementary grouping (4) in *MSITS 2010*. These transactions are included under the service item corresponding to the service actually provided, e.g. computer technical support, debt collection and marketing services.

5. Total services transactions between related enterprises

3.289. This item provides information on the value of the various types of service between related parties. It includes payments from branches, subsidiaries and associates to their parent enterprise or other related enterprises that represent contributions to the general management costs of the branches, subsidiaries and associates (for planning, organizing and controlling) and also reimbursements of expenses settled directly by parent enterprises. Also included are transactions between parent enterprises and their branches.

6. Total trade-related transactions

3.290. *Total trade-related transactions* include all transactions relating to the distribution services of goods and services. It includes the commissions on goods and services transactions payable to merchants, commodity brokers, dealers, etc. who do not own the goods that they buy and sell (included in *trade-related services*). It also includes the traders' margins. These margins are generally included indistinguishably in the value of the general merchandise or the value of the goods under merchandising and are not presented separately in the balance of payments statistics.⁶⁸

3.291. *Total trade-related transactions* includes:

- *Trade-related services; and*

⁶⁸ Please see Chapter V paragraph 5.18 and the Box 5.4 on the US experience in estimating distribution services.

- the estimated distribution services included in goods (including goods under merchanting).

7. *Environmental transactions*

3.292. This grouping is an aggregation of all transactions that relate to environmental damage caused by the pollution of water, air, soil, as well as problems relating to waste disposal, noise and ecosystems in respect to measurement, prevention, correction, and limitation.

3.293. It includes, in particular, *waste treatment and de-pollution services* as well as a number of other transactions relating to the protection of the environment. The EBOPS 2010 –CPC Ver. 2 correspondence table presents the coverage of this complementary grouping (see www.annexes.org).

8. *Total health services*

3.294. This item combines international transactions relating to the provision of health services. It includes generalized and specialized human health services provided remotely or onsite; and health services provided to persons whilst visiting the country of the health service provider.

3.295. *Total health services* includes:

- *Health services* (product breakdown of *travel, other services*); and
- *Health services* (under *other personal, cultural and recreational services*).

9. *Total education services*

3.296. This item combines international transactions relating to the provision of education services. It includes the provision of all levels of education through distance teaching, teaching services provided directly in the host economies and education services provided to non-residents who are present in the territory of the service provider.

3.297. *Total education services* includes:

- *Education services* (product breakdown of *travel, other services*); and
- *Education services* (under *other personal, cultural and recreational services*).

U. Data collection

3.298. Methods of collection can be described in terms of the following main types of sources:

- – International merchandise trade statistics (IMTS);
- international transactions reporting systems (ITRS);
- surveys of enterprises;
- surveys of households;
- administrative data and
- information obtained from partner countries and international organizations.

3.299. Data may be obtained directly through one or more of these methods, or it may be that some type of modelling is used in order to obtain estimates of the balance of payments components.

3.300. It may be possible to obtain data from the IMTS on the movement of goods shown as supplementary items under the component *manufacturing services on physical inputs owned by others*.

3.301. An ITRS records transactions that take place between residents and non-residents. Such a system may be a product of present or past exchange controls, or it may exist separately from these. In many countries, commercial banks record all of the transactions that take place through their systems and report these

(either individual transactions or in aggregate form) to the balance of payments compiler. Where residents are able to conduct transactions outside of the domestic banking system, the relevant segment is included in the ITRS. Typically, this segment would comprise data on transactions through bank accounts held abroad by residents. Supplementary data must be collected for transactions where no money changes hands (such as in barter trade or when trade credits are extended).

3.302. Surveys of enterprises collect information in aggregate form on the transactions of resident enterprises with non-residents. Such surveys may have full coverage or be conducted on a sample basis. Surveys of enterprises may be conducted to collect information from enterprises engaged in specific activities. For example, airlines that are engaged primarily in carriage of passengers and freight, legal firms that supply only a small range of services, or hotels and restaurants that cater primarily to overseas visitors. Alternatively, surveys may be applied to a wide range of enterprises to collect information on all of their services transactions, or even on all of their balance of payments transactions. To be successful, such surveys require the use of an up-to-date register of enterprises and good survey techniques (such as appropriate follow-up, and verification and estimation techniques).

3.303. There are few household surveys conducted specifically for balance of payments purposes; the most usual such surveys are the periodic or ongoing surveys that are conducted to collect information on travel expenditure. It is common, however, to make use of existing household surveys to collect extra information for balance of payments purposes on migration statistics and household income and expenditure.

3.304. Official sector (government and monetary authorities) data include data available from the detailed accounting records of the monetary authorities and all levels of government. These may supplement other data sources or be used to validate data obtained from other sources.

3.305. Data on balance of payments services transactions may also be obtained as a by-product of administrative functions of the government. For services statistics, the most common of these are applications that may be needed for residents to export or import services and the records that may be kept relating to education and health services provided to or by non-residents.

3.306. Information obtained from partner countries is useful to provide data where it is not possible to collect these directly within a country as well as to validate other data collections and estimation methods. Data from international organizations are particularly useful for aid-recipient countries to compile data on technical assistance services.

3.307. Compilers must consider many things when choosing a method or methods for estimating the various services components. This includes the legislation that permits data collection, the data that are already available, the available resources, the needs of users and the appropriateness to the particular country of the various methods of data collection that might be used.

3.308. Information on some types of transactions may be obtained from more than one data source. If information can be collected from more than one source, data can be usefully crosschecked.

V. Summary of recommendations

3.309. The main recommendations for compiling statistics on transactions between residents and non-residents of an economy can be summarized as follows:

1. The BPM6 recommendations on the principles of recording residence, valuation, time of recording, currency of recording and conversion should be followed.
2. Data on services transactions between residents and non-residents of an economy should be compiled according to EBOPS 2010. Of highest priority is the compilation of data at the level of BPM6; this should be followed by the introduction of the EBOPS 2010 level of detail, but taking into

account the data requirements in individual compiling economies. Related supplementary items should also be compiled. A further, although less immediate priority, is the compilation of data on EBOPS complementary groupings.

3. Data should be compiled on an individual trading partner basis, at least at the level of the 12 major components of BPM6.
4. Data for at least total services transactions should be compiled separately for transactions with related and with unrelated parties.
5. Each EBOPS component should be allocated either to one dominant mode or, where there is no single dominant mode, to the most significant modes of supply as described in Chapter 5. This is accorded a low priority.

IV. Foreign affiliates statistics and the international supply of services

A. Introduction

4.1. For both goods and services, international sales may be effected not only through the transactions between residents and non-residents that are recorded in balance of payments accounts as specified by BPM6 and 2008 SNA, but also through the establishment of a commercial presence abroad. For services, this method of serving foreign markets is particularly important because it can often be the only method that permits the close and continuing contact between service providers and their customers necessary to compete effectively with indigenous enterprises.

4.2. In *MSITS 2010*, statistics describing the overall operations of foreign-controlled affiliates⁶⁹ are termed ‘Foreign Affiliates Statistics’, or ‘FATS’. Principles for recording FATS statistics are in line with international statistical standards, especially those governing the measurement of foreign direct investment (FDI) within BPM6 and the *OECD Benchmark Definition of FDI*, 4th Edition (BD4).⁷⁰ The FDI universe is introduced in Box 4.1 as it enables the understanding of the universe of FATS statistics. Furthermore, although the FDI universe has a broader coverage than the FATS universe, FDI statistics may provide useful indicators relating to commercial presence for those countries that have not yet begun to compile FATS. A precondition for the establishment of a foreign affiliate is generally the development of investment flows leading to a foreign direct investment relationship. The affiliate engages in the production and supply of goods and services. Also there may be, among other things, intra-enterprise international trade in services (e.g. management charges).

⁶⁹ Here, ‘affiliate’ is used synonymously with ‘direct investment enterprise’, which, following BPM6 and BD4, is an incorporated or unincorporated enterprise in which a direct investor who is resident in another economy owns 10 per cent or more of the voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise). As will be explained below, most of the present Chapter is concerned with only those affiliates that are ‘controlled’ by the direct investor. In what follows, these affiliates may—for ease of exposition—also be referred to simply as ‘affiliates’, where the limitation to the foreign-controlled subset of affiliates is clear within the context of the discussion.

⁷⁰ It is also in line with the *OECD Handbook on Economic Globalization Indicators (HEGI)*.

4.3. Foreign affiliates statistics form a subset of statistics on the activities of multinational enterprises (AMNEs) and exclude the activities of the affiliate's ultimate parent enterprise. Conceptually, the population of enterprises covered by the statistics on the AMNEs is itself a sub-category of the enterprises covered by FDI statistics: the former relates to control, while the latter is based on ownership and influence.⁷¹

4.4. Consonant with MSITS’ theme and purpose, its recommendations for compiling these statistics have been designed and presented with services in mind. However, except for the particular activity and product breakdowns suggested, most of the recommendations are equally applicable to goods or services.

B. Coverage of FATS

4.5. Before considering the particular measures that should make up the FATS data set, it is necessary to consider which are the enterprises that should be covered by these statistics as well as the recommendations regarding statistical units.

Ownership criteria

4.6. Although 10 percent ownership of the voting power is recommended as the lower threshold for FDI, *MSITS 2010* concurs with the *OECD Handbook on Economic Globalisation Indicators* and the BD4 in recommending that FATS should be compiled, as a first priority, for the foreign-controlled subset of foreign affiliates. ‘Control’ is defined in the Framework for Direct Investment Relationships (FDIR) set out in Chapter 3 paragraph 135 of BD4 and it is deemed to exist if there is majority ownership (i.e. control of more than 50%) of the voting power at each stage of the chain of ownership.

4.7. Although GATS does not provide statistical definitions, it does give some indication of the kind of ownership criteria that would be useful in support of the agreement. The agreement refers to concepts of

⁷¹ *I.e.* a larger population of FDI enterprises corresponding to the ownership criterion of 10%-100% of the voting power as opposed to the lower population of enterprises underlying MNE statistics, for which more than 50% ownership is necessary for control. However, the reconciliation of the two sets of statistics is not only limited to this theoretical description of control and influence (see BD4 paragraph 27).

‘ownership’, ‘control’, and ‘affiliation’. Under GATS, a juridical person (such as a business enterprise) is:

- 7.0.1. ‘owned’ by persons of a WTO member if more than 50 percent of the equity interest in it is beneficially owned by persons of that member;
- 7.0.2. ‘controlled’ by persons of a member if such persons have the power to name a majority of its directors or otherwise to legally direct its actions; and
- 7.0.3. ‘affiliated’ with another person when it controls or is controlled by that other person, or when it and the other person are both controlled by the same person (article XXVIII, section [n]).

Therefore, GATS is concerned with cases of control as defined by the FDIR, as well as with other cases in which control can be demonstrated to have been achieved.

4.8. Similar criteria are already used as the basis for FATS in key countries that maintain this type of data⁷² and provide operationally practical bases for the selection of enterprises that are to be regarded – following a concept found in SNA – as ‘foreign-controlled enterprises’.⁷³

4.9. Although it may in some respects have been conceptually more appealing to categorize enterprises on the actual presence or absence of foreign control in an operational sense, control as defined by the FDIR (correspondent to majority ownership of the voting power at each stage of the chain of ownership) has been selected as the recommended ownership criterion for FATS. Unlike *de facto* control⁷⁴, its implementation does not require the use of subjective criteria, nor does it require that compilers examine the nature of investments on a case-by-case basis. The absence of a subjective

⁷² See for instance the Eurostat *Foreign Affiliates Statistics (FATS) Recommendations Manual (2009 edition)* that foresees the compilation of FATS on controlled foreign affiliates.

⁷³ SNA 2008, pre-edit version, *The rest of the world account and links to the Balance of Payment*, paragraphs 26.84, 26.85 and 26.89.

⁷⁴ *De facto* control (actual control) is less clear cut than *de jure* control (legal control of more than 50% of voting power) as it arises from questions of direct and indirect influences.

factor has the added benefit of eliminating a potential source of bilateral asymmetry – namely, the possibility that the issue of control will be assessed differently by home and host-country compilers.

4.10. While the measure of control recommended by *MSITS 2010* differs from the SNA concept of foreign-controlled enterprise, the two concepts are alike in that both refer to ownership by a single investor (or investor group). This approach is followed in *MSITS 2010* not only for consistency with other international guidelines, but also because it is only through a single investor or associated investor group that control can be systematically exercised. However, the relevance of other criteria for selection is acknowledged, and countries that can do so may wish to provide supplementary statistics covering cases where foreign control may be deemed to be present, even though no single foreign direct investor holds a controlling stake.

4.11. Examples of investments that might be covered on a supplementary basis are majority ownership of voting power by multiple unaffiliated foreign direct investors, ownership of exactly 50 per cent of voting power by a foreign direct investor, and cases in which a qualitative assessment has been made that effective control has been achieved through a minority stake in an enterprise⁷⁵. Such supplementary statistics on affiliates that are not controlled through majority ownership of voting power may be particularly relevant where the ownership by non-resident investors is restricted.

4.12. Statistics on foreign affiliates controlled by residents of the compiling economy should include all controlled foreign affiliates, irrespective of whether the voting power in the affiliate is held directly or indirectly and irrespective of whether the direct investor in the compiling economy is the ultimate investor (ultimate controlling institutional unit, UCI) or is, instead, an intermediate investor in an ownership chain. However because the activities of an affiliate held through an ownership chain could be recorded in the FATS of both the ultimate and intermediate investors, and in order to facilitate international aggregation without double counting, compilers are strongly encouraged to identify the aggregate share of FATS variables accounted for by enterprises for which the compiling country is the ultimate controller. Of particular interest in trade negotiations will be data on this set of foreign affiliates belonging to ultimate investors resident in the compiling economy. For FDI data, investments in given affiliates

⁷⁵ These and other special cases are discussed in the *OECD Handbook*.

may be reflected in the statistics of both immediate and ultimate controllers.

C. Statistical units

4.13. In principle FATS could be collected at either the enterprise (company) level or the level of individual business locations (establishments). Neither basis of location is unequivocally superior to the other, rather each has its own strengths and weaknesses. For example, some financial indicators, such as total assets, are more naturally collected from enterprises than from establishments. In addition, because FDI statistics usually are collected at the enterprise level, collection of FATS at this same level facilitates linkages between the two types of data. However, because enterprises are more likely than establishments to have activities in multiple industries, data that are classified on the basis of primary activity can be more difficult to interpret for enterprises than for establishments. Although there may thus be advantages associated with each basis of collection, *MSITS 2010* makes no recommendation as to statistical units. FATS often will be developed in the context of existing statistical systems, in which the statistical units are already defined, and in these cases there may be little choice in the units that are to be used.

4.14. Because the statistical units can have an important bearing on how the statistics should be interpreted, both in isolation and in comparison with other data sets, it is recommended that metadata on the statistical units used in collecting FATS be disclosed in explanatory notes.

D. FATS and trade in services

4.15. *MSITS 2010*'s primary interest in FATS is related to the international delivery of services. In this context the most pertinent information on the operations of affiliates may be considered to be that on their sales (turnover) and/or output. Services delivered through transactions between residents and non-residents are usually measured in terms of sales (apart from any services that may have been donated), and a comparable measure must be available for affiliates in order to measure services delivered through them on a parallel basis. Although, as discussed below, *MSITS 2010* recommends a broader programme of data collection, it recognizes that some countries may, at least initially, limit themselves to the collection of statistics on sales and/or output because these most directly support the monitoring of commitments under GATS.

4.16. While sales may be considered to be the most important information to collect for FATS, additional information is generally required for an adequate assessment of the economic effects of affiliate operations and of measures to liberalize the delivery of services through the commercial presence mode of supply. For example, information on value added allows output originating within the affiliate to be distinguished from output originating in the enterprises that supply it with intermediate inputs. Similarly, information on employment is required to assess the impact of affiliates on labour markets. Accordingly, *MSITS 2010* recommends multiple indicators, or variables, for FATS, rather than only sales.

4.17. FATS may be developed for both foreign-controlled affiliates *in* the compiling economy (inward FATS) and controlled foreign affiliates *of* the compiling economy (outward FATS). Because, under GATS, countries make commitments with respect to the supply of services in their own economies rather than services they supply abroad, the most directly related data with respect to commercial presence may be those on the activities of foreign-controlled affiliates in the domestic economy. Nonetheless, the reason countries make these commitments is to secure commitments on the part of other countries, with a view to enhancing the ability of their enterprises to supply services in those countries. For commercial presence, this supply is tracked by data on outward FATS, which therefore must also be considered relevant.

E. Collecting inward and outward FATS statistics

4.18. In addition to being more directly related to the compiling country's own commitments under GATS, inward FATS are often easier to collect than outward FATS. The entities covered are located in the compiling country, and data for them would ordinarily already be included in the country's domestic enterprise statistics. Although specific surveys may be needed, obtaining a basic dataset may involve only identifying the foreign-controlled subset of domestically located enterprises and tabulating existing data for them. For outward FATS, in contrast, the entities covered are located outside the compiling economy and generally would not be covered by existing data. In this case specific surveys would be necessary of resident direct investors rather than from the foreign affiliates themselves. An increasing number of countries have successfully compiled outward FATS.

4.19. Because one country's inward FATS provide information on the outward FATS of partner countries,

exchanges of information among partner countries have the potential to provide countries that do not collect data on outward FATS with information on the overseas activities of their own multinational companies. For such data to be useful, it is important that they be compiled using standardized definitions and methodologies, and in this regard *MSITS 2010* can play an important role in promoting comparability. In addition, international organizations can, by republishing member country data, serve as clearing houses for such information. The value of such clearing houses can be considerable, as they can help to achieve consistency in presentation and greatly reduce the number of contacts required to assemble the data.

F. FATS and FDI statistics

4.20. Foreign direct investment financial transactions and related investment position (stock) and income measures are not, strictly speaking, FATS variables because they do not pertain to the overall operations of foreign affiliates but relate only to transactions between and positions with direct investors and their foreign affiliates. In addition, FDI measures are ordinarily compiled with respect to transactions and positions with all foreign affiliates, whereas FATS variables are, as discussed in paragraphs 4.5 et seq, to be compiled only with respect to affiliates in which the direct investor holds a controlling interest.

4.21. Notwithstanding those differences, FDI statistics should be considered an important adjunct to FATS. Countries that cannot implement the compilation of FATS immediately may find that FDI statistics (and more specifically FDI positions⁷⁶) can provide an indicator showing the interest of a country in using commercial presence to supply services internationally. In addition, FDI statistics can be used in conjunction with FATS to indicate the extent to which the operations of affiliates were financed with funds from direct investors, as well as the extent to which the income generated by affiliates accrues to direct investors. *MSITS 2010* recommends that FDI statistics be compiled as specified by BPM6 and BD4. For convenience, those guidelines are summarized in Box 4.1.

⁷⁶ FDI flows within a given period may also be useful to supplement indicators based on positions. For example FDI by type could be of prime interest to explain, at least in part, the related financial movements in the activities of MNEs (from *Why users need to link FDI and AMNE Statistics, OECD COM/DAF/DSTI/WD(2009)1*, paragraph 25).

G. FATS for analysing globalization and for GATS needs

4.22. Interest in statistics on foreign affiliates has arisen from two primary sources. The first has been the growing integration or *globalization* of the world economy. For a variety of motivations—such as to achieve benefits from geographic diversification, circumvent trade barriers, increase proximity to markets, or reduce costs of labour, transportation, or other inputs—an increasing number of enterprises have expanded their operations beyond the countries of their controllers. The need to understand this phenomenon of international operations, and to monitor the performance of the foreign affiliates through which they are conducted, exists quite separately and apart from any trade agreements. In this regard FATS and the broader AMNE statistics are important analytical tools.

4.23. The second source of interest has been the GATS. By recognizing the need for proximity between suppliers and consumers of services, it has amongst other considerations, created a new need for information describing the activities of foreign-owned or -controlled enterprises in host economies. The information will mainly relate to commercial presence. However, partial information on presence of natural persons may also be available from this source, if employment by foreign affiliates is among the variables collected and if their foreign employees, who are present temporarily in the country of location of the foreign affiliate as corporate transferees or not, can be separately identified.

4.24. For both of these purposes, FATS are of interest in their own right, but it will often be possible to discern their full significance only when they are viewed in conjunction with other information, such as comparable information on total home- or host-country economic activity or on services supplied through modes other than commercial presence. For example, while the number of employees of foreign-controlled affiliates in the domestic economy is useful information in and of itself, a fuller understanding of its significance could be obtained if the percentage of domestic employment accounted for by these affiliates could be computed. For such computations to be possible, compilers will have to devote attention to issues of comparability between FATS variables and statistics on the domestic economy covering the same items.

Box 4.1: Measuring foreign direct investment

Following BPM6 and BD4, foreign direct investment reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor. The direct or indirect ownership of 10% or more of the voting power of an enterprise resident in one economy by an investor resident in another economy is evidence of such a relationship. Direct investment comprises not only the initial transaction between the investor and the enterprise but also all subsequent transactions between them and among affiliated enterprises.

A foreign direct investor is an entity (an institutional unit) resident in one economy that has acquired, either directly or indirectly, at least 10% of the voting power of a corporation (enterprise), or equivalent for an unincorporated enterprise, resident in another economy. A direct investor could be classified to any sector of the economy and could be any of the following: (i) an individual; (ii) a group of related individuals; (iii) an incorporated or unincorporated enterprise; (iv) a public or private enterprise; (v) a group of related enterprises; (vi) a government body; (vii) an estate, trust or other societal organisation; or (viii) any combination of the above. A direct investment enterprise is an enterprise resident in one economy and in which an investor resident in another economy owns, either directly or indirectly 10% or more of its voting power if it is incorporated or the equivalent for an unincorporated enterprise.

The Framework for Direct Investment Relationships (FDIR) is a generalized methodology for identifying and determining the extent and type of direct investment relationships. For a compiling economy, the FDIR identifies all enterprises related to a particular enterprise whether it is a direct investor or a direct investment enterprise or both, i.e. identifies all enterprises over which the investor has significant influence using the 10% voting power criterion. In this determination, it is necessary to establish whether each enterprise under consideration is a subsidiary (a non-resident investor owns more than 50 per cent of the voting power), an associate (a non-resident investor owns from 10 to 50 per cent), or a fellow enterprise (a non-resident enterprise having the same parent but without sufficient ownership of voting power). By encompassing enterprises that are not controlled by the direct investor, the concept of direct investment enterprise is broader than the concept of foreign-controlled affiliate used by *MSITS 2010* in defining the universe of enterprises covered by FATS.

Compilation of statistics on direct investment will entail collection or estimation of mainly three broad types of data - direct investment income, direct investment financial transactions and direct investment position (stock).

The direct investment position measures the value of the stock of direct investment (direct investment equity capital - including reinvestment of earnings- and debt). In principle, the position should be measured at current market prices as of the dates involved (that is, beginnings or ends of reference periods). In practice, however, there may be some departures from the market price principle. In many cases, book values from the balance sheets of direct investment enterprises (or of direct investors) will be used to determine the value of the stock of direct investments.

Direct investment transactions are all investment transactions between direct investors, direct investment enterprises, and/or fellow enterprises (direct investment equity capital, reinvestment of earnings and intercompany debt).

Direct investment income is part of the return on the direct investment position. That is, it is the return on equity and debt investment (earnings on equity investment plus income on debt between direct investors and direct investment enterprises and between fellow enterprises). Direct investment income is recorded as it accrues.

For balance of payments and international investment position statistics, FDI aggregates components are reported on an asset/liability basis. For FDI statistics broken down by partner country and by economic activity, data are reported on the basis of the directional principle which takes into account reverse investments and investments between fellow enterprises. For the reporting country, inward investments represent non-resident investments in resident enterprises and outward investments represent investments abroad of resident investors.

Following BD4, in both inward and outward direct investment statistics, the economic activity should be primarily analyzed for the activity of the direct investment enterprise, i.e. of the resident direct investment enterprise for inward investment and of the non-resident direct investment enterprise for outward investment. The minimum level of detail recommended by BD4 is that of eleven major divisions of ISIC's High-level aggregation for SNA data reporting.^a For the purposes of consistency with FATS compiled as recommended by *MSITS 2010*, a further breakdown to the level of the *MSITS 2010's* ISIC Categories for Foreign Affiliates in services (see paragraphs 4.34 et seq) would be desirable.

BPM6 and BD4 provide additional details on the treatment of direct investment, including special instructions for the treatment of intercompany transactions between affiliated financial intermediaries (e.g. security dealers) and Special Purpose Entities (SPEs).

^a See BD4, para. 379 and ISIC, Rev.4.

To promote such comparability, *MSITS 2010*'s recommendations for FATS draw to a very considerable extent on concepts and definitions found in the 2008 SNA—both in terms of the entities to be covered and the selection and definition of variables for measuring their operations and performance. This approach also allows FATS to be related to or integrated with not only statistics for the domestic economy but also similar statistics on the activities of foreign affiliates in the production and distribution of goods. Concerning the latter, the concepts, definitions and recommendations of *MSITS 2010* are also harmonized with those used in the *OECD Handbook*, which considers foreign affiliates as suppliers of both goods and services.

4.25. Some enterprises produce both goods and services, and it is only by coverage of all producers that the activities of those for which provision of services is a secondary activity would be reflected in the statistics. In addition, coverage of all producers allows for the activities of services producers to be examined in the context of statistics covering all enterprises. As explained in paragraphs 4.34 et seq, the method for attributing and presenting FATS variables by activity and, to the extent possible, selected ones by product, rather than the limitation of the universe to entities whose primary economic activity is the production of services, is the mechanism recommended for isolating services from goods.

H. Attribution of FATS variables

4.26. FATS variables may be attributed or classified in a variety of ways. One way is geographic – i.e. in what country did the production take place, and what country is to be regarded as the country of the owner of the producing affiliate? Another way is on the basis of the primary industrial activity of the producer (see paragraph 4.36). Some variables may, in addition, be classified by product - according to the types of goods or services produced. Recommendations on each of these bases of attribution are provided in the sections that follow.

Attribution by country

4.27. The issues to be addressed in attributing variables by country differ between inward and outward FATS. For inward statistics, a choice must be made between attribution to the immediate investing country or to the country of the ultimate controlling institutional unit. For outward statistics, the issue is whether to attribute

variables to the immediate host country or the ultimate host country.

4.28. The need to follow investments to their ultimate origins or destinations reflects both the nature and the uses of these statistics. These issues are discussed below with respect to each type of investment (where appropriate considering any GATS interest) and recommended bases of attribution are given.

Inward FATS

4.29. For foreign-controlled affiliates in the compiling economy, the question is whether to attribute FATS variables to the country of the immediate investor (first foreign parent) or to that of the ultimate investor (ultimate controlling institutional unit, UCI). Commonly, the first foreign parent and the ultimate investor are one and the same, but in many cases they differ. A discussion on the determination of country of immediate or ultimate investor is presented in Box 4.2.

4.30. Abstracting from practical considerations, the country of the ultimate investor is conceptually preferable for attribution of variables concerning production and industrial activity because that is the country that ultimately controls, and therefore derives most of the benefits from controlling the direct investment enterprise. The ultimate investor is of primary interest also as the partner for trade policy and negotiations on market access. In light of the relevance of the ultimate-investor basis and the demonstration by a number of countries that compilation on this basis is feasible, *MSITS 2010* recommends the ultimate-investor basis as the first priority for compilation of FATS and the basis on which estimates should be prepared in the greatest detail. However, considering that information on immediate investors may be available as a by-product of linkages to FDI data, and to facilitate comparisons with these data, countries are encouraged to make available some data classified to the country of the first foreign parent⁷⁷.

⁷⁷ FDI transactions and positions by partner and by industry should be recorded on a directional principle. In the standard directional presentation, compilers should provide the key FDI statistics excluding resident Special Purpose Entities (SPEs), but also giving separate details for these resident SPEs. In addition, compilers are strongly encouraged to provide supplementary series looking through all (including non-resident) SPEs. These novel features in BD4 are improvements for obtaining analytically more meaningful data as compared to recording transactions/positions for the first counterpart. BD4 also devotes an annex to SPEs (Annex 7).

Box 4.2: Immediate and ultimate investors

Foreign-controlled affiliates in the compiling economy may be grouped geographically based on the country of the immediate investor (first foreign parent) or the country of the ultimate investor (ultimate controlling institutional unit, UCI). The first foreign parent is the first foreign person in the chain of control of the affiliate. The ultimate controlling institutional unit is the first person in the chain - beginning with and including the first foreign parent - that is not controlled (i.e. no other unit holds more than 50% of the voting power of the UCI) by another person. The following examples illustrate how these entities may be identified in particular cases. In each case, the chain of ownership of voting power runs from top to bottom, with the company at the bottom being the foreign affiliate whose control is at issue.

I	II	III	IV	V	VI
Company A	Company C	Company F	Company I	Company L	Company O
100%	80%	70%	40%	100%	50%
Company B	Company D	Company G	Company J	Company M	Company P
	80%	60%	90%	40%	
	Company E	Company H	Company K	Company N	

- Case I. Company A is both the foreign parent and the UCI of company B.
- Case II. Company D is the foreign parent of company E. Because company D is, in turn, controlled by company C, company C is the UCI of company E; its country would be considered the country of control of company E in FATS.
- Case III. Following the same reasoning as in Case II, company G is the foreign parent of company H, while company F is its UCI. Company F is the UCI of Company H and is deemed to control Company H even though its indirectly held ownership of voting power in company H is only 42 per cent—the product of its 70 per cent share of company G and company G’s 60 per cent share in company H. It can be presumed to control company H because each entity in the chain can control the entity below it, including that entity’s actions with respect to the entities that are, in turn, below it.
- Case IV. Company J is the foreign parent of company K. Company I is not the UCI of company K because it is not controlling company J. At this stage, it is not possible to define who the UCI of company K is, as it is not specified who owns the remaining 60% of voting power of company J. Also, company J is not included in the core FATS data for the economy of company I, because company I does not control company J.
- Case V. Company M is the foreign parent of company N. Because company M is, in turn, controlled by company L, company L is definitely the UCI of company M, but it cannot be stated that company L is also the UCI of company N, not knowing who owns the remaining 60% of voting power of company N. However, company N is not covered by FATS because it is not controlled by its foreign parent.
- Case VI. Company O is the foreign parent and could be the UCI of company P if no other foreign investor also owns 50% of the voting power of company P, in that case other criteria to identify the UCI would have to be taken into account (paragraph 4.29). Usually, company P is not covered by FATS because it is not controlled by its foreign parent, but it nonetheless represents a case that may be deemed relevant for the purposes of GATS or globalization analysis. Thus, the compiling country may wish to show data for company P (and other cases of interest) on a supplementary basis (see paragraphs 4.10 and 4.32 et seq).

Outward FATS

4.31. For foreign affiliates controlled by residents of the compiling economy, two options for the geographic attribution of FATS variables are possible. The variables could be attributed to the country of location of the affiliate or, if the ownership is through a directly

held affiliate located in another country, to the country of that affiliate. *MSITS 2010* follows other international guidelines in recommending that attribution of FATS be to the country of the affiliate whose operations are described by the variables, as that is the country in which the foreign direct investor’s commercial presence exists and it is the country where the various

activities (sales, employment, etc.) tracked by the statistics are carried out. This basis of attribution is recommended in both the OECD Handbook and in BD4. In addition, it is consistent with the treatment of foreign-controlled enterprises in the 2008 SNA, in that the value added (see paragraph 4.54 for a definition) in production by the enterprise is attributed in both cases to (i.e. is included in the gross domestic product of) the economy of location of the enterprise. Since surveys are an important source of outward foreign affiliates statistics, knowing the UCI is key in order to identify the correct survey population of resident direct investors. To the extent that the statistics may be used in conjunction with FDI statistics⁷⁸, it should be reiterated that the latter are attributed to the immediate host country as is appropriate for tracking financial flows and positions.

Equal share of ownership of voting power by residents of more than one country

4.32. Ordinarily, FATS variables for a given foreign affiliate are attributed in their entirety to a single country of owner of voting power. As descriptors of the operations of affiliates, they should not be factored down by ownership shares. Nor are the values of the variables to be apportioned between the controlling enterprise and any foreign minority owners of voting power. However, where supplementary statistics are provided covering cases in which foreign control has been achieved otherwise than through majority ownership of voting power by a single investor, classification dilemmas may arise where direct investors of different countries have collectively achieved control through holdings of equal ownership of voting powers. Because the ownership of voting power is evenly split, the determination of the country of control has to be made using criteria other than ownership percentages of voting power.

4.33. Although it is sometimes difficult to reach a decision in such cases, there is often some factor that would lead to the selection of one country rather than the other. For example, if one controlling entity's interest in the affiliate is held directly and the other controlling entity's interest is held indirectly, the affiliate generally would be classified to the country of the controlling entity holding the direct interest. As another example, if one of the foreign controlling entities is a government entity, then the country of that government would probably be considered the country of control. Finally, if one of the foreign controlling entities is a holding

company or is located or incorporated in a tax haven country, then the other country would probably be considered the country of control. In the absence of any such factor that could be used as a basis of attribution, the value of FATS variables may be allocated evenly among the foreign countries of control. However, data so allocated may pose problems of interpretation, and efforts should first be made to determine a basis for allocation to a single country.

Attribution by activity and product

4.34. Ideally, it would be possible to attribute all FATS variables on the basis of the industrial activity of producers and, in addition, particular variables, such as sales or output, exports and imports by the types of services products produced and sold. Data on a product basis, ideally following EBOPS (see paragraph 4.39), would identify the specific types of services delivered through the commercial presence mode of supply and could most readily be compared with data on services delivered through trade between residents and non-residents. However, some FATS variables, such as value added and employment (discussed below), do not lend themselves to a product classification. Also, for some countries, FATS may be developed as a subset of domestic enterprise or other statistics that are classified only on an activity basis. On this basis, all of the data for a given enterprise are classified to the single activity—often termed the ‘primary’ activity—that, based on some key variable (such as employment or sales), is the largest. Finally, for some purposes, the data may need to be viewed in conjunction with data on stocks and flows of FDI, which normally would be classified by activity but not by product.

4.35. Taking these factors into account, an activity basis is recommended as the first priority for FATS. However, as a longer-term goal, countries are encouraged to work toward providing product detail for the items that can be classified on this basis. Countries that are building on existing data systems that already include product detail will wish to use this detail from the outset in their tabulation and presentation of FATS, because it could help them in monitoring commitments under GATS that are specified in terms of services products. Similarly, countries that are building their FATS data systems from the ground up should consider the feasibility of providing for a product dimension.

By activity

4.36. *MSITS 2010* recommends that, for reporting to international organizations, FATS variables are

⁷⁸ Please refer to previous footnote regarding the new treatment of SPEs in BD4.

classified by activity according to ISIC, and grouped according to the ISIC Categories for Foreign Affiliates in services (ICFA), which have been derived from ISIC. These categories, cover all activities, but with more detail provided for services than for goods. Annex II on ICFA is provided as a general guideline. As noted earlier (paragraph 4.14 et seq), it is most likely that in general, more data information will be available for inward FATS than for outward FATS, in this case countries could provide a less detailed table for outward FATS on some selected industries that are of particular importance for the declaring economy. However if countries are in the position to provide more detail than is shown in Annex II, this supplementary breakdown should be compatible with ISIC Rev. 4. Services supplied by enterprises primarily engaged in manufacturing activity may also be of interest in the context of the provision of manufacturing services on physical inputs owned by others.

4.37. This all-inclusive basis of presentation allows activities of services enterprises to be viewed in the context of the activities of all enterprises. In addition, it provides a framework for displaying services produced as a secondary activity by enterprises classified as goods producers. Finally, this all-inclusive approach has been adopted by the countries and international organizations that are actively developing FATS.

4.38. Primarily because the activities carried out by a given firm are often not limited to its activity of classification, the data recorded against any given activity must be interpreted as an indication of total activity of enterprises for which the given activity is the most important, or primary, activity, rather than as a precise measure of the activity itself.⁷⁹

4.39. For the same reason, as well as because of differences in the classifications themselves, the extent to which data on resident/non-resident trade classified according to EBOPS can be aligned with data on FATS

⁷⁹ For example, computer services may be provided not only by enterprises classified in the computer services industry but also by enterprises classified in computer manufacturing and computer wholesale trading. Similarly (although this is less common in practice), computer services enterprises may engage in manufacturing or wholesale trade as secondary activities. Statistics shown for the activity 'computer services' would misstate the value of the activity by excluding the computer services provided by manufacturers and wholesale traders and by including the manufacturing and wholesale trade activities of computer services enterprises.

variables classified according to ICFA is inherently limited. Nonetheless, a correspondence between the two bases of classification may be useful, mainly for activities that tend to be carried out only by enterprises that are specialized in the activity and tend not to have significant secondary activities.⁸⁰ For such purposes, the EBOPS categories corresponding most closely to the ICFA categories in services activities have been indicated in the online version of *MSITS 2010*. The reverse correspondence is also shown.

4.40. *MSITS 2010* recognizes that data for particular ICFA categories may sometimes have to be suppressed (that is, not separately shown) to preserve the confidentiality of data for individual companies. This will most often happen at the most detailed level of the classification, or in the case of smaller countries, or where the data are cross-classified by country or area.

⁸⁰ For example, if legal services were performed only by law enterprises and law enterprises tended to perform only legal services, sales recorded under the 'legal services' activity would correspond closely to sales of legal services because they would be recorded in a product classification; this is unlike the example in the previous footnote involving computer services.

By product

4.41. As a longer-term goal, countries are encouraged to work toward disaggregating by product some or all of the variables—which include sales (turnover), output, exports and imports—that lend themselves to this basis of attribution. Product-based statistics are more likely to be free of problems of interpretation related to secondary activities⁸¹, are consistent with the basis on which GATS commitments are made, and are consistent with the basis of classification used for trade between residents and non-residents.

4.42. To the extent possible, the breakdown should be on a basis compatible with EBOPS for services (and according to the Harmonized System for trade in goods), to facilitate comparisons with resident/non-resident trade in services classified on this basis. If this level of specificity cannot be achieved, countries may wish to disaggregate sales in each industry as between sales of goods and sales of services as a first step toward a product basis (see paragraphs 4.49 et seq, below on the sales variable for a discussion of this option).

I. Economic variables for FATS

4.43. A wide range of economic data or variables - operational and financial - in regard to FATS may be pertinent for analytical and policy purposes. The selection of the variables to be collected should be based primarily on their usefulness for trade policy needs and in analyzing globalization phenomena. The practicalities of data availability also must be considered. With such considerations in mind, and in the interests of harmonization with other international guidelines, *MSITS 2010* recommends that the FATS variables to be collected include at least the following basic measures of foreign affiliate activity: sales; (turnover) and/or output; employment; value added⁸²; exports and imports of goods and services, and number of enterprises. Although these variables constitute a

basic set that can provide answers to a variety of questions, additional measures of foreign affiliate activities may prove useful in addressing specific issues. *MSITS 2010* suggests several additional measures that might be considered for collection by countries that are able to compile such information. Most of the ‘basic’ and the ‘additional’ variables are drawn from the 2008 SNA, as were their definitions.

4.44. To provide a concrete illustration of how these variables might be presented, Table 4.1 presents a sample table format in which the basic variables could be presented, classified by activity on the basis of ICFA. Additional tables might be constructed to view the variables from different perspectives, for example, time series or geographic detail could be shown for a single variable by placing time periods or country names, rather than the names of the variables, in the table heading.

⁸¹ In some cases even in a product based classification, the payments for the services may be bundled with some other products (i.e. the distribution service fee might be included in the payment of the traded good).

⁸² Value added is generally estimated by national statistical institutions and not directly reported.

Table 4.1: Sample format for reporting operations of foreign affiliate statistics by industry to international organizations (example using ICFA Rev.1)

Declaring country: ...

Reference year: ...

Partner Country: ...

Industry of affiliate	Sales/ turnover or output (*)	Employment	Value added	Exports of goods and services (*)	Imports of goods and services (*)	Number of enterprises
AGRICULTURE, FORESTRY AND FISHING						
Crop and animal production, hunting and related service activities						
<i>Support activities to agriculture and post-harvest crop activities</i>						
Forestry and logging						
<i>Support services to forestry</i>						
Fishing and aquaculture						
MINING AND QUARRING						
Mining support service activities						
MANUFACTURING						
Repair and installation of machinery equipment						
ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY						
<i>Electric power generation, transmission and distribution</i>						
WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES						
Water collection, treatment and supply						
Sewerage						
Waste collection, treatment and disposal activities; materials recovery						
Remediation activities and other waste management services						
CONSTRUCTION						
WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES						
Wholesale and retail trade and repair of motor vehicles and motorcycles						
Wholesale trade, except of motor vehicles and motorcycles						
Retail trade, except of motor vehicles and motorcycles						
TRANSPORTATION AND STORAGE						
Land transport and transport via pipelines						
<i>Etc.</i>						

(*) If possible, *Sales/ turnover or output* and *Exports and Imports* could be broken down by type of product.

Sales (turnover) and/or output

4.45. *Sales* and *turnover* are used here interchangeably to mean the same thing. Following the SNA (which may be consulted for additional details and examples), output differs from sales because it includes changes in stocks of finished goods and work in progress and because of differences in measurement applicable to activities involving wholesale and retail trade or financial intermediation. Output is a superior and more refined measure of activity for most purposes and is recommended as the preferred variable for compilation. However, sales data are easier to collect and may present more options for disaggregation. Thus, there may be a continuing role in FATS and AMNE statistics for both measures.

4.46. For certain service activities, special conventions are used for measuring output. Services activities do not involve stocks of finished goods, and changes in work-in-progress will usually be impossible to measure. In practice, therefore, measured output will be identical to sales for most service activities.

For wholesale and retail distribution, although the sales are of goods, the output is defined as a service, equal not to the total value of sales but to the trade margins realized on goods purchased for resale.

For financial intermediaries, output includes not only services that are charged for by explicit fees, but also margins on buying and selling transactions, asset management costs deducted from property income receivable in the case of asset-holding entities, and margins between interest payable (or receivable) and the reference rate on loans (called financial intermediation service charges indirectly measured, often abbreviated as FISIM – see Box 3.8 in Chapter III). The main aspects affecting the measurement of the output of financial services - and how they can be differentiated from sales - are discussed in 2008 SNA in par. 6.157 et seq.

For insurance, output is measured not by total premiums earned, but by a service charge that takes into account the income earned on technical reserves and also the fact that a portion of premiums must be devoted, not to the provision of services, but to the payment of claims and to the accumulation of capital sums guaranteed under life insurance policies, annuity plans and pension entitlement schemes.

In all these cases, output will generally be considerably lower than sales because it, unlike sales, excludes the

amounts - which may constitute a large portion of total operating revenues - that pass through the enterprise without being considered a part of its intermediate consumption.

4.47. *Sales* measures gross operating revenues, less rebates, discounts and returns. *Sales* should be measured exclusive of consumption and sales taxes on consumers and value-added taxes. Although lacking the duplication-free quality of value added, the sales variable generally presents fewer collection difficulties and thus is likely to be more widely available than value added. Also unlike value added, sales indicates the extent to which foreign affiliates are used to deliver outputs to customers, irrespective of the extent to which the output originated in the affiliates themselves or in other enterprises. Further, sales are more comparable than value added with regard to such variables as exports and imports, which themselves mainly arise from sales.

4.48. In addition to disaggregation by industry and by country (following the principles of attribution discussed earlier), other breakdowns of sales may be useful for particular purposes. One such breakdown is to distinguish among sales within the host country (local sales), sales to the country of the parent enterprise (i.e. the immediate investor), and sales to third countries (reference paragraphs 4.57 et seq).⁸³ All three types of sales result from a commercial presence by the home country in the host country. However, only the local sales represent the delivery of output within host economies and thus relate directly to the commitments made under the GATS Mode 3 by those economies. In any analysis of FATS variables in conjunction with data on the parent country's trade with non-residents, it should be noted that the foreign affiliates' sales to the parent country would appear in both data sets. This may suggest the usefulness of an adjustment to eliminate the duplication, or a memorandum item to identify it.

4.49. Among other breakdowns that may prove useful countries might attempt to disaggregate sales within each industry as between sales of goods and sales of services so as to obtain an aggregate measure of sales of services. As mentioned in paragraph 4.41 on the attribution of FATS variables, such a breakdown would

⁸³ In some cases, it might be possible to derive a close proxy for this breakdown by examining data on total sales in conjunction with data on exports. Export data may indicate sales to the country of the parent separately from sales to third countries, and local sales may be derived by subtracting these export sales from total sales.

represent a first step toward a product breakdown of sales. Sales of services would include both sales of services by enterprises that produce services as a primary activity and sales of services by enterprises that produce goods as a primary activity but have secondary operations in services.

4.50. The potential usefulness of this extension is considerable, and countries that are able to provide these data are encouraged to do so. It is likely that a significant share of sales of services by affiliates is accounted for by affiliates whose primary industry is manufacturing or another goods producing industry. For example, sales of computer services might, as noted earlier, be spread among manufacturing affiliates, wholesale trade affiliates and computer services affiliates. If only total sales were collected, then by default only the sales by the affiliates classified in computer services would be taken as a measure of sales of such services, resulting in a significant understatement.

4.51. As a longer-term goal, countries are encouraged to work toward developing product detail on sales, on a basis compatible with EBOPS.⁸⁴

Employment

4.52. In a FATS context, *employment* would normally be measured as the number of persons on the payrolls of foreign affiliates. Employment data are sometimes converted to a full-time equivalent (FTE) basis, in which part-time workers are counted according to the time worked (e.g. two workers on half-time schedules count the same as one full-time worker). Although FTE employment may provide a better measure of labour input, this measure is not as widely available as numbers of employees and may be difficult to implement consistently in the context of internationally varied employment practices. For those reasons, the recommendation of *MSITS 2010* is that the FATS employment variable be the number of persons employed. The number should be representative of the period covered, but in the absence of strong seasonal or other fluctuations in employment, it may be measured as of a point in time, such as the end of the year, following national practices. A useful extension would be the separate identification of employment of foreigners within the affiliates.

⁸⁴ Such detail would, of course, exclude the EBOPS categories for travel and for government goods and services, n.i.e.

4.53. Data on employment by affiliates can be used in several ways. They can be used to determine the share of foreign affiliates in host country employment, or in attempts to determine the extent to which employment by foreign affiliates complements or substitutes for domestic (home country) employment by parent companies or other domestic enterprises. An industry breakdown of affiliates' employment can yield further insights into the impact of foreign-controlled enterprises on specific parts of the economy. Used in conjunction with data on compensation of employees—one of the 'additional' variables suggested below—the employment variable may be used in examining compensation practices of affiliates relative to those of domestically controlled enterprises.

Value added

4.54. The 2008 SNA defines 'the gross value added of an establishment, enterprise, industry or sector' as 'the amount by which the value of the outputs produced exceeds the value of the intermediate inputs consumed'. A related concept, 'net value added', is defined as gross value added less the consumption of fixed capital. Gross value added can provide information about the contribution of foreign affiliates to the gross domestic product of host country, both in the aggregate and in specific industries. For this reason and because it may often be easier to compute (because it does not require estimation of capital consumption) and is thus more widely available, the higher priority should be accorded to the gross measure of value added.

4.55. Although it is defined in terms of outputs and intermediate inputs, value added is also equal to the sum of primary incomes generated in production (compensation of employees, profits etc.). In some cases, depending on the particular data that are available, this equivalence may be exploited in deriving estimates of value added. This alternative might be chosen, for example, if data on intermediate consumption were lacking but information on the various incomes generated in production were available.

4.56. Because it includes only the portion of the firm's output that originates within the enterprise itself, value added is a particularly useful measure from the perspectives of both GATS and globalization analysis. This is why it has been included among the 'basic' FATS variables, even though, as a measure that may have to be estimated or derived from other variables, it may be among the more difficult variables to compile. For inward FATS, value added will often be available from regular industrial or enterprise surveys, but for

outward FATS it may have to be derived from other variables collected in separate surveys.

Exports and imports of goods and services

4.57. International goods and services transactions of foreign affiliates is another basic indicator of activity. The concept is of international trade in goods and services between residents and non-residents. Both balance of payments data and data provided by parent enterprises and affiliates in separate questionnaires may be appropriate sources for such information. To a large extent, the possibilities for disaggregating total exports and total imports may depend on the sources used to obtain the data.

4.58. Where the data are obtained through linkages with primary data sources for balance of payments transactions, breakdowns by product and by origin or destination will often be possible. In this event, exports and imports of services may be disaggregated, not only by the primary activity of the affiliate according to ICFA but also by product on a basis compatible with the EBOPS.

4.59. Although linkages with balance of payments data may thus provide useful information, it often will be difficult or impossible to separately identify the transactions of foreign-controlled enterprises in these data. Thus, it may be possible to develop the data on exports and imports only through the use of separate questionnaires. In this event, these same breakdowns would be useful, but it is unlikely that a large number of countries would be able to collect the necessary data with the same frequency or in the same detail as provided by balance of payments data. It would be useful for globalization analysis to disaggregate exports and imports into a few broad categories in which trade with related enterprises would be distinguished from trade with unrelated parties, thus providing information for one of the last of the elements for a phased approach to implementation of *MSITS 2010*.⁸⁵ In addition, trade with the country of the parent enterprise could be distinguished from trade with other countries. If possible, those breakdowns should be obtained separately for goods and services. For inward FATS, for example, this would mean disaggregating the affiliate's exports of goods and exports of services into (a) exports to the parent enterprise, (b) other exports to the country

⁸⁵ Trade with related enterprises is defined to include trade with all enterprises with which there is a direct investment relationship.

of the parent, and (c) exports to third countries. Imports would be similarly disaggregated.

Number of enterprises

4.60. The number of enterprises (or establishments, where that is the statistical unit) meeting the criteria for coverage by FATS is a basic indicator of the prevalence of control by foreigners in the host economy. That number may be compared with the total number of enterprises (or establishments) in the economy. It may also be assessed in relation to the other FATS variables because it allows the computation of ratios - such as value added or number of employees per enterprise - that may be compared with the same ratios for domestically controlled enterprises, thus giving an indication of the behaviour of foreign affiliates.

4.61. It should be recognized that the number of enterprises alone may not give an accurate picture of the overall importance of foreign-controlled enterprises, because of differences in size between these enterprises and those that are domestically owned. If the foreign-controlled enterprises tend to be larger, for example, then their share in the total number of enterprises would be smaller than their share in the various measures of operations and would thus tend to understate the role and importance of these enterprises in host country economies.

4.62. Typically, information on numbers of enterprises will be a natural by-product of collection of data on other FATS variables, rather than a separate object of the data-collection effort. As such, the number is likely to be affected, often significantly, by the level of company consolidation and by thresholds for reporting on surveys. To assist users in interpreting counts of enterprises (or establishments), countries are encouraged to indicate in explanatory notes how the numbers were derived.

Other variables

4.63. Although not included as priority items, there are other FATS variables of significance, perhaps for certain countries of equal or greater importance than some of those previously discussed. As is the case for the priority items, comparisons with the total economy and with specific sectors can be made and used for assessing the impact of foreign-controlled enterprises on home and host economies.

4.64. Among such variables, which are listed and defined below are those already collected by some

countries. (The definitions are drawn from the 2008 SNA, which may be consulted for additional details.)

Assets - entities over which ownership rights are enforced and from which economic benefits may be derived by their owners by holding or using them. These include both financial assets and non-financial assets, whether produced or non-produced.

Compensation of employees - the total remuneration, in cash or in kind, payable by an enterprise to an employee in return for work done by the employee during the accounting period.

Net worth - the difference between the value of all assets—produced, non-produced, and financial—and all liabilities.

Net operating surplus - measured as value added (gross), less compensation of employees, consumption of fixed capital and taxes on production, plus subsidies receivable.

Gross fixed capital formation - measured by the total value of a producer's acquisitions, less disposals, of fixed assets during the accounting period, plus certain additions to the value of non-produced assets realized by productive activity. (Fixed assets are defined as produced assets that are themselves used for more than one year repeatedly or continuously in processes of production.)

Taxes on income - these consist of corporate income taxes, corporate profit taxes, corporate surtaxes and so forth, and taxes that accrue to owners of unincorporated enterprises as a result of the income of those enterprises. Taxes on income include only taxes in the host country of the affiliate and not any taxes paid by the parent in the home country as a result of income earned or distributed by the affiliate. Taxes on income are usually assessed on the total income of corporations from all sources and not simply on profits generated by production.

Research and development expenditures – expenditures on work undertaken on a systematic basis to increase the stock of knowledge, and use this stock of knowledge for the purpose of discovering or developing new products (goods and services), including improved versions or qualities of existing products, or discovering or developing new or more efficient processes of production.

Purchases of goods and services (intermediate consumption) – expenditures on goods and services consumed as inputs by a process of production, excluding fixed assets whose consumption is recorded as consumption of fixed capital. It would be of interest for

economic analysis to separate local purchases from imports. It would also be of interest to have information on goods and services that are purchased for resale in the same condition as received.

J. Compilation issues for FATS

4.65. There are two basic approaches to developing FATS, that are not necessarily mutually exclusive. The first approach is to conduct surveys that directly request information on the operations of resident affiliates of foreign enterprises and foreign affiliates of domestic enterprises. The second approach, which can be used only for inward investment, identifies the subset of existing data on resident enterprises that is accounted for by foreign-controlled enterprises.

4.66. Whichever of these approaches is taken, there are likely to be links to existing data on foreign direct investment. Where there are surveys of foreign affiliates, registers used in collecting FDI data would typically be used to identify foreign-controlled affiliates for which FATS variables should be collected. Alternatively, key FATS variables might be added to existing FDI surveys. However compilers need to note that FDI surveys may need to be conducted more frequently (e.g quarterly) whereas FATS may be needed for a lower frequency (e.g annually). Adding FATS questions in FDI surveys may also increase the response burden on enterprises which are not part of the FATS population. Where existing domestic statistics are used as the source of information, links to FDI data will often provide the means of determining which resident enterprises are majority foreign-controlled and should be included, as well as the means of identifying the country of owner. Under this approach, FATS would be obtained as an aggregation of statistical variables across the foreign-controlled statistical population.

4.67. Each approach has its own advantages and drawbacks and it is possible to outline some of the intrinsic differences. However, the criteria for deciding whether an enterprise is foreign-controlled would be the same in both cases.

4.68. The FDI statistics framework, whether implemented through adding questions to existing surveys or through institution of new surveys covering the foreign-controlled subset of the FDI population, allows for the compilation of outward as well as inward statistics and provides more options for tailoring the data to specific needs. However, the activity classification

used in FDI statistics may be different to that used for FATS, and it seems difficult to go beyond basic statistical variables, such as turnover and employment, without designing completely new surveys, which might raise concerns about resource availability and respondent burden. Also, if that approach is taken, special care will be necessary to ensure compatibility with the domestic statistics with which the foreign affiliates' statistics may be compared.

4.69. The picture of FATS as a subset of enterprise statistics is quite different. It is not possible to compile outward statistics within that framework. However, the activity classification used may be quite detailed and product detail may be available for sales or turnover. In addition, a comprehensive set of statistical variables can generally be provided.

4.70. In many cases, a mix of the two approaches may work best, with separate surveys (or the use of existing FDI surveys) being used for the compilation of outward FATS and for the identification of foreign-controlled companies, and the 'enterprise statistics' context being used for the compilation of inward FATS, with a more detailed activity breakdown and a more comprehensive set of variables. An extended business register might also be a suitable means of maintaining such information. This approach has already been adopted in some countries that use them to maintain data on foreign ownership⁸⁶. Actually, in a world of increasingly complex business structures of multinational enterprises, bilateral, regional and international cooperation are encouraged to deal with the practical difficulties in identifying UCIs.

4.71. *MSITS 2010* recognizes the advantages and disadvantages of each approach and the need for countries to have flexibility in adapting the recommendations to their individual statistical infrastructures and maximizing the use of existing data.

K. Summary of main recommendations for FATS

4.72. The main recommendations of this Chapter on the compilation of foreign affiliate statistics may be summarized as follows:

⁸⁶ In the European Union, The Euro-Groups register (EGR) is considered and used as a potential source for identifying ultimate controlling units.

1. FATS should cover controlled affiliates as defined in the FDIR (control is deemed to exist if there is majority ownership of the voting power at each stage of the chain of ownership). However, countries are encouraged to provide supplemental statistics, covering cases in which foreign control may be deemed to be present, even though no single foreign direct investor holds a majority stake;
2. FATS variables should be compiled for all foreign affiliates, not only those affiliates in services. However, the activity classification to be used for reporting to international organizations provides more detail for services than for goods;
3. For statistics on foreign-controlled affiliates in the compiling economy (inward FATS), the first priority for geographical attribution should be the country of the ultimate controlling institutional unit. However, to facilitate linkages with FDI data, countries are also encouraged to provide some data in which attribution is based on the country of the first foreign parent. Statistics for foreign affiliates of the compiling economy (outward FATS) should be attributed based on the country of location of the affiliate whose operations are being described;
4. It is recommended as an initial priority that FATS is compiled on an activity basis. This is because it is the basis required for some variables as well as the basis on which data probably are, at present, most widely available. However, data on a product basis is recognized as a longer-term goal, and countries are encouraged to work toward providing product detail for those variables that lend themselves to this basis of attribution (namely, sales (turnover) and/or output, exports and imports). If this level of specificity cannot be achieved, countries may wish to disaggregate sales in each industry as between sales of goods and sales of services as a first step toward a product basis;
5. For reporting to international organizations, FATS variables should be disaggregated according to the ISIC Categories for Foreign Affiliates in services (see Annex II). Any product detail that is developed should be disaggregated on a basis compatible with EBOPS (see Annex I);

6. *MSITS 2010* recommends that the FATS variables to be collected include at least the following basic measures of foreign affiliate activity:

- Sales (or turnover) and/or output;
- Employment;
- Value added;
- Exports and imports of goods and services;
- Number of enterprises.

Additional measures are suggested for countries wishing to expand FATS data collection beyond this basic set.

7. A variety of sources and methods may be used to collect and compile FATS. Separate surveys may be conducted or links may be made with domestic enterprise statistics that are already collected. In either case, there are likely to be links with existing FDI data.

V. Statistics on the international supply of services by mode

A. Introduction

5.1. The outcomes of trade negotiations depend on governments' policy objectives and constraints, as well as their negotiators' skills and strategies. In this context, research and analysis are important factors to identify issues of commercial importance to an economy. The parties involved need to identify their economies' strengths and weaknesses, assess impacts of different policies and identify opportunities offered by their partners' markets.

5.2. Statistics play an important information role in building strategies based on individual performances of domestic services industries and/or the existence of regulatory barriers. While available statistics allow the analysis of trade at the global level, it is much more difficult to analyse bilateral flows of individual service sectors by mode of supply, given the lack of adequately disaggregated data.

5.3. As described in paragraphs 2.11 et seq, on GATS, in addition to *general obligations* which apply across all service sectors of all WTO Members, countries undertake *specific commitments* with respect to market access or national treatment in individual services sectors. In this context, Members are allowed to limit their commitments with regard to particular modes of supply. Statistical information on these services sectors by mode of supply and origin and destination (partner country) can be used to improve individual countries' negotiation strategies, to monitor developments in general and to compare and analyse the extent and effects of liberalization over time.

5.4. While governments need statistics on service sectors and modes of supply to negotiate commitments and assess economic impact, in many instances, available statistics do not allow for detailed analyses. For example, the balance of payments only registers transactions between residents and non-residents. This means that important aspects of the international supply of services taking place through commercial presence or the presence of natural persons, are either not captured

or difficult to identify separately⁸⁷. In addition, service commitments are structured in line with the GATT Services Sectoral Classification list (W/120), which has not been revised since 1991 despite changes in the CPC, upon which it was first based. Moreover, the divergence of coverage with the classifications used for available trade in services statistics, and the lack of information on modes of supply, make a proper assessment of the international supply of services difficult. Box 5.1 provides, as an example, the information needs for tourism services..

5.5. At a disaggregated level, it would be desirable to have information on flows by mode of supply and partner. This would allow analyses of the origin of the service or service supplier, and its territorial presence at the moment of the transaction.⁸⁸ Ideally, statistics on the international supply of services should, therefore, be available by country of origin and destination, allowing identification of principal suppliers and consumers. A link between trade and output data, whether by activity or product, would enable a more complete and improved analysis of the international supply of services. Data at volume level would allow complementary analysis for constant price considerations in various statistical frameworks.

5.6. Gaps exist between what a country's trade in services statistics can cover in terms of detail on international transactions by service sector and mode of supply, and the respective needs of trade negotiators. Furthermore, service suppliers/consumers may not always be aware of their international supply/consumption of services. Potentially, any individual or economically active entity, whether in the government or private sector, profit making or not, can purchase foreign services, whether directly or through intermediaries.

⁸⁷ See footnote 3 for a definition of natural persons.

⁸⁸ Statistical requirements of GATT Secretariat and UNCTAD in the Area of International Trade in Services. Voorburg Group meeting, Oslo, 1993. Joint paper of GATT and UNCTAD.

Box 5.1: Sector analysis example: the international supply of tourism and travel-related services.

Tourism and travel-related services (Sector 9 of GATT Services Sectoral Classification List (W/120)) are an important export of many economies. The international supply of tourism services is often associated with the second mode of supply identified by GATS, Mode 2. However, other GATS modes of supply may be involved when supplying tourism services to foreign consumers. The establishment abroad of a branch of a hotel chain (Mode 3), may be associated with the presence of a foreign manager (intra-company movement, Mode 4); the sale of services by international tourism operators through computer reservation systems (Mode 1); foreign tourist guides present in the host economy to provide tourist guide services (contractual service supplier, Mode 4), etc.

In W/120, which is generally used by negotiators for making commitments, this sector is divided into four sub-sectors: *Hotels and restaurants*; *Travel agencies and tour operator services*; *Tourist guide services* and *Other services*. Negotiations are, in general, conducted according to these sectors (or a breakdown of these sectors) and the four modes of supply.

To develop models for a complete assessment of tourism as a service sector, negotiators and analysts need to use statistics sourced from various statistical frameworks. As a starting point, the analysis of the tourism industries within a given economy could be done by using national accounts, business and employment statistics. However, for a more detailed analysis, tourism statistics would be the most relevant source. The Tourism Satellite Accounts will notably provide comparable macroeconomic aggregates on tourism, the demand and supply of tourism services, production accounts of national tourism industries and basic information to link economic data and other non-monetary information (number of trips, duration of stay, purpose of trip). When developed consistently with other frameworks, such as national accounts or balance of payments, this information could also be linked to trade in services data or foreign affiliates statistics, and help improve the quality of all relevant statistics.

To measure trade in tourism services, one should consider the travel item of the balance of payments. While it excludes transportation of non-residents provided by non-residents in the visiting economy, as well as international transportation (covered under passenger services in transportation), the standard breakdown of this balance of payments item (business and personal) does not allow a correspondence within the scope of the W/120. BPM6 and EBOPS suggest an alternative breakdown into goods, local transport, accommodation services, food-serving services and other services. This would improve links with the classification used by negotiators, but mainly covers Mode 2 where the consumer is abroad to consume tourism services. To cover the supply of tourism services through Mode 1 or 4, one should also be considering balance of payments services items. (e.g. the cross-border provision of services by tour operators on the Internet or foreigners supplying tourist guide services in a host country). While balance of payments breakdowns may match some needs of trade negotiators, they do not fully meet the scope of the negotiating classification. This could therefore be complemented with a further breakdown of these items using the list of tourism characteristic products as defined in the IRTS 2008 and TSA-RMF 2008. International tourism expenditure as defined in tourism statistics could also complement travel data (see paragraph 3.113 et seq and Annex V). To measure the supply of services through Mode 3, FATS' sales of services for activities related to tourism should be considered.

The previous paragraph provides some guidance on how to measure the international supply of tourism services. However, negotiators also need to consider other types of statistics for a more in-depth analysis of this supply as well as of market access commitments. From a Mode 3 perspective, information on FDI flows, income and positions would enable an analysis of foreign investment in the tourism sector, which could be complemented with FATS on their number, employment or gross capital formation. For Mode 2, one could consider statistics on the number of arrivals of international passengers drawn from tourism statistics. This framework could also be used for collecting information on the number of persons travelling abroad to supply tourism services under Mode 4. For this, as an alternative, the non-migrant category of the RSIM Rev.1 could be considered.

5.7. In the same way as the value of some goods is included under services transactions (e.g. balance of payments items *maintenance and repair n.i.e., construction and travel*), the value of some services will be included in goods transactions such as training, installing and maintenance contracts as part of the sale of machinery or ships.

5.8. Overlaps may exist between the two statistical frameworks presented in *MSITS 2010*. For instance, the supply of services may be accounted for twice in the case of the delivery of services through foreign affiliates: the first transaction being between a parent enterprise and its affiliate (intra-enterprise trade, which is recorded under trade in services between residents and non-residents), and the second when this affiliate sells services to consumers in its country of location (the foreign affiliate's sales of services). Furthermore, sales of services of foreign affiliates can include exports by the affiliate to third economies or to the economy of the parent enterprise.

5.9. *MSITS 2010* attempts to strike a balance between constraints of data compilers and user needs. While Chapter III deals with the extension of the breakdown of the services item of the balance of payments classification and Chapter IV with the supply of services through foreign affiliates, this Chapter describes measurement issues of the international supply of services by mode, as well as more detail on the supply of services through the presence of natural persons.

5.10. GATS is an important driving force for the development of statistics on the international supply of services. Paragraph 5.11 et seq, addresses the GATS extension of the definition of trade in services to include the four modes of supply, explores links between these and describes information needs. Paragraph 5.31 et seq, portray the conceptual framework for measuring the international supply of services by mode and individual services sector using a country's balance of payments statistics and Foreign Affiliate Statistics (FATS). It describes the statistical allocation of the supply of services by mode that is operational in a statistical context and consistent with international standards. Particular attention is given to the statistical conceptualisation of the supply of services through the presence of persons as defined in GATS. Paragraph 5.70 et seq, describe additional indicators that are useful in analysing GATS commitments and other aspects of flows by mode of supply. *MSITS 2010* provides advice on how to use and possibly extend existing statistical

frameworks, and data derived thereof, for analysing the international supply of services by mode.

B. The GATS' four modes of supply and information needs

GATS definition of international trade in services

5.11. As mentioned earlier, the definition of trade in services in GATS covers four different modes of supply (see Annex III).

Cross-border supply

5.12. **Mode 1**, *cross-border supply*, takes place when a service is supplied 'from the territory of one Member into the territory of any other Member.' This is similar to trade in goods where the product is delivered across borders and the consumer and the supplier remain in their respective territories. For example, a law enterprise delivering legal advice by phone to a consumer, a physician providing medical diagnosis to a patient via e-mail, or a financial services supplier supplying portfolio management or brokerage services across the border.

Consumption abroad

5.13. **Mode 2**, *consumption abroad*, takes place when the service is supplied 'in the territory of one Member to the service consumer of any other Member' i.e. either the consumer or his property is abroad. Tourist activities such as visits to museums and theatres, or persons travelling abroad to receive medical treatment, or follow language courses are typical examples. Services such as ship repair abroad, where only the property of the consumer moves, or is situated abroad, are also covered. Services suppliers may often not be aware of their international supply under Mode 2.

Commercial presence

5.14. **Mode 3**, *commercial presence*, takes place through 'the supply of a service (...) by a service supplier of one Member, through commercial presence in the territory of any other Member'. GATS recognizes that it is often necessary for services suppliers to establish a commercial presence abroad to ensure closer contact with the consumer at various stages of the production, distribution, marketing, sale and delivery as well as after-sales services. Commercial presence in a market abroad covers not only juridical persons in the strict legal sense, but also legal entities that share some

of the same characteristics, such as representative offices and branches e.g. a financial service provided by a branch or subsidiary of a foreign bank, medical services provided by a foreign-owned hospital and courses offered by a foreign-owned school.

5.15. *Commercial presence* is defined in GATS as any type of business or professional establishment. This includes through the constitution, acquisition or maintenance of a juridical person, or the creation or maintenance of a branch or representative office, within the territory of a Member (see Chapter II and Chapter IV for further information on the definition of juridical persons and commercial presence). Commercial presence is, therefore, closely linked to the objective of foreign suppliers to obtain a lasting interest in another economic territory to render services to consumers of that territory or other territories. In such cases, direct investment flows are deemed to be associated. As will be shown below, short-term arrangements (i.e. establishing a commercial presence for less than one year with no direct investment relationship) that may be preferred by foreign suppliers (e.g. short-term construction projects) will qualify as well as the supply of services through Mode 3 under the GATS. The associated transactions will be covered by the services account of the balance of payments.

Presence of natural persons

5.16. **Mode 4**, *presence of natural persons*, takes place when an individual is temporarily present in the territory of an economy other than his own to provide a commercial service.⁸⁹ GATS defines Mode 4 as the supply of a service by ‘a service supplier of one Member, through presence of natural persons of a Member in the territory of any other Member’. Mode 4 is generally understood as covering:

- Contractual service suppliers, whether employees of a foreign service supplier or self-employed⁹⁰;
- intra-corporate transferees and foreign employees directly recruited by foreign established companies⁹¹;
- service sellers who enter the host country to establish contractual relationships for a service contract, or persons responsible for setting up commercial presence.

5.17. Mode 4 applies to service suppliers at all skill levels. For example, Mode 4 covers computer services delivered to the consumer either by an employee of a foreign computer enterprise or by a self-employed computer consultant within the context of a services contract. Other examples include a computer programmer who is transferred temporarily to work abroad in the branch of his employer (intra-corporate transferee), a plumber contracted in a host country to work on a building site or a fruit-picker employed by an employment agency to work abroad temporarily on a farm.

⁸⁹ A natural person of a WTO Member is an individual who is a national of that Member (for more information see also Chapter II). However, this definition may be extended where a member has specifically indicated that some non-nationals, permanently resident in that Member, have the same rights as its nationals in respect of measures affecting trade in services and as notified in its acceptance of or accession to the WTO Agreement. Only 6 Members have provided notification of this treatment: Armenia; Australia; Canada; Hong Kong - China; New Zealand and Switzerland.

⁹⁰ Some self-employed persons may also establish in the host market and supply services from within this territory. Although a Mode 4 commitment guarantees the right of this person to be present in this territory, MSITS considers that the supply of the service is carried out through a commercial presence.

⁹¹ The supply of the service to the consumer is through the affiliate. For foreigners directly recruited by the foreign affiliate there may be ambiguity with respect to their coverage under Mode 4, in particular for foreigners recruited from within the host economy as they may be seen as seeking to access the employment market of the host economy.

Box 5.2: Self-employed or employee?

'Self-employed' and 'independent' service suppliers are terms that are often used interchangeably. BPM6 recommendations describe these individuals (hereafter named self-employed) as deemed to operate their own unincorporated enterprises, and sell output they produce.^a Self-employed persons, who may also employ others, are generally responsible for decisions on markets, scale of operations and finance, and are also likely to own or rent machinery or equipment on which they work.

An employer-employee relationship exists when there is an agreement, which may be formal or informal, between an entity and an individual, normally entered into voluntarily by both parties, whereby the individual works for the entity in return for remuneration in cash or in kind. The remuneration is normally based on either the time spent at work or some other objective indicator of the amount of work undertaken. If an individual is contracted to produce a given result, it suggests a service contract relationship between the entity and a self-employed person.

It may not always be clear whether an employer-employee relationship exists between the individual and the entity or whether the individual is self-employed and supplying a service to the client entity. Provision of several types of services may pose such problems because entities may choose either to purchase a service from a self-employed worker or to hire an employee to perform the job. The status of the worker has important implications for the international accounts. If an employer-employee relationship exists between the worker and the entity for which the work is being done, the corresponding payment constitutes compensation of employees. If the individual is self-employed, then the payment constitutes a purchase of services.

Several factors may have to be considered in determining whether an employer-employee relationship exists. An important test is that of control. The right to control or to direct, both as to what shall be done and how it shall be done, is a strong indication of an employer-employee relationship. The method of measuring or arranging for the payment is not important as long as the employer has the effective control both on the method and the result of the work undertaken by the individual. However, a certain control on the work being undertaken may also exist for the purchase of a service. Therefore, other criteria should also be used to define more clearly the employer-employee relationship. If the individual is solely responsible for social contributions that would suggest that it is a self-employed service provider. In contrast, payment of social contributions by the employer is an indication of an employer-employee relationship. If the individual is entitled to the same kind of benefits (e.g. allowances, holidays, sick leave, etc.) that the entity generally provides to its employees, this indicates an employer-employee relationship. Payment of taxes on the provision of services (such as sales taxes or value added tax) by the individual is an indication that the individual is a self-employed service provider.

It is often the payment of taxes or social security contributions that will determine the perception of individuals involved, along with the way accounting systems record their remuneration and as a consequence how the distinction is made in available sources for statistics (registration in the client economy of a transaction as compensation of employees or payment for a service).

a BPM6 recommendations for the identification of self-employed and employees are consistent with those of 2008 SNA. These recommendations are also broadly consistent with those in the Resolution concerning the International Classification of Status in Employment (ICSE-93) adopted by the fifteenth International Conference of Labour Statisticians (ICLS) in January 1993 and with other resolutions of the ICLS concerning the definitions of the economically active population. For more information on ISCE see <http://www.ilo.org/public/english/bureau/stat/class/icse.htm>.

5.18. The *Annex on the Movement of Natural Persons supplying Services under the Agreement* specifies that the agreement does not apply to 'measures affecting natural persons seeking access to the employment market' nor does it apply to measures regarding citizenship, residence or employment on a permanent basis'.

Understanding Mode 4 – an excursion

5.19. If the service consumer is defined as being located in Member A, and the service supplier is located in B, then GATS Mode 4 may be considered

as covering the following major categories of natural persons:⁹²

- *Contractual service suppliers - self-employed:* a self-employed person of Member B enters Member A in the context of a service contract

⁹² These categories are the major groupings of persons moving abroad in the context of Mode 4 used in this statistical framework. Compilers should use the categories identified in this statistical framework and break down information according to the more specific needs where required.

with a service consumer in Member A⁹³. For example, legal advice is delivered to foreign consumers by a self-employed lawyer. However, it may not always be straightforward to determine if the specialist is a self-employed person or an employee of the 'client' (see Box 5.2). If an employer-employee relationship exists then the individual would not be included in this statistical framework;

- *Contractual service suppliers as employees of a juridical person*- where employees of the service supplier in Member B are sent to Member A in order to supply a service in the context of a contract between their employer and a service consumer in Member A. For example, computer services are supplied to consumers of A by an employee of a foreign information technology services enterprise of Member B who is sent to Member A to deliver this service;
- *Intra-corporate transferees and foreign employees directly recruited by foreign established companies*: the service supplier of Member B has a commercial presence in Member A and sends its employee to its affiliate in A or the affiliate recruits directly foreign employees⁹⁴. The supply of the service to the consumer is however taking place through the affiliate (Mode 3). For example, a surgeon is transferred temporarily to work in a branch of his employing hospital in a country abroad. The Mode 4 commitment guarantees the right of the supplier in B to send staff to A (or the affiliate to recruit foreign staff) in order to supply a service

through its local affiliate.⁹⁵ Intra-corporate transferees are a particularly relevant subgroup as many commitments are made and negotiations carried out with respect to this category of persons;

- *Services sellers* who are attempting to establish contractual relationships for a service contract, and *persons responsible for setting up commercial presence*: these persons enter Member A in the context of the negotiation for a service contract or for setting up the establishment of an affiliate in Member A.⁹⁶ There is no international supply of services in economic terms and consequently no accompanying transaction taking place, at least initially. Their movement, in order to conduct negotiations, is guaranteed by commitments under Mode 4. The negotiations will then eventually lead to the future supply of services through either of the modes.

⁹³ Trade negotiators often refer to this category as 'independent professionals'. Some self-employed persons may also establish themselves in the host market and supply services from within this territory as per a relevant Mode 3 commitment. Although a Mode 4 commitment can guarantee the right for this person to be present in this territory, it is considered in MSITS that the supply of the service is carried out through a commercial presence.

⁹⁴ For foreigners directly recruited by the foreign affiliate there may be ambiguity with respect to their coverage under Mode 4 as one could consider, in particular for foreigners recruited from within the host economy, that these individuals are seeking to access the employment market of the host economy.

⁹⁵ Note that services can also be delivered by foreign affiliates without a Mode 4 component involved.

⁹⁶ Trade negotiators often refer to these categories as 'business visitors'. Business visitors as defined in a GATS context are not the same as business visitors or travellers as defined in international statistical frameworks. These frameworks refer to travellers/visitors who enter in the territory of another economy for any business and professional reasons (i.e. covering, in addition to service sellers, many of those covered under the definition of contractual service suppliers).

Table 5.1: Summary of GATS Mode 4 coverage

	Included	Excluded
Duration of stay	Temporary presence as well as non-specified periods of stay ('temporary' is not defined in the GATS, and the period is set by host country).	Permanent migration (Not defined, but GATS does not apply to measures affecting residence, citizenship or employment on a permanent basis).
Purpose of stay	Presence of natural persons for the supply of commercial services.	Persons seeking to access the employment market. Presence of natural persons for the production of goods (e.g. agricultural products, manufactures). Services supplied under governmental authority.
Skill level	All skill levels.	(No skill level is excluded from GATS)
Main categories of natural persons	Self-employed service suppliers <i>(Contractual services suppliers – self-employed).</i> Employees of service suppliers sent abroad to supply a service <i>(Contractual services suppliers – employees).</i> Employees of foreign service suppliers established in the host country (linked to Mode 3, i.e. businesses enterprise established in host country that have foreign capital participation of at least 50 percent, or are controlled by a foreign owner). <i>Intra-corporate transferees and directly recruited foreign staff.</i> <i>Service sellers /persons responsible for setting up commercial presence</i>	Foreign employees of domestically owned juridical persons.

5.20. The GATS provides for the possibility that commitments, and therefore access conditions, be scheduled according to different categories of natural persons. Members' commitments in Mode 4 have been undertaken largely on the basis of the above categories. However, a number of WTO Members refer to particular categories such as installers and servicers, artists, sportspersons or other suppliers of services taking part in public performances, graduate trainees etc. For statistical purposes, these categories may be seen as falling under one of the four above categories (e.g. installers and servicers may be considered as contractual service suppliers or intra-corporate transferees, artists as contractual service suppliers, graduate trainees as intra-corporate transferees, etc.).

5.21. In their commitments, WTO Members have in general indicated the length of stay of natural persons

by the respective categories.⁹⁷ For example, in the case of contractual services suppliers, whether self-employed or employees, the duration ranges between 3 months and one year, rarely exceeding 2 years; for intra-corporate transferees it is generally limited to 2-5 years; for services sellers/persons responsible for

⁹⁷ In the 'Guidelines for the scheduling of specific commitments under the General Agreement on Trade in Services' (S/L/92), which was adopted by the WTO Council on Trade in Services on 23 March 2001, Members are encouraged to include in their commitments, the duration of temporary stay of natural persons for the purpose of supplying a service. In the absence of a reference to a specific duration for the temporary stay of a foreign service supplier, it could be understood that no binding is being undertaken in respect of the duration of that stay.

setting up commercial presence, it is normally limited to 3 months.

Determining the relevant mode of supply

5.22. Allocating the international supply of services to the different modes is difficult as a service can often be produced, distributed, marketed, sold and/or delivered through one or many modes. Examples include:

- A doctor, providing advice on-line to a foreign patient (Mode 1), may request his client to travel for an appointment with him (Mode 2), may decide to open a practice abroad (Mode 3), may re-locate to work in his practice abroad (Mode 3 with a Mode 4 element) or simply travel there temporarily to treat an individual patient (Mode 4);
- a single service contract between an architect and his client abroad may cover the design of the construction project, its delivery to the client through electronic mail (Mode 1) and occasional visits to the country of the client at the implementation phase (Mode 4);
- the operation of an affiliate in a foreign country supplying services under Mode 3 may require managers, technicians etc. transferred from the parent enterprise to the affiliate (guaranteed by Mode 4 commitments). For example, a construction enterprise signs a contract with a client abroad involving the establishment of a temporary site office (Mode 3) and/or the transfer of workers (Mode 4) at whatever skill level;
- a lawyer working in a law enterprise travelling abroad, establishes a business link with a client (Mode 4 movement, but initially no economic transaction), which may lead to the future provision of advisory work online to the client (Mode 1), and the attraction of new clients who travel to consult the law enterprise (Mode 2). This direct relationship with the client abroad may also result in a subsequent establishment abroad of an affiliate by the law enterprise (Mode 3);
- a computer services supplier and a consumer are located in two different territories and the supplier has commercial presence in a third territory (Mode 3). The affiliate may act as an intermediary between the supplier and the client (e.g. marketing, billing – Mode 3). However, most of the supply of these services

may be taking place through Mode 4 (e.g. if the parent enterprise sends a computer specialist to the client's country) and/or Mode 1 if part of the services are also supplied cross-border (online). In other cases, this affiliate may also be more closely involved in the supply, either cross-border (online) or by sending an employee.

5.23. As shown in the previous paragraphs, modes of supply are essentially defined on the basis of the location of the service supplier and consumer, the nationality of the supplier and the way the service is provided. Even if these factors are known, it may be difficult in certain cases to determine the allocation of the supply of services by origin and destination and which individual mode(s) was (were) involved. This ambiguity is particularly noticeable between Modes 1 and 2 when, under both of these modes, the supplier is not physically present within the territory of the consumer. The distinction between both modes hinges upon whether the service is supplied within the territory of the consumer from the territory of the supplier, or whether the service is supplied to the consumer outside his/her resident country. For example, the supply of financial or insurance services often does not require the physical presence of the consumer. Electronic means associated with the globalization of financial markets have made it possible to deliver a financial service almost anywhere in the world. Once the physical presence of the consumer ceases to be an unequivocal benchmark for determining the place to or from which a service is supplied electronically, it becomes difficult to clearly determine whether Mode 1 and/or 2 are involved.

5.24. All these issues make the task of estimating values of the international supply of services by modes challenging. In addition, depending on the point of view adopted (importer or exporter, inward or outward), the way compilers allocate transactions to modes of supply may differ, particularly when there is a combination of modes involved (e.g. service supplier and consumer are located in two different countries and commercial presence of the supplier in a third country is acting as an intermediary). This will result in asymmetries with respect to the recording of corresponding transactions. Accounting legislations, conventions and conveniences will also affect the way enterprises, banks and compilers report related payments by services items and modes, and may have implications for the recording of associated payments

and receipts in the balance of payments or in the FATS statistical frameworks.

Information needs for assessing the international supply of services by modes

5.25. Two groups of variables are identified in order to assess international supply of services by mode: first, the value of services supplied (e.g. exports and imports, or inward and outward sales/output of services); and second, a number of more specific variables necessary for a more complete assessment. Such variables include foreign direct investment transactions and positions in services industries or the number of persons moving (flows) and temporarily present (stocks) abroad in the context of the supply of services. Box 5.3 provides an example of the different means a computer services supplier may have to provide his services to foreign consumers and shows a number of possible sources of statistics for an assessment of the sector.

5.26. While it is useful to analyse information according to the overall structure of GATS, it may be difficult to obtain detailed data needed as, for instance, relevant variables may not be readily available in data sources of compilers. Ideally variables should be broken down according to:

- The type of service product provided (i.e. the service which is the subject of the transaction between the supplier and the consumer and for which a payment is made). If a breakdown by product (i.e. type of service) is not possible, then a breakdown by type of activity (i.e. industry) of the service supplier would be the best approximation. More information on appropriate classifications may be found in Chapters III and IV;
- the direction of the supply (i.e. the destination/origin of the service provided by the service supplier to the consumer). For Mode 4, as a lower priority, also the origin/destination of persons (for some categories of persons this may be the only information available). For this mode of supply there may indeed also be a particular interest in the origin and categories of persons involved;
- the relation between the parties (the supplier and the consumer of the service);

Additional breakdowns for Mode 4:

- By skills and occupations of persons using ISCO-2008 occupational classification, defining specific types of occupations and skills of persons involved;⁹⁸ and
- by length of stay: this is a low priority. Although difficult, MSITS 2010 proposes that compilers break down relevant statistics between permanent and non-permanent stays according to their national definition of residency, regardless of whether stays may be substantially longer than the one-year rule generally recommended by statistical systems.⁹⁹ As a longer term goal the breakdown should be of: stays of less than 3 months; stays between 3 months and less than one year; stays between 1 and 3 years; stays between 3 and 5 years; and more than 5 years. Compilers may also adapt this classification to their national needs and statistical systems, e.g. further breakdowns of time periods.

C. Value of the supply of services by mode

5.27. *MSITS 2010* conceptualizes the valuation of the supply of services by mode in a statistical context. A comprehensive statistical treatment by mode of supply that would fully mirror the GATS legal definition and other GATS articles is out of the scope of *MSITS 2010*. For Mode 4, the value of the supply of services is relevant only in the case of contractual service suppliers, whether these services are supplied by an employee of the service supplier or if the service supplier is self-employed and supplies the service himself. This information is not needed for intra-

⁹⁸ Some WTO Members make commitments under Mode 4 defining specific types of occupations and skills. Although it may be difficult to obtain, a breakdown by type of occupations and/or skills would be useful. It may also be worthwhile exploring whether commitments may be 'translated' into categories of ISCO, even if the available statistics do not provide these distinctions.

⁹⁹ National legislations may determine whether or not a unit and its activities are included as 'resident' in the national statistics. The one-year guideline has had very little influence on actual definitions of 'residency' as used by national legislation regulating immigration or population registers, and thus on the registrations in the main administrative data sources.

corporate transferees¹⁰⁰ and foreign employees directly recruited by the foreign affiliate, or for services sellers/persons responsible for setting up commercial presence. For the former, the supply of the service by the service supplier (i.e. the juridical person) to the *consumer* is taking place through Mode 3 (the Mode 4 commitment enables the presence of the person in order for the service supplier to supply the service via Mode 3) and for the latter there is no service transaction (the transaction takes place at a later stage).

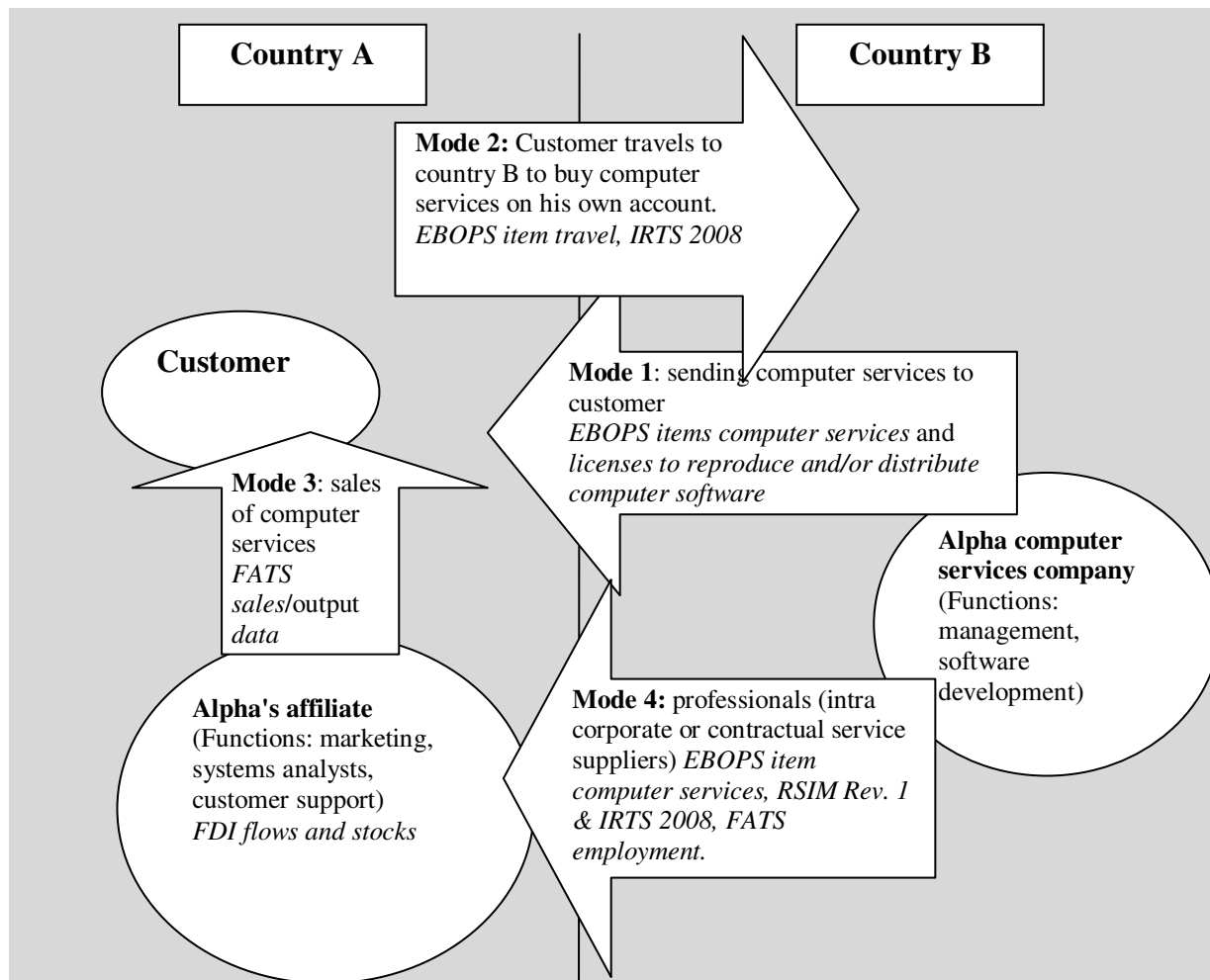
¹⁰⁰ Where the employment contract is with the affiliate. For those intra-corporate transferees, where the employment contract remains with the home enterprise, in *MSITS 2010* it would correspond to intra-firm contractual service supply (i.e. intra-firm trade in services).

Box 5.3: An example of different modes of supply of computer services

The Alpha computer services company in country B has an affiliate and a customer in country A and its headquarters and research and development activities in country B. Also shown for each mode of supply are illustrations of the statistics useful for analyzing the associated transactions.

- i. The computer service was provided to the customer by Alpha’s affiliate in country A. This illustrates the Mode 3 (commercial presence) delivery of service. The FATS sales/output information would be the statistical source for measuring this (if available for the service product, computer services, but most probably only available by activity, i.e. ‘computer programming, consultancy and related services’).
- ii. Alpha is also providing its services directly to the customer in country A via e-mail. This would reflect Mode 1 (cross-border) supply of services (transaction recorded in EBOPS 2010 item *computer services and licenses to reproduce and/or distribute computer software*).
- iii. The headquarters can send professionals to its affiliate. Although the provision of the service would be through Mode 3, the physical presence of the professionals relates to Mode 4. Migration (or FATS) or tourism statistics could be the source of information regarding these physical flows. If relevant, the value of the intra-enterprise trade would be covered in EBOPS 2010 item *computer services*.
- iv. Customers from country A can travel to country B to buy computer services on their own account. This flow illustrates the second mode (consumption abroad) of service delivery. The *travel* item of the balance of payments would cover information relating to this transaction.

However, in reality, relations between suppliers and customers may be much more complicated, e.g. when the client is located in a third country and the affiliate may only serve as an intermediary and will therefore not directly be involved in the production/delivery of the service.



5.28. It is often important that several institutions e.g. central bank, the national statistical office, tax, VAT, customs and social security agencies, etc, cooperate to provide the value of transactions by mode of supply. Drawing on GATS provisions, *MSITS 2010* proposes, as a first approximation, a simplified approach that is operational in a statistical context and consistent with international statistical standards.

5.29. After presenting the basic assumptions underlying the simplified approach, this section proposes a number of recommendations with respect to the allocation of balance of payments services transactions to the four modes of supply. It also shows how the FATS variables sales/output can be used to measure the supply of services through commercial presence. Finally, it explains how to treat the transactions relating to self-employed individuals which have become residents of a host economy. Table 5.2 summarises the simplified allocation of FATS and BPM6/EBOPS trade in services data to modes of supply, which serves as a first guidance to present estimates by modes of supply.

Statistical treatment of modes for estimating the value of the supply of services: the simplified approach

5.30. To allow the allocation of services transactions to modes of supply in a systematic way, *MSITS 2010* proposes criteria derived from the GATS definitions. *MSITS 2010* acknowledges that this allocation is only a first step in the estimation process and that further research and empirical information will be required to validate and to refine the estimates. These simplified criteria are based on the following considerations:

- To the extent that foreign affiliates are a good approximation of commercial presence entities, FATS provide most information for services supplied through Mode 3; and
- service transactions between residents and non-residents, as captured in the balance of payments accounts, broadly cover Mode 1, Mode 2, and Mode 4¹⁰¹.

5.31. It is, therefore, possible to derive information on services transactions by modes of supply from EBOPS statistics and FATS.

5.32. The simplified statistical criteria are based on the territorial location of the transactors (consumer and supplier) at the time the service is supplied, as well as on the type of supplier (an individual or a business enterprise, respectively termed ‘natural’ or ‘juridical persons’ in GATS). However, it should be stressed that *MSITS 2010’s* guidelines on the compilation of statistics by modes of supply, are laid out only for statistical purposes and do not imply any interpretation of GATS provisions. These criteria are shown in Chart 5.1. These simplified statistical criteria are further complemented by the rules discussed in the following paragraphs.

¹⁰¹ There are some limitations, however, to the assimilation of commercial presence entities to foreign affiliates or to the correspondence between EBOPS 2010 transactions and Modes 1, 2 and 4. These limitations are discussed further in this Chapter.

GATS modes of supply and EBOPS transactions

5.33. Ideally, each EBOPS component should be allocated to a mode using the principles above. However, compilers may only be able to allocate at a less detailed level of EBOPS. Although less desirable, compilers are encouraged to make the allocation at least at the level of the 12 major components of the EBOPS (or BPM6 services) classification (see Chapter III). Recognizing the difficulty of allocating balance of payments transactions to modes of supply, *MSITS 2010* gives a full allocation a low priority. The discussion should not be limited to main items, but be linked to the more detailed analysis of EBOPS items which is included in Chapter III.

5.34. As in many cases a single service transaction may involve more than one mode of supply, *MSITS 2010* acknowledges the difficulty in allocating each EBOPS type of service by the GATS mode of supply. To facilitate the feasibility of data collection and as a first step, some simplifying assumptions are recommended following the principles set out in paragraphs 5.31 et seq. In short, each EBOPS type of service is allocated either to one dominant mode or, where there is no single dominant mode, to the most significant mode of supply.

5.35. Services provided internationally by government agencies and services provided by government units that are based in diplomatic and other similar enclaves in the host economy are not of interest in this context.

EBOPS services transactions largely corresponding to Mode 1

5.36. Mode 1 applies when a service is delivered from a supplier abroad to a consumer in the consumer's territory of residence. This is the case for the majority of balance of payments transactions recorded under *transport* (except supporting and auxiliary services that are provided to domestic carriers in foreign ports or to non-resident carriers in domestic

ports), *telecommunications services*, *information services*, *insurance and pension services* and *financial services*.

5.37. With respect to the valuation of *transport* and *insurance services*, it is important to note that, following balance of payments principles, the amounts correspond to transactions which have been adjusted for f.o.b. (free on board – see Chapter III) principles. However, from a GATS perspective the corresponding transactions before any adjustment would be more relevant. More information on these aspects is provided in Chapter III.

5.38. Some transactions covered by the balance of payments items listed above may also take place through other modes of supply, for instance:

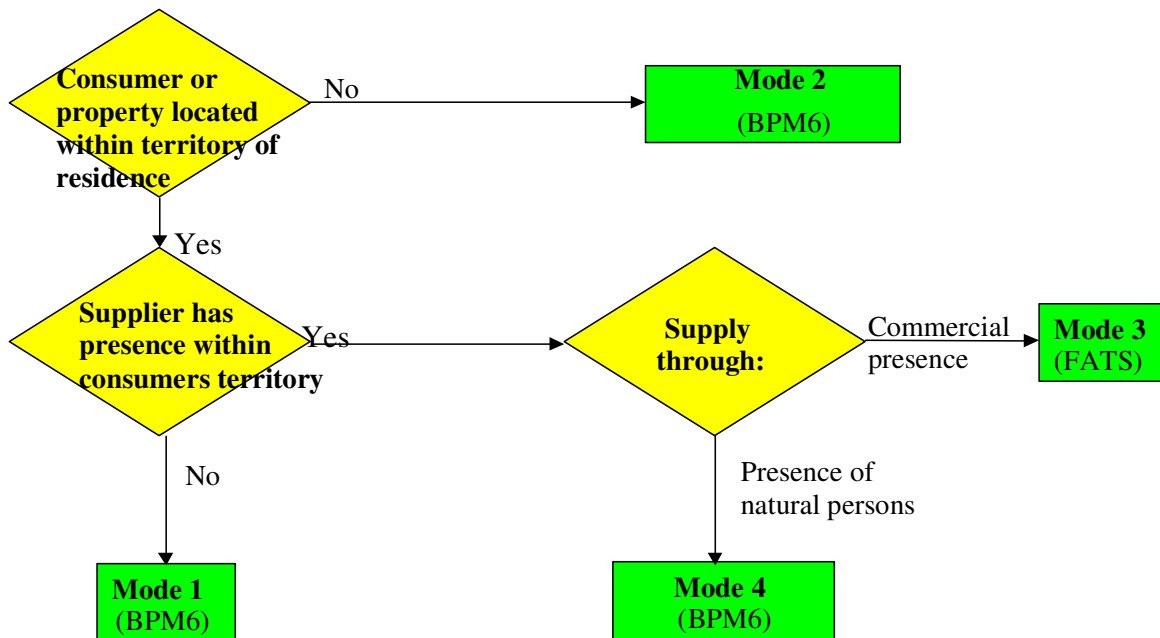
13. Transactions occurring through presence of natural persons (Mode 4), which are presumed to be marginal in these components.
 - Transactions that involve elements of both Modes 1 and 4 (such as an insurance agent travelling to discuss the terms of a contract, whereas most of the insurance service would be produced in the country where the insurance enterprise is located). In those cases, it might appear reasonable to allocate the entire transaction to Mode 1.

Transactions involving Mode 2 (such as non-resident carriers in domestic ports, or the consumer of financial services who has travelled abroad to the supplier's offices to open a bank account). In general these transactions are presumed to be marginal in these components. With respect to the determination of the mode of supply (1 or 2) for financial and insurance services which is described in paragraph 5.23, unless this is an important issue in the compiling economy, *MSITS 2010* recommends the full allocation of these transactions to Mode 1.

Applying the simplified approach, the EBOPS components indicated in paragraph 5.30 et seq, would be allocated to Mode 1.

Chart 5.1: The four modes of supply: Statistical simplified criteria

Territorial presence of transactors	Mode of supply	Major statistical areas
Consumer (or his/her property) outside territory of residence	Mode 2. Consumption abroad	BPM6
Consumer in the territory of residence:		
Supplier has no presence in the territory of the consumer Supplier has a presence in the territory of the consumer:	Mode 1. Cross-border supply	BPM6
(a) commercial presence (b) presence of natural persons	Mode 3. Commercial presence Mode 4. Presence of natural persons	FATS BPM6



5.39. Valuing the service provided by commission agents, wholesalers and retailers (distribution services) would present a particularly useful complement to services statistics covered in the balance of payments.

5.40. Wholesalers and retailers are treated as supplying services to their customers by offering goods in convenient locations for customers to buy. Their output is measured by the total value of trade margins realized on the goods they purchase for resale. However, the services that are provided by them are not measured within the balance of payments services account. This is because the value of international wholesaling and retailing services (including merchanting, which covers cases where the goods bought and subsequently sold do not enter the merchant's economy) are indistinguishably included in the value of the traded goods. Estimating and providing this information on a complementary basis, excluding holding gains and losses, would enable a more complete analysis of the international supply of services.¹⁰² Box 5.4 shows the United States (US) experience in developing experimental estimates of trade in distribution services. The value of these services (i.e. those provided cross-border) are deemed to be supplied via Mode 1.

5.41. *MSITS 2010* proposes an aggregate in EBOPS which responds to these information needs by including a complementary grouping entitled *total trade-related transactions*. It refers to all transactions relating to the provision of distribution services, whether for the sale of goods or services.

5.42. There is however a certain degree of uncertainty with respect to the coverage of *charges for the use of intellectual property n.i.e.* Franchising is clearly identified within the W/120 and transactions for distribution and/or reproduction licensing rights for audiovisual and software products are generally regarded as being payments relating to trade in services in these sectors. The same may be said of certain other transactions under *charges for the use of intellectual property n.i.e.* for example, fees in relation to the use of copyright in relation to audiovisual works. Other such transactions under charges for the use of intellectual property n.i.e. may, however, be

more difficult to assign to trade in services, e.g. payments for use of patents for pharmaceutical products. Given that distinctions are sometimes hard to draw in the compilation process, if a breakdown is not possible, it is recommended that all charges for use of intellectual property be considered as payments for supply of services through Mode 1. If a breakdown is possible it is recommended that additional work is conducted to identify *licenses to use outcomes of research and development* that can be associated with trade in services.

¹⁰² Services provided to customers in the case of merchanting, could be approximated by the BPM6 item net exports of goods under merchanting, excluding holding gains and losses.

Box 5.4: U.S. experimental estimates of distribution services associated with cross-border trade

The inclusion of these distribution services in the value of merchandise trade follows the treatment recommended in BPM6 and reflects the fact that data on cross-border trade are collected by product. In this case, the product is an exported or imported good, and its value includes the distribution services used to arrange for its export or import. As a consequence, statistics on cross-border trade in services do not include estimates of distribution services provided by exporters because those services are included in the value of trade in goods.

Nevertheless, services provided by wholesalers and retailers could be important as shown by the US Bureau of Economic Analysis (BEA) estimates. BEA has constructed these estimates of distribution services associated with merchandise trade by using exports of goods of wholesalers and retailers and the average percentage of distribution services per dollar of sales of goods. For imports, it assumed that foreign wholesalers accounted for the same share of U.S. imports as U.S. wholesalers did of U.S. exports. These 2002 experimental results show that considering these figures for GATS purposes would increase U.S. exports and imports of services (resident/non-resident trade) by more than 10 percent and 20 percent respectively.

Source: *Improved Measures of U.S. International Services: the Cases of Insurance, Wholesale and Retail Trade, and Financial Services*, U.S. BEA (2006)

EBOPS services transactions and Mode 2

5.43. Most services recorded in the balance of payments as *travel* are deemed to fall under *consumption abroad*, or GATS Mode 2. However, the *travel* component of the balance of payments classification also includes the purchase of goods, for their own use or to give away, by non-residents during visits outside their economy. These goods are outside the GATS Mode 2 coverage. Thus, travel expenditure on goods should be separately identified from their expenditure on services, and only the services portion of travel expenditure should be allocated to Mode 2. The goods portion should not be allocated to any mode of supply. In addition, further refinements of the services share of *travel* would be needed for a better measurement of Mode 2 by type of service.

5.44. Although it does not categorize all the types of services supplied to non residents while travelling abroad, the EBOPS classification provides an alternative breakdown of services consumed by these non-residents. These services comprise: *local transport services, accommodation services, food serving services* and *other services*. To respond to the particular interests in health and education services, EBOPS also provides for a distinction within the component *other services* into *education services* and *health services*. As noted in paragraph 3.125, the collection of separate data on specific expenditure on health and education services would be particularly useful for analysing the supply of these services via Mode 2. Finally, countries willing to compile a more detailed breakdown of travel services expenditure may do so on the basis of the list of tourism characteristics products provided in the IRTS 2008. See [Annex V](#).

5.45. *Supporting and auxiliary services* that are provided to resident carriers in non-resident ports, or to non-resident carriers in resident ports (sub-component of transportation) should be allocated to Mode 2, if they can be separately identified. Finally *maintenance and repair services n.i.e.* and *manufacturing services on physical inputs owned by others* (i.e. the service component of the repair or processing service fee) are also covered by Mode 2 as the property of the consumer is moving in order for the service to be supplied. It is important to note that if repair or manufacturing services are supplied through persons moving abroad then these would fall under Mode 4. However, these are not believed to represent large transactions.

EBOPS services transactions where no single mode is dominant

5.46. For other types of services transactions the picture may be more complex as individual transactions might involve significant elements of different modes. Indeed, Mode 4 might be relevant where the supplier (or his employee) travels abroad to provide the service at the site of the client. To take a simple example, an information technology consultant resident in the compiling economy providing computer services to a non-resident client, may supply the service either on-site (Mode 4, on-site development of software) or from his office, by transmitting reports (Mode 1, sending by e-mail of portions of the software to the client), or a combination of the two (sending the software via e-mail and travelling to the client's office for implementation and fine tuning). For construction, enterprises may want to establish a commercial

presence (Mode 3), for a couple of months and/or post own workers in the host country under Mode 4.

transaction.¹⁰⁴ This particular issue is further discussed in paragraph 5.67 et seq.

5.47. For the more specific case of Mode 4, as stated above, information is needed about contractual service suppliers present in the host economy to supply a service. Depending on the category of person the value of the services trade is recorded in the balance of payments as follows:

- Contractual service suppliers as employees of the foreign-based service supplier: A service provider sends his employee to that other country in order to supply the service. The transaction corresponding to the service contract remains between a resident and a non-resident and will be recorded as an export or import in the respective type of services regardless of whether that person stays abroad for a year or more or less than a year. In the majority of cases, the presence of contractual service suppliers as employees will not imply substantial operations that can be identified separately from the overall operations of the service supplier. A group of persons *per se*, cannot be considered to constitute a branch or representative office (if this was the case the supply would fall under Mode 3, commercial presence).¹⁰³
- Self-employed service suppliers: a self-employed person moves abroad in order to supply a service. If the person stays less than a year, the corresponding transaction should be recorded as an export/import of services. If it is possible and if the amounts are believed to be significant, information on self-employed persons under Mode 4 should be provided separately. However, if he/she stays a year or more, then in principle he/she will qualify as a resident of the host economy and the transaction corresponding to the service contract will not be recorded as a service

¹⁰³ As noted in BPM6 Chapter 4, ‘the identification of branches as separate institutional units requires indications of substantial operations that can be separated from the rest of the entity to avoid creating numerous artificial units’. See paragraph 3.22.

¹⁰⁴ For more information on residency of households see paragraphs 3.6 et seq.

Mode 1 and Mode 4

5.48. Combined Mode 1 and 4 transactions are often found in *computer services, other business services* and *personal, cultural and recreational services*. For these components, further analysis and empirical information is needed to determine how they can be separately identified or estimated. In particular, the knowledge of the location of the supplier at the time when major transactions are delivered, would be critical for a proper assessment of the share of modes in these balance of payments components. A first proposal to estimate these modes separately within payments (at least for major transactions) is provided in paragraphs 5.57 et seq. If for certain EBOPS components, a particular mode of supply provides only a small proportion of the total supply, then all supplies should be allocated to the dominant mode.

5.49. If detailed EBOPS statistics are compiled, it may be easier to allocate some of the items where Mode 1 is deemed to be the dominant mode and then, subsequently, concentrate on the remaining items. Table 5.2 presents the services categories that are believed to be delivered through either dominant mode and those where more refinement is necessary.

Mode 2 and Mode 4

5.50. Within other business services, for *waste treatment and de-pollution, agricultural and mining services*, international transactions can involve significant Mode 2 and Mode 4 elements. For *waste treatment and de-pollution* Mode 2 (shipment of radioactive and other waste for treatment) and Mode 4 (pollution cleaned up by workers, etc.), will represent important components in this item. For *services incidental to agriculture, forestry and fishing* and *services incidental to mining*, and *oil and gas extraction*, transactions are deemed to include significant elements of Mode 4.

Mode 3 and Mode 4

5.51. Commercial presence (Mode 3) concerns mostly domestic sales of foreign affiliates (i.e. transactions between residents), as described in FATS and is discussed in detail in paragraphs 5.62 et seq.

5.52. There are cases, however, where a commercial presence is not considered as being resident in its host country in BPM6 and *MSITS 2010* (i.e. if the entity

does not qualify as a branch). Foreign entities established for less than one year, or operations based from the home territory to supply services, rather than a local office, are considered as non-residents in the host country. This is particularly relevant for the EBOPS item *construction*. Service transactions with residents are thus recorded in the balance of payments. In GATS the supplies of foreign established entities are considered to fall under commercial presence, which ignores the one-year residency rule. Therefore for GATS, some of these *construction* transactions could be accounted for as Mode 3 (which could include the temporary presence of foreign workers or not).

5.53. In turn, the balance of payments component *construction* includes transactions related to Mode 4 - presence of natural persons (i.e. operations based from the home territory). Whether or not these Mode 4 transactions are minor relative to the Mode 3 transactions in *construction*, will depend on the compiling country's situation and the type of arrangements for the different projects (for example, does the project necessitate the creation of a site office or can it be considered that the operations are conducted from the home territory). For the sake of simplification, it is recommended to limit this issue of Mode 3/Mode 4 allocation to *construction*, unless the specific situation of a country requires to consider other EBOPS items.

Mode 1, Mode 2 and Mode 4

5.54. Services purchased in host economies by government units that are based in diplomatic and similar enclaves, are included in *government goods and services, n.i.e.* These services transactions are covered by GATS (Mode 1 or 4) when provided on a commercial or competitive basis.¹⁰⁵ Unless being relevant for the compiling country, *MSITS 2010* does not recommend that these purchases of services (irrespective of the supplier) be separately identified from purchases of goods.¹⁰⁶ In addition, services

¹⁰⁵ The services are provided in extraterritorial government enclaves which are resident of their home territory, rather than the host territory in which they are physically located. Therefore, the commercial services consumed are supplied cross-border or through the presence of persons.

¹⁰⁶ See paragraphs 3.68 et seq, for a more detailed discussion of these issues.

purchased by diplomats, consular staff, military personnel working in government enclaves and their dependants (considered as GATS Mode 2) are also included under *government goods and services n.i.e.* Again, unless deemed relevant for the compiling economy, *MSITS 2010* does not recommend a separate identification of these transactions as their share is believed to be relatively small.

Developing practices to separately identify modes of supply information within EBOPS transactions

5.55. As discussed in paragraph 5.46, a given balance of payments service item generally includes transactions corresponding to several modes. With a view to facilitating the analysis and compilation of service transactions between residents and non-residents by modes of supply, it is recommended that, if estimates cannot be provided for the subdivision of the transaction value by modes, the transaction be allocated to the most important mode in terms of time and resources associated with it.

5.56. To allocate transactions to modes, a number of compiling guidelines need to be elaborated on the basis of rules of national legislation and/or accounting conventions. From a general point of view, the possibility of estimating Mode 4 flows within the balance of payments services account would help improve the estimations of the international supply of services by modes. To collect further information with respect to Mode 4, a clear list of questions needs be developed to help survey respondents and/or compilers to identify whether the payment for a service contract or a single payment could be classified as the supply in Mode 1, 2, 3 or 4. The rules applied to compile these estimates by mode of supply, and the list of items where estimates of Mode 4 are necessary, should be established depending on each country's interest. This list should not strictly be limited to the services items identified in this Chapter.

5.57. Given the complexity of services contracts (i.e. several modes for supplying the service), the allocation should be made on a dominance basis. Compilers should concentrate on services categories relevant in the context of activity (e.g. construction, computer, engineering, legal, agricultural services) and not necessarily attempt to differentiate Mode 4 from other modes for services where this mode of supply is not believed to be an important component.

5.58. There are various options which would help determine whether a transaction should be allocated to Mode 4 or not:

- Indicate if the provision of the service involved the physical presence of foreign individual(s), whether as self-employed or as employee(s), sent to the compiling economy by their non-resident company (this question seems appropriate for collecting this information for the first time). If it involved the presence of the(se) person(s), how was most of the value of the service delivered (e.g. time and/or resources involved)? That is, if most of the service was provided by fax, email etc., with the supplier remaining in its own country and the person(s) just went to supervise a final stage, it is mostly Mode 1, but if the embodied knowledge went with the person(s) and was transmitted directly to the client, it is mostly Mode 4.

- Another option would be to define the four modes of supply in surveys and ask respondents to allocate transactions themselves. If it involves various modes of supply, the questionnaire should suggest allocating the transaction to the most important mode in terms of time and resources associated with it. While this option will be costly and very burdensome for respondents, it could be used for specific service sectors for which countries have a particular Mode 4 interest.
- Another possibility would be to add a question related to the estimated share of the inputs for the related services trade.

5.59. The choice of modes for which questions are sought for the two last options needs to be clearly determined according to the EBOPS category item for which information is being sought, e.g. for *construction* it would be relevant to only refer to Modes 3 and 4, whereas for *computer services* Mode 1 and 4 would be more appropriate or for *waste treatment and depollution*, Modes 2 and 4.

5.60. Compilers should also consider that questions need to be formulated differently depending on whether exports or imports are involved (an importer may have less information on the shares of different

modes in the supply process and/or the breakdown of inputs in the service supply) particularly for the Mode 1/Mode 4 distinction.

5.61. It may be difficult to allocate transactions by mode of supply when a service supplier and a client are located in two different economic territories, and commercial presence of the supplier in a third territory is involved (see paragraph 5.73). If service payments relating to the service contract are directly made between the client and the supplier, then it will be possible to allocate the transaction to the relevant mode(s). However, if the payment is made by the client to the affiliate and most (or part) of the service is supplied by the parent company, it will be difficult to define the mode of supply and to determine the direction of the flow.

GATS Mode 3 and Foreign Affiliates Statistics

5.62. FATS, as recommended in *MSITS 2010*, differs from the coverage of the GATS in the following ways:

- Under the GATS, a foreign service supplier is defined on the basis of majority ownership or control, whereas FATS are compiled for the foreign-controlled subset of foreign affiliates, where control is defined in the FDIR (control is deemed to exist if there is majority ownership of the voting power at each stage of the chain of ownership);
- GATS covers the services (products) and the suppliers of those services, whereas, in practice (see 5.xx et seq.), FATS are generally based on activities of affiliates.

5.63. By including commercial presence as a mode of supply, GATS has created interest in information on foreign affiliates in host economies. Service suppliers may choose to set up affiliates as a means to sell their services in foreign markets as an alternative to or a complement for exports through other modes. On the grounds that such sales/output may, to a certain extent, substitute for cross-border exports, *MSITS 2010* views domestic sales of foreign affiliates as the primary statistical indicator of Mode 3.

5.64. Although output is considered a superior and more refined measure of activity for most purposes, in many instances only sales data are compiled as they are easier to collect and may present more options for

disaggregation.¹⁰⁷ As FATS are primarily compiled by activity, this may cause particular problems for certain services industries such as wholesale and retail trade and financial intermediation. For wholesale and retail trade most of the value of the sales will be accounted for by the value of the goods that are sold.¹⁰⁸ Gross output for these particular activities is therefore a more appropriate estimation of the wholesale/retail service provided to the consumer, as it refers to the trade margins realized on goods purchased for resale and therefore excludes the value of the goods that are sold (see Chapter 4). Providing estimates for wholesale and retail services would give a clearer picture of distribution services provided. Similarly, output is a preferred measure for financial intermediaries and insurance in order to exclude the amounts that pass through the enterprise without being considered a part of its intermediate consumption (see Chapter 4).

5.65. A generalized framework for statistics on affiliates' operations would provide information on domestic sales/output according to both an activity breakdown (ICFA in services Rev.1 categories) and a product breakdown (on a basis compatible with EBOPS 2010). When product breakdowns are not available, the ICFA activity breakdown is used. This has been aligned with EBOPS for the purpose of approximating products resulting from various industrial activities. There is, however, no intention of establishing a one-to-one correspondence between ISIC, Rev.4 and EBOPS for the estimation of services produced by foreign affiliates. Such a correspondence might overlook important areas of secondary production by industries (for further explanation, see <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010/annexes.htm>).

5.66. Only when compilers are able to classify the output of foreign affiliates on a product basis will it be possible to directly compare the values of specific types of services, delivered to foreign markets through trade between residents and non-residents, with sales/output by foreign affiliates. Doing so would provide a more complete assessment of the international supply of services by modes.

¹⁰⁷ In general, measured output will be identical to sales for most service activities. See paragraph 4.35 et seq.

¹⁰⁸ Sales for wholesale and retail trade activities, should not be used to measure the international supply of services through commercial presence, as it would result in an overestimation of Mode 3 trade.

The case of resident, foreign, self-employed individuals

5.67. The preceding paragraphs have shown that transactions falling under Mode 4 are covered in EBOPS transactions. Self-employed service suppliers staying (or intending to stay) a year or more in the host economy should, according to international statistical guidelines, become residents of this economy. The transactions corresponding to the services contracts will no longer be international transactions. The only transactions that should, in principle, be recorded in the balance of payments for these self-employed service suppliers, will be the amount they remit to their home economy (therefore recorded under personal transfers) and/or an increase in assets in the home economy (if the person is saving in the home economy¹⁰⁹).

5.68. However, two categories of self-employed persons need to be distinguished; those who are present temporarily in the context of a service contract (Mode 4 supply of services) and those who operate from a base in the host economy (as per a relevant Mode 3 commitment). In general the former will represent a small proportion of the Mode 4 contractual service supplier population, and, unless deemed necessary, *MSITS 2010* therefore does not recommend to compile information for this specific group.¹¹⁰ Those who establish themselves in a host country to supply services from this base, would in many cases represent a small proportion of the overall commercial presence in the host economy. This will not be captured by FATS as the UCI will be a resident of the host country. However, compiling economies for which the category of self-employed persons established in an economy other than their own (the compiling economy on the 'inward' side or abroad for 'outward') is believed to be important, may wish to estimate the value of their services sales/output to consumers in the host economy, in the home economy and in third economies.

¹⁰⁹ Note that these persons may be remitting part of their earnings to their home economy. Although this information cannot be used to measure services sales/output, it may be used for analytical purposes. Further information is provided in paragraph 5.105 et seq, and Box 5.6.

¹¹⁰ Moreover it will be difficult to establish the centre of predominant economic interest for these persons and, in practice, many of the transactions will be recorded in the services account.

Issues in the measurement of the international supply of services

5.69. Within economic statistics, and in particular balance of payments transactions, the value of a number of services is often not separately available from the value of goods that are sold. These include distribution services included in the value of merchandise that is traded and the cost of installation, maintenance and training that is part of the sale of machinery, computers, ships etc. However, this is considered as trade in services from a GATS perspective. Estimating the value of these services would provide a useful complement to statistics compiled in the balance of payments (see example for distribution services in Box 5.4).

5.70. As indicated above, for a complete view of the total value of GATS supply of services, it is necessary to combine statistics drawn from the balance of payments and FATS frameworks. If necessary, additional statistics on sales of services by self-employed service suppliers resident in a host country can be utilised. However, compilers and users of the statistics need to keep in mind that a number of difficulties may be encountered. The different sets of statistics cannot be precisely compared because of differences in coverage, measurement, and classification.

5.71. For example, sales of services through cross-border trade are generally classified by type of service, whereas, for many countries, sales/output through foreign affiliates, following practices for collecting information from domestic enterprises are classified by the primary activity of the affiliate. Until more work has been done on the correspondence between the EBOPS 2010 and ICFA classifications (or ISIC Rev. 4), or until FATS are compiled on a product basis, any attempt to combine sales of foreign affiliates by industry and trade in services data by product, should be undertaken with extreme caution.

5.72. Balance of payments services transactions will record sales of services by residents to non-residents and vice-versa. FATS will record the total sales of services of the affiliate to clients resident in the economy where the affiliate is established, as well as exports of the affiliate outside this economy. For a proper assessment of international sales of services into an economy broken down by mode of supply, it is desirable to separately compile data on sales to residents of this economy where the affiliate is

established, and other sales of services of this affiliate, i.e. international services exports conducted by this affiliate (which will be considered as exports of the economy where the affiliate is established, see paragraph 4.31 et seq).

5.73. There may be some double counting when comparing balance of payments services transactions with sales of services by foreign affiliates. Foreign affiliates may be importing services from their parent enterprise or other affiliated enterprises (i.e. intra-enterprise trade in services) and will themselves sell services to consumers, either the same service, which has not been transformed, or another service. It may therefore be difficult to interpret balance of payments services data and FATS in conjunction. Compiling balance of payments services data separately for transactions with related parties and with unrelated parties or more detailed FATS statistics relating to purchases/sales of services based on the relationship between providers and consumers of services and economy of delivery, would help better understand this phenomenon. Compiling statistics on a control basis would also be an interesting analytical alternative to the compilation of trade in services statistics on a residence basis.

5.74. Although, in principle, this should not be the case, in practice, a number of balance of payments service transactions, or FATS sales, could be mis-reported where a foreign affiliate's main function is to facilitate transactions (e.g. marketing or billing). This is often the role of affiliates in the computer services industry where the service supplier establishes a regional base in another economy for transactions with third economies of the region, without necessarily being involved in the production and provision of the service, or its consumption. However, the associated trade in computer services could be mis-reported, e.g. computer services trade could be recorded as taking place with this intermediary, which would distort the measurement of the economic transactions actually taking place.

Conclusion

5.75. The simplifying assumptions for the allocation of the supply of services by mode set out in paragraphs 5.30 et seq, should be regarded as a guide to first steps in the estimation process and be subjected to periodic review and empirical testing of their validity and appropriateness. This allocation may vary from country to country and should be adapted to each

compiling economy's specific situation and information needs. For particularly important services sectors of an economy, compilers may invest further to improve the estimation of these items by mode of supply.

5.76. Estimation should be improved over time using information obtained by compilers, notably on the way service sectors operate. For instance, the simplified allocation could be amended by the use of partial or anecdotal information on a number of specific sectors. If identified as an information need of the compiling economy, these estimates would also be improved for specific services sectors if practices were developed to separately identify modes of supply in relevant services transactions, as presented above (see paragraph 5.55 et seq).

5.77. Table 5.2 summarizes the recommended allocation of statistics which can serve as a first guidance to estimate the value of the supply of services broken down by modes. It identifies the dominant mode(s) of supply used in resident/non-resident transactions; for FATS all sales/output in the host economy are supplied through Mode 3 (see X).¹¹¹ If for a compiling country, allocation of resident/non-resident transactions does not necessitate the separate identification of modes, or if it has difficulties in implementing the allocation according to this table (too burdensome or costly for compilers or reporters), the rules can be simplified by concentrating on the 12 major balance of payments services transactions, FATS and, if possible, the estimated value for distribution services associated with cross-border trade (see X). For example, telecommunication services transactions are deemed to be provided through Mode 1 whereas computer services are deemed to be provided either through Mode 1, Mode 4 or a combination of both. However, if a country only compiles the aggregate of telecommunication, computer and information services, then compilers should consider additional information to estimate the allocation between modes (1 and 4) or the dominant mode. Sales of telecommunication services or computer services by foreign affiliates should all be allocated to Mode 3.

5.78. Shaded rows shown in this table refer to categories not considered as the supply of services

¹¹¹ For FATS, sales/output, if they can be broken down by product, this should be presented using the EBOPS classification.

from a GATS perspective. Rows presented in italics are not separately available in the EBOPS 2010 classifications, but are indicated to improve the clarity

concerning the links of existing balance of payments items with modes of supply

5.79. Table 5.2. Simplified allocation of FATS and balance of payments data to modes of supply¹¹²

	FATS (sales or output) ¹¹³	Balance of payments trade in services					
		Mode 3	Mode(s)				
	1		2	4	1 and 4	2 and 4	3 and 4
Manufacturing serv. on physical inputs owned by others	X		X				
Maintenance and repair services n.i.e.	X		X				
Transport	X	X					
• Passenger	X	X					
• Freight	X	X					
• Post and courier services	X	X					
• Other	X						
–Serv. to domestic carriers in foreign ports (and vice-versa)	X		X				
–Other	X	X					
Travel			X				
• Goods							
• Local transport services			X				
• Accommodation services			X				
• Food-serving services			X				
• Other services			X				
Construction	X						X
• Goods							
• Services	X						X
Insurance and pension services	X	X					
Financial services	X	X					
Charges for the use of intellectual property n.i.e. ¹¹⁴	X	X					
Telecommunications, computer and information services	X				X		
• Telecommunications services	X	X					
• Computer services	X				X		
• Information services	X	X					
Other business services	X				X		
• Research and development services	X				X		
• Professional and management consulting services	X				X		
• Technical, trade-related and other business services	X						
–Architectural, engineering, scientific and other technical services	X				X		
–Waste treatment and de-pollution, agricultural and mining services	X						
○ Waste treatment and de-pollution	X					X	
○ Services incidental to agriculture, forestry and fishing	X			X			
○ Services incidental to mining, and oil and gas extraction	X			X			
– Operational leasing services	X	X					
– Trade-related services	X	X					
– Other business services, n.i.e.	X				X		
Personal, cultural and recreational services	X				X		
Government goods and services n.i.e.							
• Government goods n.i.e., Credits and debits							
• Government services n.i.e., Credits							
• Government services n.i.e., Debits							
– Commercial services purchased in host economies							
○ Government units in diplomatic and similar enclaves					X		
○ Personnel from home economy and dependants				X			
– Other commercial services n.i.e purchased by government					X		
– Non-commercial services acquired by government							
Distribution (wholesale, retail trade) services	X	X					

¹¹² The allocation may vary from country to country (general needs as well as for specific sectors, data collection system, resources, etc.)

¹¹³ In the economic territory where the affiliate is established. If not possible to breakdown by EBOPS 2010 product, total sales (or output) of services by activity using ICFA Rev.1.

¹¹⁴ There is a certain degree of uncertainty with respect to the coverage of certain *charges for the use of intellectual property n.i.e.* See paragraph 5.xx.

D. Additional indicators for analyzing the international supply of services

5.80. Statistical needs of negotiators and trade analysts are numerous, such as to further guide negotiations, to support comparison of commitments, as background for the settling of disputes and for the assessment of the international supply of services as requested in GATS Article XIX:3.¹¹⁵ Additional information is also necessary for a more complete economic analysis and to evaluate market access opportunities. To conduct such analyses it would not only be useful to look at the level and structure of values as presented above, but also to obtain additional information related to individual service sectors by modes of supply, such as quantitative information or financial transactions that are linked to the supply of services as defined by the GATS.

5.81. Although it may prove difficult to obtain information relating to specific arrangements, it may be useful to obtain aggregated economic statistics to estimate, for instance, the level of foreign direct investment in individual services sectors of a country, or the number of foreign affiliates established in a country's service industry. The number of persons crossing a border (flows) or present (stocks) in the context of GATS Mode 2 or Mode 4 is also one of those additional needs. For Mode 4 this type of statistics should be identified for all categories of persons involved in the supply of services, with priority given to contractual service suppliers (either as employees of the service supplier or self-employed) and employees of foreign service suppliers established in the host country (intra-corporate transferees and foreigners directly recruited).¹¹⁶ *MSITS 2010* considers that collecting separate information for services sellers and persons responsible for setting up commercial presence is not a priority, as there is, at least initially, no economic transaction.

¹¹⁵ GATS Article XIX:3 states that, prior to establishing negotiating guidelines for a new round of negotiations 'The Council for Trade in Services shall carry out an assessment of trade in services in overall terms and on a sectoral basis with reference to the objectives of this Agreement'.

¹¹⁶ Intra-corporate transferees are a particularly relevant grouping as many commitments are made and negotiations carried out with respect to this category of persons.

5.82. These paragraphs discuss the additional information needs relating to commercial presence and the presence of natural persons. They identify variables of interest within the foreign direct investment statistics and FATS frameworks and explore possible extensions of existing statistical frameworks (tourism and migration) in order to collect the more detailed information relevant to improve the monitoring and analysis of the supply of services through the presence of persons. They also link this information to a comprehensive description of the flows which result from this particular way of supplying services (derived from balance of payments or related statistics). Finally, they provide a list of other indicators which would also be relevant in the context of a complete analysis of a service sector. This includes statistics on national production, current and constant prices estimates, employment data and quantitative indicators.

GATS Mode 3 and Mode 4, foreign direct investment and foreign affiliates statistics

Foreign direct investment and foreign affiliates statistics and commercial presence

5.83. The Chapter so far has described how information of the FATS statistical framework can be used to measure the value of the supply of services through Mode 3 (commercial presence). To conduct a more complete analysis of Mode 3, sales (and output) statistics need to be complemented by other statistical variables drawn from FDI statistics and the FATS framework. This supplementary information may be related, for instance, to the categories of supplies or suppliers as described in schedules of specific commitments, i.e. the number of service suppliers, total value of assets, number of natural persons that may be employed by a service supplier, total value of individual or aggregated foreign investment, etc.

5.84. As stated in Chapter IV, although FDI statistics (financial transactions, income and position) do not reflect the operations of foreign affiliates, they should be considered an important complement to FATS. Although they have a broader coverage (FDI considers all affiliates, whereas FATS deals with those that are controlled), FDI statistics can provide useful information when no FATS are available.

5.85. Compiling FDI statistics on stocks and flows broken down according to services activities and countries of origin and destination of investment, is instrumental in assessing the impacts of commercial presence on economies. This would reflect the interest of foreign service suppliers in establishing affiliates in the host country and provide useful information with respect to the income on *investment* returning to the home economy.¹¹⁷ *MSITS 2010* recommends that FDI statistics be compiled as specified by BPM6 and BD4. The guidelines for compiling FDI statistics are summarized in Box 4.1 in Chapter 4.

5.86. FATS variables other than sales or output will provide useful complementary information for assessing the implications of market access commitments (number of enterprises, assets, employment). They also allow a view of the actual output originating from the affiliate itself (value added) and a more detailed analysis of the impact of commercial presence on a particular services sector of the receiving economy (gross capital formation, research and development expenditure). They also provide information on an economy's enterprises use of commercial presence for supplying services to different markets.

Foreign affiliates statistics and presence of natural persons

5.87. Employment of foreign staff in foreign affiliates, in particular intra-corporate transferees, is a Mode 4 category of natural persons referred to in countries' commitments. As noted in Chapter IV, although data on foreign employment of foreign affiliates would not, in general, appear separately from data on the number of employees, such information could be used for a more in-depth analysis of Mode 4 commitments, including their relationship to the supply of services through Mode 3. Information on the compensation of foreign employees in foreign

affiliates would be an indicator of the *income* dimension of Mode 4 linked to Mode 3.

5.88. Although a service is actually sold by the foreign invested company, the presence and movement of foreign staff is covered by Mode 4 commitments. It may, therefore, still be of analytical interest to have a sense of the contribution of these persons to the sales involved. The intra-corporate transferees and other foreign employees of the services foreign affiliate do not necessarily have to be directly involved in the provision of the service. For instance, in the case of a financial services company, the person that enters a host economy, as an intra-corporate transferee or as a foreign employee of the affiliate located there, may be sent as a financial or computer specialist to work for this company. But compilers must remember that what is relevant is the financial service provided by the company to the final consumer located in the host economy.

¹¹⁷ The FATS sales/output data provide an alternative view of services supplied internationally. Although this information is used to compare the supply of services by modes as defined in the GATS, these sales are not considered international transactions under the residency principle of balance of payments and national accounts. However, the direct investors' shares of the profits earned on these sales are recorded as international transactions (under investment income) and show the income on investment returning to the country of the direct investor. See Box 5.5.

Box 5.5: The effects of the channels of delivery of services on an economy

The channels of delivery of services typically differ in their effects on an economy. For example, services exports data in the balance of payments (e.g. Mode 1 or Mode 4) usually have a greater effect on an economy than the equivalent sales through foreign affiliates, because most, or all, of the income generated by the production generally accrues to domestic supplied labour and capital. In contrast, for sales through foreign affiliates, only the domestic parent enterprise's share in profits accrues to the domestic economy (and is recorded as an international transaction), the other income generated by production, including compensation of employees, typically accrues to foreigners. For Mode 4, portions of the income generated by services production may accrue to the home economy in the form of exports of services (and to a lesser extent remittances for those staying in the host economy for a year or more), but a portion may also accrue to the foreign host economy.

GATS, tourism and migration statistics

5.89. Other statistical systems may offer sources of information of interest for a more in-depth analysis of the international supply of services. The International Recommendations for Tourism Statistics 2008 (IRTS 2008) and Tourism Satellite Accounts: Recommended Methodological Framework 2008 (TSA-RMF 2008), as well as the Recommendations on Statistics of International Migration, RSIM, Rev.1, can assist. The tourism recommendations notably provide information on the W/120 Tourism and travel-related services sector. Information on flows and stocks of persons is necessary for a more detailed analysis of Mode 2, as well as for categories of persons identified within Mode 4. This information could be derived from the definitions used in IRTS 2008, TSA-RMF 2008 and RSIM, Rev. 1. While rough aggregated Mode 4 information may be drawn from these statistical systems, for a more complete picture compilers will have to identify in frameworks, relevant categories and breakdowns. This section presents how these frameworks could be used and extended in order to develop relevant additional indicators. Although such statistics will not perfectly mirror the definitions of GATS, they would provide a reasonable indication of the flows and stocks of Mode 4 persons crossing borders in the context of the supply of services.

GATS, International Recommendations for Tourism Statistics 2008 and Tourism Satellite Accounts: Recommended Methodological Framework 2008

5.90. The IRTS 2008 is a comprehensive methodological framework for the collection and compilation of tourism statistics. This conceptual framework defines tourism and refers to related concepts such as country of residence, place of usual residence, usual environment, etc. It introduces the activity of visitors from the point of view of their expenditure and presents the standard classification of products and productive activities that need to be used to conduct a comparable analysis of the demand and supply related to tourism. An extension of the IRTS 2008 is the tourism satellite account, by which tourism statistics are linked with the mainstream of macroeconomic analysis (see TSA-RMF 2008). Statistics compiled according to these frameworks would be a useful complement for an in-depth analysis of the tourism sector covering all modes of supply.

5.91. Looking more specifically at the coverage of IRTS 2008 identifies international visitors as being characterized by the fact that they are on a tourism trip and that they are non-residents travelling in the country of reference or residents travelling outside of it. They must not be employed by a resident entity in the country visited receive compensation for the labour input provided. This framework proposes to breakdown trips according to their main purpose, i.e. personal (holidays, leisure and recreation, education and training, health and medical care, etc.) and business and professional purposes.

5.92. Although very aggregated, collecting data on the flows of visitors whose main purpose of trip is business and professional is useful to conduct an analysis of flows of Mode 4 persons. It includes the activities of the self-employed and employees, as long as they do not correspond to an employer-employee relationship with a resident producer in the country visited, as well as those of investors, businessmen, or any other type of professional purposes.

5.93. Although the IRTS 2008 recognizes that, for some countries, it may be difficult to implement the breakdown as indicated in these recommendations (such as separately identifying business and professional), it suggests that for some others it may be sufficiently important to disaggregate this information further. For instance, although not of direct interest from a GATS perspective, IRTS 2008 suggests that the business and professional purpose could be split into 'attending meetings, conferences or congresses, trade fairs and exhibitions' and 'other business and professional purposes.' Paragraphs 5.97 et seq, present how this framework should be used to derive Mode 4 relevant information. More information on tourism statistics and relevant information for the compilation of GATS related indicators may be found in IRTS 2008 and TSA-RMF 2008.

GATS and UN Recommendations on Statistics of International Migration, (RSIM) Revision 1

5.94. The RSIM, Rev. 1 defines two main groups of internationally mobile persons i.e. non-migrants, and international migrants (of which short-term migrants and long-term migrants). It also provides a framework for the compilation of statistics on inflows and outflows of these groups of persons.

5.95. An international migrant is defined as any person who changes his or her country of usual residence. The country of usual residence is the country in which a person lives, that is to say, the country in which he or she normally spends the daily period of rest. Temporary travel abroad for recreation, holiday, visits to friends and relatives, business, medical treatment or religious pilgrimage does not change a person's country of usual residence.

5.96. Short-term migrants are persons admitted in a country other than that of their usual residence. for a period of at least 3 months but less than 12 months, except in cases where the movement is for recreation, holiday, visits to friends and relatives, business, medical treatment or religious pilgrimage. For purposes of international migration statistics, the country of usual residence of short-term migrants is considered to be the country of destination during the period they spend in it.

5.97. Long-term migrants are persons who move to a country other than their usual residence for a period of at least one year, so that the country of destination becomes their country of usual residence. From the perspective of the countries of departure and arrival respectively, the person will be a long-term emigrant or immigrant.

5.98. The RSIM, Rev. 1 suggests a number of definitions of categories of migrants (short and long-term) and non-migrants that could be used for the compilation of statistics on international inflows and outflows of internationally mobile persons. Although some of these categories cover some persons of interest in the context of the international supply of services, a one-to-one correspondence is not possible. More information may be found in RSIM, Rev. 1.

5.99. Statistics collected along the lines of these recommendations would serve to measure the number of persons present abroad and, as a consequence, consuming services, via Mode 2. Within non-migrant categories these should cover border workers, tourists, business travellers, etc. and within migrant categories they should cover various types of nationals which change their place of residence and consume services abroad. For instance, one particular category of migrants, which would be of interest, are those admitted for education or training. Similar to tourism statistical guidelines, recommendations on migration statistics could also be useful to compile statistics on Mode 4 flows and stocks of persons notably by

looking at the non-migrant category corresponding to business travellers (refers to the category business and professional in IRTS 2008). Identifying persons falling under Mode 4 within other categories proposed in the RSIM Rev.1 (such as foreign migrant workers, migrants for settlement, for free establishment etc.) is a difficult task. These definitions were not designed for an analysis of the international supply of services. However, by adopting a number of assumptions and simplifying rules, it will be possible to derive more meaningful and detailed Mode 4 estimates from migration statistics.

Deriving Mode 4 indicators: Links between RSIM, Rev. 1 and IRTS 2008

5.100. As indicated above, the IRTS 2008 category *business and professional purposes of trip* is a particularly interesting category to analyse flows of Mode 4 persons. If relevant, it is recommended that compilers further disaggregate this category. On this basis, compilers willing to collect information on the number of Mode 4 persons may further break down the category of business and professional into contractual service suppliers (of which self-employed and employed¹¹⁸; and services sales persons and investors. However, unless supplementary information is considered, statistics resulting from this framework will not cover cases where there is a change of usual residence (from one country to another) and intra-corporate transfer and direct recruitments by the foreign affiliate (employer-employee relationship with a producer resident in the host economy).

5.101. Relevant information could also be gained from migration statistics with the help of some simplification rules:

- The best source of information on Mode 4 persons is the category of *non-migrants*;
- intra-corporate transferees and other foreign employees maintaining an employer-employee relationship with the affiliated entity in the host country, fall largely under the migrant categories.

MSITS 2010 therefore recommends that:

¹¹⁸ This includes intra-corporate transferees for which the employer-employee relationship remains with the parent company. In *MSITS 2010*, this corresponds to intra-firm contractual services supply.

- For non-migrants moving for less than one year, the category of *business travellers* (which should cover persons moving abroad for professional reasons, but for which no employer-employee relationship with an enterprise resident in the host country exists), should be broken down as follows: contractual service suppliers (further broken down into self-employed and employees¹¹⁹); services sales persons responsible for the establishment of commercial presence; and other business travellers.¹²⁰ If necessary, supplementary statistics (i.e. beyond the RSIM Rev.1 guidelines) could be compiled to include as well, for the same categories identified, persons who have changed their country of usual residence (i.e. staying for one year or more) but for whom the employer-employee relationship remains with an enterprise located outside the host country, or who are self-employed (and not established in the host economy);
- for migrants, identify within short-term and long-term migrants employed in the host country, those persons who have been transferred within the same services company (i.e. the intra-corporate transferees which are remunerated from within the economy visited) and those foreign employees that are directly recruited by the foreign affiliate. Where there is a need identified, supplementary statistics (beyond the RSIM guidelines) could be compiled, extending the length of stay to cover also moves of less than three months (of which those involving intra-corporate transferees).

5.102. This information should be broken down according to the type of service supplied (using EBOPS 2010), the service activity of the enterprise employing the person or the activity performed by the self-employed (ICFA 2010), the relation between the

employer and the client (i.e. intra-firm trade or not), the occupation/skills of the persons moving (ISCO-2008) and their length of stay in the host country (see paragraph 5.26 et seq). Information on the number of visits during the latest months could also be collected, as well as an indication of the value of services supplied and/or purchased.

5.103. Although it is considered that the supply of the service is taking place through commercial presence, it could be interesting to also collect information on self-employed persons which are established in a host country and are therefore intending to provide services from this base (as per a Mode 3 commitment). These persons will be covered indistinguishably in the category *entrepreneurs and investors*.¹²¹

¹¹⁹ For those intra-corporate transferees, where the employment contract remains with the home enterprise, in *MSITS 2010* it would correspond to intra-firm contractual service supply (i.e. intra-firm trade in services).

¹²⁰ The category *business travellers* as defined in RSIM, Rev. 1 does not refer explicitly to the employer/employee relationship, but states that the persons are on 'short visits related to business or professional activities not remunerated from within the country visited.'

¹²¹ *Entrepreneurs and investors* are defined in RSIM Rev.1 as 'foreigners granted the right to long-term settlement in a country on condition that they invest a minimum sum of money or create new productive activities in the receiving country'.

Table 5.3: Links between RSIM Rev. 1, IRTS 2008 and GATS Mode 4: classification of persons by purpose of trip or migration

Purpose of trip or migration	Length of stay of individuals		
	Less than 3 months	3 to 12 months	more than 12 months
RSIM Rev.1 categories	IRTS 2008 categories		
	Visitors		
	Personal		
	Holiday, leisure and recreation		
	Visiting friends and relatives		
	Education and training		
	Health and medical care		
	Religion/pilgrimages		
	Shopping		
	Transit entering eco./legal territory		
	Other		
	Business and professional (no employer-employee relationship with entity established in compiling economy)		
	Contractual service supply:		
	- <i>self-employed</i>		
	- <i>employed</i>		
	<i>of which intra-corporate</i>		
	<i>Serv. salespersons/ commercial pres. negotiation</i>		
	- <i>serv. salespersons/ commercial pres. of serv. producing company negotiation</i>		
	- <i>commercial pres. of goods producing company negotiation</i>		
	<i>Other (incl. attending meetings, conferences, etc)</i>		
	Employment (migrant workers, employment-based settlement)		
	<i>Intra corporate transfer:</i>		
	- <i>in services producing company</i>		
	- <i>other</i>		
	<i>Directly recruited by a foreign established:</i>		
	- <i>services producing company</i>		
- <i>other</i>			
International civil servants			
Other			
Trainees			
Family reunification/formation			
Family based settlement; Ancestry based settlement			
Retiree settlement			
Entrepreneurs and investors settlement a			
Humanitarian reasons (refugees, etc.)			
Border workers; Frequent border crossers; Nomads			
Transit not entering economic/legal territory			
Diplomatic/consular personnel; Military personnel			

Non-migrant categories



Migrant categories



Visitors

BOLD = Mode 4 purpose.

Italics = Not available in RSIM/IRTS ; additional breakdowns possible.

‘X’ First rough approximation of Mode 4

‘X’ Mode 4 information requirements

a Only in the services sector. See paragraph 5.102.

Interpretation of Table 5.3

5.104. Table 5.3 summarizes links between the coverage of RSIM, Rev. 1 and IRTS 2008 in terms of the purpose of a trip or migration, and duration of stay. It identifies, in bold, the purposes that are relevant for Mode 4. The list of purposes is derived from the categories of RSIM, Rev. 1 and the IRTS 2008 classification of tourism trips according to main purpose and should not be considered as an exhaustive list reflecting accurately the categories as defined in both these frameworks. It has been built to show how these tourism and migration data sources can be used to collect and compile information on the number of persons crossing borders in the context of Mode 4 (flows and stocks).

5.105. Rows presented in italics are not separately available in RSIM, Rev. 1 and IRTS 2008 but are indicated in this table as a possible breakdown that would better serve information needs of GATS. All purposes of stay are covered by RSIM, Rev.1, as it deals with migrant as well as non-migrant categories. They are further broken down into non-migrant (white cells, the majority of purposes corresponding to stays of less than three months) and migrant categories (grey cells). In RSIM, Rev. 1, the migrant categories are further broken down into short-term migrant (stays between three and twelve months) and long-term migrant categories (12 months or more). Visitors as defined by IRTS 2008 are grouped in this table in the box with thick borders. As shown in this table, there are two overlapping items between these statistical systems. The first covers personal visits for less than twelve months but more than three, for the purpose of education and training and other personal reasons.

5.106. 'X' indicates the minimum Mode 4 information requirements. The highlighted 'X' shows that, in the absence of a further disaggregation, the category *business and professional stays* (corresponding to *business travellers* in RSIM, Rev.1) could be used as a first approximation for total flows and/or stocks of persons staying abroad in the context of Mode 4 supply of services (but excluding most of Mode 4 movements and presence related to the supply of services through Mode 3).

GATS Mode 4 and supplementary information from BPM6 and EBOPS

5.107. Although they do not reflect the value of the services contract and hence cannot be used to measure Mode 4 supply of services, identifying relevant transactions in relation to Mode 4 - presence of natural persons within BPM6 items *compensation of employees, personal transfers* or *travel*, will provide additional analytical information (see Box 5.6).

5.108. For a contractual service supplier, if the person (either as an employee or self-employed) stays less than one year in the host economy, his/her related expenditure will be recorded under the item *travel*. If the employee stays one year or more the compensation received by the employee from his employer will be recorded as compensation of employees and subsequent personal transfer flows and/or increases in assets in the home economy, should be recorded. For self-employed persons staying more than one year, personal transfer flows and/or increases in assets in the home economy could be recorded. See Box 5.6 for more information.

5.109. BPM6 statistics can also provide supplementary information of interest for analyzing the transactions associated with the movement of intra-corporate transferees working for service suppliers which have established a commercial presence abroad:

- If the employer-employee relationship is with the affiliate, and the intra-corporate transferee stays less than one year, then wages etc. will be recorded under *compensation of employees*. If he/she stays one year or more, any personal transfer flows and/or increases in assets in the home economy may be recorded.
- If the employer-employee relationship remains with the parent company and the intra-corporate transferee stays less than one year, then the affiliate will pay for the service rendered by the parent company. If he/she stays one year or more, then wages etc. paid by the parent company will be recorded under *compensation of employees* and subsequently, any personal transfer flows and/or increases in assets will be recorded in the home economy ;

- Whatever the employee-employer relationship, if the intra-corporate transferee stays less than

one year then his/her related expenditure will be recorded under the item *travel*.

Box 5.6: Remittances are not a measure of Mode 4

For many countries, remittances represent an important source of income that exceeds official aid flows or financial inflows from foreign direct investment. The two standard items that relate to remittances as defined in BPM6, are compensation of employees and personal transfers.

Compensation of employees refers to the income of *border, seasonal, and other short-term workers* who are employed in an economy where they are not resident and of residents employed by non-resident entities. Compensation of employees represents ‘remuneration in return for the labor input to the production process contributed by an individual in an employer-employee relationship with the enterprise’.

Personal transfers consist of all current transfers in cash or ‘in kind’, made or received, by resident households to or from other non-resident households. This includes all current transfers from resident to non-resident households, independent of (a) the sources of income of the sender (be it wages and salaries, social benefits or any other type of transfers, including transfers from a person receiving no income and running down his/her assets); (b) relationship between the households (be it between related or unrelated persons) and (c) purpose for which the transfer is made (be it inheritance, alimony, lottery, etc.). BPM6 recommends the recording of a supplementary item entitled *worker's remittances*.

Information of BPM6 on compensation of employees and personal transfers broken down by relevant categories of persons (e.g. intra-corporate transferees or persons directly employed by a services foreign affiliate) could provide additional information on Mode 4. However these flows will not reflect the value of the service contract (or sales of services) and cannot be used to measure the international supply of services (by the definition of compensation of employees and personal transfers, as well as other remittances indicators, a majority of contractual service suppliers are not covered in the universe of persons to which these balance of payments items refer).

In addition, in the (rare) cases where some Mode 4 persons would be covered, double counting would occur as the value of the supply of services would implicitly be included, either within the value of trade in services statistics (between residents and non-residents) for Mode 4, or in FATS for Mode 3. In some instances, however, compilers might use this information to extract a Mode 4 estimate for some contractual service suppliers from appropriate balance of payments services items. While this additional information cannot be tracked to specific transactions, it could probably be used as a reality check. However, it will often be difficult to identify specific compensation of employees/personal transfers for categories of interest for Mode 4 (i.e. those which have become residents of the host economy), as related transactions will often represent a small proportion of the relevant total income and transfer transactions.

5.110. The expenditure of services sellers responsible for setting up commercial presence will be recorded under the item *travel* unless they become residents of the host economy (which in theory they will not become given the nature of their activity while present in the economy visited).

Other indicators

5.111. To complement information for a more global analysis of services industries and/or an assessment of individual services sectors or market opportunities, there exists a number of additional useful statistics that can be drawn from various frameworks. These include indicators on prices, production and employment, for example, national accounts, business and employment statistics, or performance indicators which trace the quantitative development of a service sector. National accounts statistics provide information on an industry's activity such as output,

value added, capital formation or employment. These aggregates are particularly useful as they are available in both current and constant prices. Further quantitative information that can be used to supplement information on international services trade flows, is also obtainable from sectoral performance indicators. Examples include international tourist arrivals, international freight or passengers carried, international telephone traffic, etc. While these indicators allow analysis of the sector's developments over time, they are not suitable for cross-sector comparisons.

5.112. Recent developments in linking trade and business registers are an interesting addition to statistical information at a microeconomic level. Such a linkage would improve the compatibility of trade and business statistics to analyze trade flows characteristics of enterprises, for example, by economic sector, between enterprise groups (intra-

enterprise trade), size class (employment), a country's regional disaggregation or for an analysis of offshoring or trade in value added terms.

D. Data collection

5.113. The differences of methodology, definition and level of aggregation of the various data sources necessary for compiling international supply of services information according to the four modes, pose formidable challenges to data compilers. Although not exhaustive, the list of data sources in this section provides an indication of how existing sources, or new ones, could be developed to collect relevant information for trade negotiators and analysts.

5.114. Data collection methods for balance of payments services transactions and foreign affiliates statistics are described in Chapter III and Chapter IV respectively, while this Chapter provides guidelines in order to allocate balance of payments transactions to modes of supply. This would require adjustments of survey forms.

5.115. A number of complementary sources could be used to collect other statistics relevant for analyzing the international supply of services, in particular, for the variable number of persons for assessing Mode 4. Various sources exist for collecting this information, such as data obtained from migration authorities or other administrative sources (population registers, permit data, visas etc) and census data (which could be used as a benchmark), household, enterprise, labour force surveys or border/passenger surveys. However, appropriate questions would need to be developed in order to identify the information of interest.

5.116. For instance the UNWTO developed a model border survey which combines administrative data (entry/exit cards) and statistical data obtained from surveys when travellers leave the country visited. Some simple questions could be added in order to identify Mode 4 categories within the grouping of persons travelling internationally for business and professional reasons. In order to be operative, such a proposal, as for other types of data collection, would require a clear co-operation between national tourism administrations, migration and trade authorities.

5.117. Another possibility would be to use labour force surveys, which many major economies supplying services through Mode 4 have on a regular basis. A limited number of questions on (recent) visits abroad by household members for

the purpose of work could be added, including questions about the contracting parties, the duration and forms of payment, would make it possible to separately identify Mode 4 types of visits from international labour movements.

5.118. If information could be broken down according to other criteria this would greatly enhance the usefulness for the international supply of services analysis (reasons for settlement, by industry of employment and/or occupation of workers, length of stay). Although it has a different focus than *MSITS 2010*, the IMF's *International Transactions in Remittances: Guide for Compilers and Users*, suggests that household surveys could be used to collect such detail by including a number of specialized modules or questions in existing surveys, or by having specialized surveys where relevant households are identified. This would help analysts to understand the relations between the supply of services, employment status, etc.

5.119. However, it must be noted that collecting information on the supply of services according to modes using the sources identified is a difficult task. These sources were not developed to collect the specific information of interest from a GATS perspective. But as described above, some sources could prove to be useful, in particular, if appropriate questions are included..

E. Summary of recommendations

5.120. The simplified statistical approach to modes of supply does not strictly adhere to GATS provisions. Rather, it has been designed as a first guidance to provide relevant information for GATS while ensuring feasibility and consistency with statistical frameworks. Following simplification criteria and rules, paragraphs 5.30 et seq, in particular, describe the allocation of EBOPS transactions and FATS by mode of supply. However, such an allocation should be adapted by compilers according to their economy's information needs, situation of data collection systems and resource constraints. These should be complemented with other types of statistics which would be useful from an analytical perspective, and appropriate guidance is provided in paragraphs 5.70 et seq. In order to develop these statistics, all parties (such as statistical offices, central banks, tax authorities, relevant ministries, export

promotion agencies and business associations, etc.) need to cooperate and be made aware of data requirements.

MSITS 2010 recommends that:

1. As a starting point, the Table 5.2 summary of simplified allocations according to the dominant mode of transactions be followed. Where a full breakdown of statistics by modes of supply is considered a low priority, countries may choose the provision of such statistics as a longer-term objective. If such compilers meet difficulties in implementing this recommendation, the allocation may be limited to the higher level of aggregation by EBOPS service transactions (i.e. using the 12 major services items, and if possible an estimation of distribution services). The allocation of EBOPS transactions is summarized below:

- As a general rule, FATS sales (turnover) and/or output provide information on Mode 3. Balance of payments services statistics generally correspond to Modes 1, 2 and 4. The exception is that the balance of payments construction component may be allocated to Mode 3 or broken down between Modes 3 and 4.
- Each EBOPS component should be allocated either to one dominant mode or, where there is no single dominant mode, to the most significant mode(s) of supply:
 - i. *transport* (excluding supporting and auxiliary services provided to domestic carriers in foreign ports), *telecommunication*, *information services*, *insurance and pension services*, *financial services*, *operational leasing services* and *trade related services* may be allocated to Mode 1. Although there is a certain degree of uncertainty with respect to the coverage of certain charges for the use of intellectual property n.i.e., lacking further detail that could be used to estimate relevant information, all charges for use of intellectual property should be considered as

payments for the supply of services through Mode 1;

- ii. *manufacturing services on physical inputs owned by others*, *maintenance and repair services n.i.e.* supporting and auxiliary services provided to domestic carriers in foreign ports (or vice-versa) and *travel* (excluding travellers' expenditure on goods, and preferably broken down by product as described in chapter III) are allocated to Mode 2;
 - iii. *services incidental to agriculture* and *services incidental to mining* are deemed to be provided through Mode 4;
 - iv. *computer services*, *research and development services*, *professional and management consulting services*, *architectural*, *engineering*, *scientific and other technical services*, *other business services*, n.i.e. and *personal*, *cultural and recreational services* may be allocated to Mode 1 and/or Mode 4;
 - v. *waste treatment and de-pollution* may be allocated to Mode 2 and/or Mode 4; and
 - vi. *construction* may be provided through Mode 3 or Mode 4.
- Although included within the value of goods traded, estimating trade in distribution services (i.e. wholesaling and retailing) would improve the estimation of the supply of services through Mode 1; and
 - for services sectors that are important for compiling economies, separately identifying the modes of supply information within specific EBOPS items, could be developed as shown in paragraphs 5.25 et seq.
2. It is recommended that compilers collect additional information to improve the knowledge of the international supply of services beyond the economic transactions involved. This should be done using frameworks as described in paragraphs 5.56 et seq.

3. The number of persons crossing borders and staying abroad, being a particularly important indicator in the context of mode 4, *MSITS 2010* recommends in particular that such information be

collected following the IRST 2008, TSA 2008 RMF and RSIM, Rev.1 recommendations, but extending these if necessary, following the indications in paragraphs 5.88 et seq..

Annex I: 2010 Extended Balance of Payments Services Classification (EBOPS 2010)

The present annex sets out the components of EBOPS 2010

Supplementary items are shown in Italics

Complementary groupings are shown at the end of the EBOPS 2010 classification.

- 1 Manufacturing services on physical inputs owned by others
 - 1.1 Goods for processing in reporting economy – Goods returned (CR.), Goods received (DB.), (see paragraph 3.69)
 - 1.2 Goods for processing abroad – Goods sent (CR.), Goods returned (DB.) (see paragraph 3.69)

2 Maintenance and repair services n.i.e.

3 Transport

Alternative 1: Mode of transport

3.1 Sea transport

3.1.1 Passenger

Of which: 3.1.1.a Payable by border, seasonal, and other short-term workers

3.1.2 Freight

3.1.3 Other

3.2 Air transport

3.2.1 Passenger

Of which: 3.2.1.a Payable by border, seasonal, and other short-term workers

3.2.2 Freight

3.3.3 Other

3.3 Other modes of transport

3.3.1 Passenger

Of which: 3.3.1.a Payable by border, seasonal, and other short-term workers

3.3.2 Freight

3.3.3 Other

3.4 Postal and courier services

Extended classification of other modes of transport

3.5 Space transport

3.6 Rail transport

3.6.1 Passenger

3.6.2 Freight

3.6.3 Other

3.7 Road transport

3.7.1 Passenger

3.7.2 Freight

3.7.3 Other

3.8 Inland waterway transport

3.8.1 Passenger

3.8.2 Freight

3.8.3 Other

3.9 Pipeline transport

3.10 Electricity transmission

3.11 Other supporting and auxiliary services

For all modes of transport

Alternative 2: What is carried

3a.1 Passenger

Of which: 3a.1.1 Payable by border, seasonal, and other short-term workers

3a.2 Freight

3a.3 Other

3a.31 Postal and courier

3a.32 Other

4 Travel

4.1 Business

4.1.1 Acquisition of goods and services by border, seasonal, and other short-term workers

4.1.2 Other

4.2 Personal

4.2.1 Health-related

4.2.2 Education-related

4.2.3 Other

Alternative presentation for Travel (for both business and personal travel)

4a.1 Goods

4a.2 Local transport services

4a.3 Accommodation services

4a.4 Food-serving services

4a.5 Other services

Of which:

4a.5.1 Health services

4a.5.2 Education services

5 Construction

5.1 Construction abroad

5.2 Construction in the reporting economy

6 Insurance and pension services

6.1 Direct insurance

6.1.1 Life insurance

6.1.1 a Gross life insurance premiums receivable (CR. and DB.) 6.1.1 b Gross life insurance claims payable (CR. and DB.) (see paragraph 3.187)

6.1.2 Freight insurance

6.1.2 a Gross freight insurance premiums receivable (CR. and DB.) 6.1.2b Gross freight insurance claims payable (CR. and DB.) (see paragraph 3.187)

6.1.3 Other direct insurance

6.1.3 a Gross other direct insurance premiums receivable (CR and DB) 6.1.3 b Gross other direct insurance claims payable (CR and DB) (see paragraph 3.187)

6.2 Reinsurance

6.3 Auxiliary insurance services

6.4 Pension and standardized guarantee services

6.4.1 Pension services

6.4.2 Standardized guarantee services

7 Financial services

7.1 Explicitly charged and other financial services

7.2 Financial intermediation service charges indirectly measured (FISIM)

8 Charges for the use of intellectual property, n.i.e.

8.1 Franchises and trademarks licensing fees

8.2 Licenses for the use of outcomes of research and development

8.3 Licenses to reproduce and/or distribute computer software

8.4 Licenses to reproduce and/or distribute audiovisual and related products

8.4.1 Licenses to reproduce and or distribute audiovisual products

8.4.2 Licenses to reproduce and/or distribute other products

- 9 Telecommunications, computer, and information services
 - 9.1 Telecommunications services
 - 9.2 Computer services
 - 9.2.1 Computer software
 - of which: 9.2.1.a Software originals*
 - 9.2.2 Other computer services
 - 9.3 Information services
 - 9.3.1 News agency services
 - 9.3.2 Other information services

- 10 Other business services
 - 10.1 Research and development services
 - 10.1.1 Work undertaken on a systematic basis to increase the stock of knowledge
 - 10.1.1.1 Provision of customised and non customised R&D services
 - 10.1.1.2 Sale of proprietary rights arising from R&D
 - 10.1.1.2.1 Patents
 - 10.1.1.2.2 Copyrights arising from R&D
 - 10.1.1.2.3 Industrial processes and designs
 - 10.1.1.2.4 Other
 - 10.1.2 Other
 - 10.2 Professional and management consulting services
 - 10.2.1 Legal, accounting, management consulting, and public relations
 - 10.2.1.1 Legal services
 - 10.2.1.2 Accounting, auditing, bookkeeping, and tax consulting services
 - 10.2.1.3 Business and management consulting and public relations services
 - 10.2.2 Advertising, market research, and public opinion polling
 - of which: 10.2.2.1 Convention, trade-fair and exhibition organisation services*
 - 10.3 Technical, trade-related and other business services
 - 10.3.1 Architectural, engineering, scientific and other technical services
 - 10.3.1.1 Architectural services
 - 10.3.1.2 Engineering services
 - 10.3.1.3 Scientific and other technical services
 - 10.3.2 Waste treatment and de-pollution, agricultural and mining services
 - 10.3.2.1 Waste treatment and de-pollution
 - 10.3.2.2 Services incidental to agriculture, forestry and fishing
 - 10.3.2.3 Services incidental to mining, and oil and gas extraction
 - 10.3.3 Operating leasing services
 - 10.3.4 Trade-related services
 - 10.3.5 Other business services n.i.e.
 - Of which: 10.3.5.1 Employment services i.e. search, placement and supply services of personnel*

- 11 Personal, cultural, and recreational services
 - 11.1 Audiovisual and related services
 - 11.1.1 Audiovisual services
 - of which: 11.1.1.a Audiovisual originals*
 - 11.1.2 Artistic related services
 - 11.2 Other personal, cultural, and recreational services
 - 11.2.1 Health services
 - 11.2.2 Education services
 - 11.2.3 Heritage and recreational services
 - 11.2.4 Other personal services

- 12 Government goods and services n.i.e.
 - 12.1 Embassies and consulates
 - 12.2 Military units and agencies
 - 12.3 Other government goods and services n.i.e.

4.0 *Tourism-related services in travel and passenger transport*

EBOPS 2010 Complementary groupings

C.1. Audiovisual transactions

of which: C. 1.1 Licenses to use audiovisual products

C.2. Cultural transactions

C.3. Computer software transactions

of which: C.3.1 Licenses to use computer software products

C.4. Call-centre services

C.5. Total services transactions between related enterprises

C.6. Total trade related transactions

C.7. Environmental transactions

C.8. Total health services

C.9. Total education services

Annex II:

ISIC Rev. 4 Categories for Foreign Affiliates in services (ICFA Rev. 1)

ISIC Rev. 4 Categories for Foreign Affiliates in Services (ICFA Rev. 1).¹²²

ISIC Categories for Foreign Affiliates in services (ICFA)	
ICFA headings/elements	ISIC Rev. 4 code
<i>Description</i>	
AGRICULTURE, FORESTRY AND FISHING	Section A
Crop and animal production, hunting and related service activities	div. 01
<i>Support activities to agriculture and post-harvest crop activities</i>	<i>group 016</i>
Forestry and logging	div. 02
<i>Support services to forestry</i>	<i>group 024</i>
Fishing and aquaculture	div. 03
MINING AND QUARRING	Section B
Mining support service activities	div. 09
MANUFACTURING	Section C
Repair and installation of machinery equipment	div. 33
ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY	Section D
<i>Electric power generation, transmission and distribution</i>	<i>class 3510</i>
WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES	Section E
Water collection, treatment and supply	div. 36
Sewerage	div. 37
Waste collection, treatment and disposal activities; materials recovery	div. 38
Remediation activities and other waste management services	div. 39
CONSTRUCTION	Section F
WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	Section G
Wholesale and retail trade and repair of motor vehicles and motorcycles	div. 45
Wholesale trade, except of motor vehicles and motorcycles	div. 46
Retail trade, except of motor vehicles and motorcycles	div. 47
TRANSPORTATION AND STORAGE	Section H
Land transport and transport via pipelines	div. 49
<i>Passenger rail transport, interurban</i>	<i>class 4911</i>
<i>Freight rail transport</i>	<i>class 4912</i>
<i>Other passenger land transport</i>	<i>class 4922</i>
<i>Freight transport by road</i>	<i>class 4923</i>
<i>Transport via pipeline</i>	<i>class 4930</i>
Water transport	div. 50
<i>Sea and coastal water transport</i>	<i>group 501</i>
<i>Inland water transport</i>	<i>group 502</i>
Air transport	div. 51
Warehousing and support activities for transportation	div. 52
Postal and courier activities	div. 53

¹²² This table places emphasis on activities related to services with potentially prominent FDI activity and introduces a closer link to EBOPS 2010.

ISIC Rev. 4 categories for foreign affiliates in services (ICFA Rev. 1) Continued.

ISIC Categories for Foreign Affiliates in services (ICFA)	
ICFA headings/elements	ISIC Rev. 4 code
<i>Description</i>	
ACCOMMODATION AND FOOD SERVICE ACTIVITIES	Section I
Accommodation	div. 55
Food and beverage service activities	div. 56
INFORMATION AND COMMUNICATION	Section J
Publishing activities	div. 58
<i>Publishing of books, periodicals and other publishing activities</i>	<i>group 581</i>
<i>Software publishing</i>	<i>group 582</i>
Motion picture, video and television programme production, sound recording and music publishing activities	div. 59
Programming and broadcasting activities	div. 60
Telecommunications	div. 61
Computer programming, consultancy and related activities	div. 62
<i>Computer programming activities</i>	<i>class 6201</i>
<i>Computer consultancy and computer facilities management activities</i>	<i>class 6202</i>
<i>Other information technology and computer service activities</i>	<i>class 6203</i>
Information service activities	div. 63
<i>Data processing, hosting and related activities; web portals</i>	<i>group 631</i>
<i>Other information service activities</i>	<i>group 639</i>
<i>News agencies activities</i>	<i>class 6391</i>
<i>Other information service activities n.e.c</i>	<i>class 6399</i>
FINANCIAL AND INSURANCE ACTIVITIES	Section K
Financial service activities, except insurance and pension funding	div. 64
Insurance, reinsurance and pension funding, except compulsory social security	div. 65
<i>Life insurance</i>	<i>class 6511</i>
<i>Non-life insurance</i>	<i>class 6512</i>
<i>Reinsurance</i>	<i>class 6520</i>
<i>Pension funding</i>	<i>class 6530</i>
Activities auxiliary to financial services and insurance activities	div. 66
<i>Activities auxiliary to financial service activities, except insurance and pension funding</i>	<i>group 661</i>
<i>Activities auxiliary to insurance and pension funding</i>	<i>group 662</i>
<i>Fund management activities</i>	<i>group 663</i>
REAL ESTATE ACTIVITIES	Section L

Note: the following ISIC categories have been excluded from ICFA because they are not relevant to foreign direct investment or FATS: Public administration and defence; compulsory social security (section O), Activities of households as employers; undifferentiated goods and services-producing activities of households for own use (section T); Activities of extraterritorial organizations and bodies (section U). All other ISIC categories are included.

<i>Description</i>	ISIC Rev. 4 code
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	Section M
Legal and accounting activities	div. 69
<i>Legal activities</i>	<i>group 691</i>
<i>Accounting, bookkeeping and auditing activities; tax consultancy</i>	<i>group 692</i>
Activities of head offices, management consultancy activities	div. 70
Architectural and engineering activities; technical testing and analysis	div. 71
Scientific research and development	div. 72
Advertising and market research	div. 73
<i>Advertising</i>	<i>group 731</i>
<i>Market research</i>	<i>group 732</i>
Other professional, scientific and technical activities	div. 74
Veterinary activities	div. 75
ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	Section N
Rental and leasing activities	div. 77
Employment activities	div. 78
Travel agency, tour operator reservation service and related activities	div. 79
Security and investigation activities	div. 80
Services to buildings and landscape activities	div. 81
Office administrative, office support and other business support activities	div. 82
EDUCATION	Section P
HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	Section Q
Human health activities	div. 86
Residential care and social work activities	div. 87,88
ARTS, ENTERTAINMENT AND RECREATION	Section R
Creative, arts and entertainment activities	div 90
Libraries, archives, museums and other cultural activities	div 91
Sporting and other recreational activities; gambling and betting activities	div 92, 93
OTHER SERVICE ACTIVITIES	Section S
Activities of membership organizations	div 94
Repair of computers and personal and household goods, other personal service activities	div 95, 96

ISIC Rev. 4 categories for foreign affiliates in services (ICFA Rev. 1) Continued.

Annex III: Extract from the General Agreement on Trade in Services

Reproduced below are the preamble and part I of the text of the General Agreement on Trade in Services,¹²³ which defines the scope of the agreement as concerns trade in services.

General Agreement on Trade in Services

Members,

Recognizing the growing importance of trade in services for the growth and development of the world economy;

Wishing to establish a multilateral framework of principles and rules for trade in services with a view to the expansion of such trade under conditions of transparency and progressive liberalisation and as a means of promoting the economic growth of all trading partners and the development of developing countries;

Desiring the early achievement of progressively higher levels of liberalisation of trade in services through successive rounds of multilateral negotiations aimed at promoting the interests of all participants on a mutually advantageous basis and at securing an overall balance of rights and obligations, while giving due respect to national policy objectives;

Recognizing the right of Members to regulate, and to introduce new regulations, on the supply of services within their territories in order to meet national policy objectives and, given asymmetries existing with respect to the degree of development of services regulations in different countries, the particular need of developing countries to exercise this right;

Desiring to facilitate the increasing participation of developing countries in trade in services and the expansion of their service exports including, inter alia, through the strengthening of their domestic services capacity and its efficiency and competitiveness;

Taking particular account of the serious difficulty of the least-developed countries in view of their special economic situation and their development, trade and financial needs;

Hereby *agree* as follows:

¹²³ World Trade Organization, *Results of the Uruguay Round of Multilateral Trade Negotiations: The Legal Texts* (Geneva, 1995), annex 1B.

1. Part I: Scope and Definition

2. Article I: Scope and Definition

1.1. This Agreement applies to measures by Members affecting trade in services

1.2. For the purposes of this Agreement, trade in services is defined as the supply of a service:

- (b) from the territory of one Member into the territory of any other Member;
- (c) in the territory of one Member to the service consumer of any other Member;
- (d) by a service supplier of one Member, through commercial presence in the territory of any other Member;
- (e) by a service supplier of one Member, through presence of natural persons of a Member in the territory of any other Member.

1.3. For the purposes of this Agreement:

- (a) “measures by Members” means measures taken by:
 - a. central, regional or local governments and authorities; and
 - b. non-governmental bodies in the exercise of powers delegated by central, regional or local governments or authorities;

In fulfilling its obligations and commitments under the Agreement, each Member shall take such reasonable measures as may be available to it to ensure their observance by regional and local governments and authorities and non-governmental bodies within its territory;

- (b) “services” includes any service in any sector except services supplied in the exercise of governmental authority;
- (c) “a service supplied in the exercise of governmental authority” means any service which is supplied neither on a commercial basis, nor in competition with one or more service suppliers.

Annex IV: Services Sectoral Classification List - GNS/W/120

<i>Sectors and sub-sectors</i>	<i>Corresponding provisional CPC¹²⁴</i>
I. Business services	
<i>A. Professional services</i>	
a. Legal services	861
b. Accounting, auditing and book keeping services	862
c. Taxation services	863
d. Architectural services	8671
e. Engineering services	8672
f. Integrated engineering services	8673
g. Urban planning and landscape architectural services	8674
h. Medical and dental services	9312
i. Veterinary services	932
j. Services provided by midwives, nurses, physiotherapists and para-medical personnel	93191
k. Other	
<i>B. Computer and related services</i>	
a. Consultancy services related to the installation of computer hardware	841
b. Software implementation services	842
c. Data processing services	843
d. Data base services	844
e. Other	845+849
<i>C. Research and development services</i>	
a. R&D services on natural sciences	851
b. R&D services on social sciences and humanities	852
c. Interdisciplinary R&D services	853
<i>D. Real estate services</i>	
a. Involving own or leased property	821
b. On a fee or contract basis	822
<i>E. Rental/leasing services without operators</i>	
a. Relating to ships	83103
b. Relating to aircraft	83104
c. Relating to other transport equipment	83101+83102+83105
d. Relating to other machinery and equipment	83106-83109
e. Other	832

¹²⁴ The United Nations Statistics Division maintains a draft correspondence table between GNS/W/120, the Provisional CPC, and CPC, Version 1.0, available at <http://unstats.un.org/unsd/class>. These correspondences may be useful for statistical monitoring of trade in services agreements.

F. Other business services

a. Advertising services	871
b. Market research and public opinion polling services	864
c. Management consulting services	865
d. Services related to man. consulting	866
e. Technical testing and analysis services	8676
f. Services incidental to agriculture, hunting and forestry	881
g. Services incidental to fishing	882
h. Services incidental to mining	883+5115
i. Services incidental to manufacturing	884+885 (except for 88442)
j. Services incidental to energy distribution	887
k. Placement and supply services of Personnel	872
l. Investigation and security	873
m. Related scientific and technical consulting services	8675
n. Maintenance and repair of equipment (not including maritime vessels, aircraft or other transport equipment)	633+8861-8866
o. Building-cleaning services	874
p. Photographic services	875
q. Packaging services	876
r. Printing, publishing	88442
s. Convention services	87909*
t. Other	8790

2. *Communication services*

<i>A. Postal services</i>	7511
<i>B. Courier services</i>	7512
<i>C. Telecommunication services</i>	
a. Voice telephone services	7521
b. Packet-switched data transmission services	7523**
c. Circuit-switched data transmission services	7523**
d. Telex services	7523**
e. Telegraph services	7522
f. Facsimile services	7521**+7529**
g. Private leased circuit services	7522**+7523**
h. Electronic mail	7523**
i. Voice mail	7523**
j. On-line information and data base retrieval	7523**
k. Electronic data interchange (EDI)	7523**
l. Enhanced/value added facsimile services, incl. store and forward, store and retrieve	7523**
m. Code and protocol conversion	n.a.
n. On-line information and/or data processing (including transaction processing)	843**
o. Other	

2.1. D. Audiovisual services

a. Motion picture and video tape production and distribution services	9611
b. Motion picture projection services	9612
c. Radio and television services	9613
d. Radio and television transmission services	7524

e.	Sound recording	n.a.
f.	Other	
	<i>E. Other</i>	
3.	<i>Construction and related engineering services</i>	
	<i>A. General construction work for buildings</i>	512
	<i>B. General construction work for civil engineering</i>	513
	<i>C. Installation and assembly work</i>	514+516
	<i>D. Building completion and finishing work</i>	517
	<i>E. Other</i>	511+515+518
4.	<i>Distribution services</i>	
	<i>A. Commission agents' services</i>	621
	<i>B. Wholesale trade services</i>	622
	<i>C. Retailing services</i>	631+632+6111+6113+6121
	<i>D. Franchising</i>	8929
	<i>E. Other</i>	
5.	<i>Educational services</i>	
	<i>A. Primary education services</i>	921
	<i>B. Secondary education services</i>	922
	<i>C. Higher education services</i>	923
	<i>D. Adult education</i>	924
	<i>E. Other education services</i>	929
6.	<i>Environmental services</i>	
	<i>A. Sewage services</i>	9401
	<i>B. Refuse disposal services</i>	9402
	<i>C. Sanitation and similar services</i>	9403
	<i>D. Other</i>	
7.	<i>Financial services</i>	
	<i>A. All insurance and insurance-related services</i>	812**
a.	Life, accident and health insurance services	8121

- b. Non-life insurance services 8129
- c. Reinsurance and retrocession 81299*
- d. Services auxiliary to insurance (including broking and agency services) 8140

B. Banking and other financial services
(excluding insurance)

- a. Acceptance of deposits and other repayable funds from the public 81115-81119
- b. Lending of all types, incl., inter alia, consumer credit, mortgage credit, factoring and financing of commercial transaction 8113
- c. Financial leasing 8112
- d. All payment and money transmission services 81339**
- e. Guarantees and commitments 81199**
- f. Trading for own account or for account of customers, whether on an exchange, in an over-the-counter market or otherwise, the following:
 - money market instruments (cheques, bills, certificate of deposits, etc.) 81339**
 - foreign exchange 81333
 - derivative products incl., but not limited to, futures and options 81339**
 - exchange rate and interest rate instruments, including products such as swaps, forward rate agreements, etc. 81339**
 - transferable securities 81321*
 - other negotiable instruments and financial assets, incl. bullion 81339**
- g. Participation in issues of all kinds of securities, incl. under-writing and placement as agent (whether publicly or privately) and provision of service related to such issues 8132
- h. Money broking 81339**
- i. Asset management, such as cash or portfolio management, all forms of collective investment management, pension fund management, custodial depository and trust services 8119+**
81323*
- j. Settlement and clearing services for financial assets, incl. securities, derivative products, and other negotiable instruments 81339**
or 81319**
- k. Advisory and other auxiliary financial services on all the activities listed in Article 1B of MTN.TNC/W/50, incl. credit reference and analysis, investment and portfolio research and advice, advice on acquisitions and on corporate restructuring and strategy 8131
or 8133
- l. Provision and transfer of financial information, and financial data processing and related software by providers of other financial services 8131

C. Other

8. Health related and social services

(other than those listed under 1.A.h-j.)

- A. Hospital services 9311
- B. Other human health services 9319 (other than 93191)
- C. Social services 933
- D. Other

9. Tourism and travel related services

- A. Hotels and restaurants (incl. catering) 641-643
- B. Travel agencies and tour operators services 7471

C. <i>Tourist guides services</i>	7472
D. <i>Other</i>	
10. <i>Recreational, cultural and sporting services</i> (other than audiovisual services)	
A. <i>Entertainment services</i> (including theatre, live bands and circus services)	9619
B. <i>News agency services</i>	962
C. <i>Libraries, archives, museums and other cultural services</i>	963
D. <i>Sporting and other recreational services</i>	964
E. <i>Other</i>	
11. <i>Transport services</i>	
A. <i>Maritime transport services</i>	
a. Passenger transportation	7211
b. Freight transportation	7212
c. Rental of vessels with crew	7213
d. Maintenance and repair of vessels	8868**
e. Pushing and towing services	7214
f. Supporting services for maritime transport	745**
B. <i>Internal waterways transport</i>	
a. Passenger transportation	7221
b. Freight transportation	7222
c. Rental of vessels with crew	7223
d. Maintenance and repair of vessels	8868**
e. Pushing and towing services	7224
f. Supporting services for internal waterway transport	745**
C. <i>Air transport services</i>	
a. Passenger transportation	731
b. Freight transportation	732
c. Rental of aircraft with crew	734
d. Maintenance and repair of aircraft	8868**
e. Supporting services for air transport	746
D. <i>Space transport</i>	733
E. <i>Rail transport services</i>	
a. Passenger transportation	7111
b. Freight transportation	7112
c. Pushing and towing services	7113
d. Maintenance and repair of rail transport equipment	8868**
e. Supporting services for rail transport services	743

<i>F. Road transport services</i>	
a. Passenger transportation	7121+7122
b. Freight transportation	7123
c. Rental of commercial vehicles with operator	7124
d. Maintenance and repair of road transport equipment	6112+8867
e. Supporting services for road transport services	744
<i>G. Pipeline transport</i>	
a. Transportation of fuels	7131
b. Transportation of other goods	7139
<i>H. Services auxiliary to all modes of transport</i>	
a. Cargo-handling services	741
b. Storage and warehouse services	742
c. Freight transport agency services	748
d. Other	749
<i>I. Other transport services</i>	
12. Other services not included elsewhere	95+97+98+99

Note: An asterisk (*) indicates that the service specified is a component of a more aggregated CPC item specified elsewhere in the present classification list; two asterisks (**) indicate that the service specified constitutes only a part of the total range of activities covered by the CPC concordance (e.g., voice mail is only a component of CPC item 7523).

Annex V: Clarifying the Relationship Between *MSITS 2010* And Tourism Statistics International Recommendations

5.1. The present annex briefly outlines the nature and purpose of the tourism satellite account, as referred to in the publication *Tourism Satellite Account: Recommended Methodological Framework 2008*^{uuuuu} (TSA:RMF 2008), which has been jointly developed by Eurostat, OECD, the United Nations and the World Tourism Organization and describes the relationship between the travel component of EBOPS as defined in *MSITS 2010* and the concept of tourism expenditure as defined in the *International Recommendations for Tourism Statistics 2008* (IRTS 2008). It also discusses breakdowns of tourism expenditure and their potential relevance to trade agreements. In the context of *MSITS 2010*, the tourism satellite account provides an alternative potential source of data that might be used to partly estimate a more detailed breakdown of travel as defined in chapter III of *MSITS 2010*.

A. Tourism statistics and the tourism satellite account: an overview

5.2. The present section, which draws from the introduction to the IRTS 2008 and the TSA:RMF 2008, offers a brief overview of the nature and purpose of tourism statistics and of a tourism satellite account, that provide greater details and insight than any necessarily aggregate measurement of tourism expenditure that may be derived from the balance of payments or from *MSITS 2010*.

5.3. Statistical information on the nature, progress and consequences of tourism has often been based on arrivals and overnight stay statistics as well as other balance of payments data that do not fully capture the whole economic phenomenon of tourism. Consequently, governments, businesses and citizens may not receive the most accurate information necessary for effective public policies and efficient business operations. In general the information on the role tourism plays in national economies throughout the world tends to be deficient, and more credible data concerning the scale and significance of tourism are needed.

5.4. In the past, the description of tourism focused on the characteristics of visitors, the conditions in which they travelled and stayed, the purpose of the trip, etc. Now,

there is an increasing awareness of the role that tourism is playing and can play, directly, indirectly or through induced effects, in the economy in terms of generation of value added, employment, personal income and government income. That awareness has led to the development of techniques for measuring tourism's economic importance. Those developments have now been pulled together in the internationally comparable framework of TSA.

5.5. The 2008 SNA provides concepts, definitions, classifications, accounting rules, accounts and tables to present a comprehensive, integrated framework for the estimation of production, consumption, capital investment, income, stocks, flows of financial and non-financial capital, and other related economic variables. Within that framework, a detailed analysis of a specific type of demand such as that related to tourism can be presented in an interface with the supply of these goods and services within an economy.

5.6. TSA focuses on the concept of *visitor* and on measuring his or her demand for goods and services. However, *visitor* expenditure is not restricted to a set of predefined goods and services produced by a predefined set of industries. What makes tourism special is not so much what is acquired but the temporary situation in which the consumer finds him- or herself: the visitor is taking a trip to or visiting a place outside his/her usual environment for less than a year and for a purpose other than being employed by a resident entity there. This differentiates a visitor from the other categories of consumers. These specific characteristics of the visitor cannot be made explicit within the central framework of national accounts, where the transactors are classified according to (relatively) permanent characteristics, one of them being the country or place of residence.

5.7. In order to deal with such situations, the 2008 SNA^{vvvvv} suggests the use of satellite accounts, that are annexed to the core of the System of National Accounts and that to a greater or lesser extent share with this core system its basic concepts, definitions, classifications and accounting rules. They may involve some differences from the central system, but they do not change the underlying concepts of the SNA in a fundamental way. The main

^{uuuuu} United Nations publication, Sales No. E.01.XVII.9.

^{vvvvv} See 2008 SNA, chap. XXIX.

reason for developing such satellite accounts is that to encompass all the detail for all sectors of interest as part of the standard system would simply overburden it and possibly distract attention from the main features of the accounts as a whole.

5.8. As a consequence, the setting up of the Tourism Satellite Account consists in analysing in detail all aspects of demand for goods and services which might be associated with tourism, in establishing the actual interface with the supply of such goods and services within the economy of reference, or outside and in describing how this supply (from domestic or imported origin) interacts with other economic activities, using the Supply and Use Table (SUT) of the 2008 SNA as a reference.

5.9. A complete tourism satellite account for a country will provide:

(d) Macroeconomic aggregates to describe the size and the economic contribution of tourism consistent with similar aggregates for the total economy and for other productive economic activities and functional areas of interest;

(e) Detailed data on tourism consumption and a description of how this demand is met by domestic supply and imports, integrated within tables derived from general supply and use tables of the national accounts, that can be compiled at both current and constant prices;

(f) Detailed production accounts of the tourism industries, including data on employment, linkages with other productive economic activities and gross fixed capital formation;

(g) Basic information that might be needed for the development of models of the economic impact of tourism (at the national and supranational levels), for the preparation, for example, of tourism market-oriented analysis;

(h) A link between economic data and other non-monetary information on tourism, such as number of trips (or visits), duration of the stay, purpose of trip modes of transport, etc., which are required to specify the characteristics of the economic variables.

5.10. A TSA should be seen from two different perspectives:

(i) As a statistical tool that complements those concepts, definitions, aggregates, and classifications already presented in the IRTS 2008 and articulates them into analytical tables. Those tables provide elements, which will allow for valid comparisons of estimates between regions, countries or groups of countries. These elements

are also comparable with other internationally recognized macroeconomic aggregates and compilations;

(j) As the framework to guide countries in the development of their system of tourism statistics, the main objective being the completion of the TSA, which could be viewed as a synthesis of such a system.

B. Relationship between travel in EBOPS and tourism statistics

5.11. In *MSITS 2010* (and in BPM6), the *travel* component covers on the credit side, goods and services for own use or to give away acquired from an economy by non-residents during visits to that economy, and on the debit side, goods and services for own use or to give away acquired from other economies by residents during visits to other economies. Other transactions in services related to these visits are included in *passenger transport services*. Travel covers stays of any length provided there is no change of residence. The residence of households is determined according to the center of predominant economic interest of its members which is determined by the economic territory in which household members maintain a dwelling or a succession of dwellings treated and used by members of the household as their principal dwelling. Being present for one year or more in a territory or intending to do so is sufficient to qualify as having a principal dwelling there. Nevertheless, this one-year guideline does not apply to students or to patients receiving health care abroad, who, except for some particular cases, remain resident in the territory in which they were resident prior to studying or being treated abroad even if the length of stay in another economy is greater than one year.

12. The scheme that follows (see *International Recommendations for Tourism Statistics 2008*, paragraph 8.19.) illustrates the relationship between the “travel” and “passenger transport services” items of the balance of payments and tourism statistics. It separates two basic issues: (i) the scope of individuals to which Balance of Payments relates and visitors; (ii) the scope of expenditure considered within “travel” and tourism consumption.

Bridge table between the "travel" and "passenger international transport services" items of BoP and inbound/outbound tourism expenditure

		Balance of Payments	Tourism Statistics	
Definition		"travel" item BoP Travel credits cover goods and services for own use or to give away acquired from an economy by nonresidents during visits to that economy. Travel debits cover goods and services for own use or to give away acquired from other economies by residents during visits to these other economies.	Inbound/outbound tourism expenditure Tourism expenditure refers to the amount paid for the acquisition of consumption goods and services, as well as valuables, for own use or to give away, for and during tourism trips. It includes expenditures by visitors themselves, as well as expenses that are paid for or reimbursed by others. (a) Inbound tourism expenditure is the tourism expenditure of a non-resident visitor within the economy of reference; (b) Outbound tourism expenditure is the expenditure of a resident visitor outside the economy of reference.	
		Passenger international transport item Passenger services cover the transport of people. It covers all services provided in the international transport of nonresidents by resident carriers (credit) and that of residents by nonresident carriers (debit). Also included are passenger services performed within a territory by nonresident carriers. The valuation of passenger transport should include fees payable by the carriers to travel agencies and other providers of reservation services. Passenger services provided within a territory by residents to nonresidents and provided/purchased separately from international transport are excluded from passenger transport; these services are included in travel.		
Scope				
		Arriving non residents/leaving residents	International visitors: non resident travelers taking tourism trips outside their usual environment for less than a year, for a purpose other than been employed by a resident entity in the country visited.	
p e r s o n s	diplomats, consular staff, military personnel (other than locally engaged staff) and their dependants	no	no	
	border workers	yes	no	
	seasonal workers	yes	no	
	other short-term workers (*)	yes	no	
	crews	yes	Considered as visitors except regular as well as occasional crews on public modes of transport	
	students	short term and long term	only those taking courses for less than a year (short term)	
	patients	short term and long term	only those under treatment for less than a year (short term)	
	nomads, refugees and displaced persons	yes if for stay less than a year	no	
s c o p e	t r a v e l	transactions on goods and services that do not imply a monetary transaction and represent social transfers in kind or require imputations	yes	not included in tourism expenditure but in the more inclusive concept of tourism consumption used in the TSA approach
		acquisition of consumption goods and services other than international transport	yes	yes
		acquisition of valuables	yes if under the customs' threshold	all, if acquired on trips
		acquisition of consumer durable goods	yes if under the customs' threshold	all, if acquired on trips
		expenditure on education for those which main purpose is education	yes	yes if course for less than a year (short term)
		expenditure on health for those which main purpose is health	yes	yes if treatment for less than a year (short term)
	i n t e r n a t i o n a l t r a n s p o r t	expenditure other than acquisition of goods and services	no in principle. Nevertheless, the BPM5 Text Book (para 337) recommends that fees such as airport taxes or traffic violations be included under travel although they should be considered as current transfers.	no
		transport to and from the country of reference in a resident to non resident transaction	yes	yes
		transport between two points outside the country of reference as a resident to non resident transaction	yes	for the country of residence of the carrier, the traveler is not a visitor to, from or within that country; for the country of residence of the traveler, part of outbound tourism expenditure if the traveler is an outbound visitor
		transport within an economy by non-resident carriers as a resident to non resident transaction	yes	part of outbound tourism expenditure for the country of residence of the traveler if he/she is a visitor; not in tourism statistics for the country of residence of the carrier
		intermediation of travel agencies	If remunerated by a fee or commission paid by the carrier, whatever the country of residence of the travel agency, its service is included in the valuation of international passenger transport and included or excluded whether the purchase of international passenger transport is a resident to non resident transaction or not. Else, if a separate fee is paid by the traveler, it is included under travel but only if it represents a resident to non resident transaction.	In all cases, the service is valued using the gross margin: it is acquired by the visitor. It is included in inbound, outbound or domestic tourism expenditure depending on the country of residence of the travel agency and of the visitor
		package tours	The fee or commission of a tour operator is part of the value of the package. For the fee or commission paid by the service provider, the treatment is similar to that of the intermediation of travel agencies. The value of the service of the tour operator on top of the services purchased from providers will be included under travel only if it represents a resident to non resident transaction.	In all cases, the service is valued using the gross margin: it is acquired by the visitor. It is included in inbound, outbound or domestic tourism expenditure depending on the country of residence of the tour operator, the travel agency and the visitor

(*) Does not include persons traveling from business purposes with no employer-employee relationship in the economy visited. These are covered in both sets of statistics.

13. The EBOPS component of *transport, passenger services* includes international transportation services provided by resident transport operators to non-resident travellers and those provided by non-resident transport operators to resident travellers, as well as transportation services provided to travellers within the economies they are visiting, where such services are provided by carriers non-resident in those economies.

14. Tourism statistics identify *tourism* as “the activities of travellers taking trips to a main destination outside their usual environment for less than one year for any main purpose (business, leisure and other personal) other than to be employed by a resident entity in the place visited”, where *usual environment* is defined as the geographical area (though not necessarily a contiguous one) within which an individual conducts his/her regular life routines. Such travellers are called visitors. Visitors are further classified in two ways:

(k) Either according to length of stay as *tourists*, who stay for at least one night in the place visited, or *same-day visitors*, whose visit does not include an overnight stay;

(l) Or according to the country visited as *international visitors*, when their country of residence is different from the country visited, or *domestic visitors*, when their country of residence is the country visited.

15. In terms of MSITS 2010, the focus is on international visitors. Military personnel on active duty and diplomats and their dependents are excluded from visitors and their consumption is excluded from international tourism consumption in the same way as is the case in MSITS 2010. Individuals whose expenditure is included in *MSITS 2010* but excluded from tourism statistics are the following:

(m) BPM6 and *MSITS 2010* regard students and medical patients as residents of their home economies, even when they are staying in another country for one year or more. Tourism statistics by contrast consider that in the case they are staying in another country for one year or more, they are

18. .

then considered to be within their usual environment, and thus are no longer to be viewed as visitors;

(n) Tourism statistics exclude from the definition of visitors all individuals who move to another economy primarily for the purpose of being employed by a resident entity in the place visited and thus does not include their expenditure in tourism expenditure. By contrast, *MSITS 2010* includes in *travel* goods and services acquired by non-residents in the economies in which they undertake a productive activity, whose primary purpose of travel is for business irrespective of the residence of the employer, i.e. it includes seasonal, border, and other short-term workers who are not resident in the economy in which they are employed and whose employer is resident in that economy. However, EBOPS component 4.1.1, *acquisition of goods and services by seasonal, border and other short-term workers*, separately identifies their expenditure.

16. *MSITS 2010* excludes migrants from its definition of travellers and Tourism Statistics similarly exclude migrants from its definition of visitors. However, following the “one year rule”, refugees may be either travellers or migrants (discussed in further detail in chap. III of MSITS 2010), whereas Tourism Statistics exclude refugees in all cases as they are considered to be within their usual environment.

C. Tourism characteristic products and EBOPS components

17. Trade negotiators and trade policy makers need to be able to identify and quantify trade in services within a product breakdown. TSA identifies a product breakdown of visitor expenditure in terms of a list of twelve groupings of tourism characteristic products produced by a set of tourism industries, designed to ensure the international comparability of TSA data and of other products considered as non-tourism characteristic that visitors may also acquire. With the exception of international passenger transport, products acquired by non-residents relating to their visits abroad are included indistinguishably under EBOPS travel

List of tourism characteristic products and grouping by main categories according to CPC Ver. 2			
1.	Accommodation services for visitors	6.	Air passenger transport services
	63111 Room or unit accommodation for visitors, with daily housekeeping services 63112 Room or unit accommodation for visitors, without daily housekeeping services 63113 Room or unit accommodation services for visitors in timeshare properties 63114 Accommodation services for visitors, in rooms with multiple occupancy 63120 Campsite services 63130 Recreational vacation camp services 63210 Room or unit accommodation services for students in student residences 63290 All other room or unit accommodation services 72111 Renting or leasing services involving own or leased residential property 72123 Trade services of timeshare properties 72211 Residential property management services on a fee or contract basis except of time-share ownership properties 72213 Time share (ownership type) property management services on a fee or contract basis 72221 Residential building sales on a fee or contract basis except of time share ownership properties 72223 Sale of time share properties on a fee or contract basis		64134 Sightseeing services by air 64241 Domestic scheduled air transport services of passengers 64242 Domestic non-scheduled air transport services of passengers 64243 International scheduled air transport services of passengers 64244 International non-scheduled air transport services of passengers 64250 Space transport services of passengers
		7.	Transport equipment rental
			73111 Leasing or rental services concerning cars and light vans without operator
		8.	Travel agencies and other reservation services
			85511 Reservation services for air transport 85512 Reservation services for rail transportation 85513 Reservation services for bus transportation 85514 Reservation services for vehicle rental 85519 Other transportation arrangement and reservation services n.e.c 85521 Reservation services for accommodation 85522 Time-share exchange services 85523 Reservation services for cruises 85524 Reservation services for package tours 85539 Reservation services for event tickets and other entertainment and recreational services 85540 Tour operator services 85550 Tourist guide services 85562 Visitor information services
2.	Food and beverage serving services		
	63310 Meal serving services with full restaurant services 63320 Meal serving services with limited services 63399 Other food serving services 63400 Beverage serving services		
3.	Railway passenger transport services		
	64131 Sightseeing services by rail 64210 Interurban railway transport services of passengers		
4.	Road passenger transport services	9.	Cultural services
	64115 Taxi services 64116 Rental services of passenger cars with operator 64117 Road transport services of passengers by man- or animal-drawn vehicles 64118 Non-scheduled local bus and coach services 64119 Other land transportation services of passengers, n.e.c. 64132 Sightseeing services by land, except rail 64221 Interurban scheduled road transport services of passengers 64222 Interurban special-purpose scheduled road transport services of passengers 64223 Non-scheduled long distance bus and coach services		96220 Performing arts event production and presentation services 96310 Services of performing artists 96411 Museum services except for historical sites and buildings 96412 Preservation services of historical sites and buildings 96421 Botanical and zoological garden services 96422 Nature reserve services including wildlife preservation services
		10.	Sports and Recreational services
			96520 Sports and recreational sports facility operation services 96590 Other sports and recreational sports services 96910 Amusement park and similar attraction services 96929 Other gambling and betting services 96930 Coin-operated amusement machine services 96990 Other recreation and amusement services n.e.c.
5.	Water passenger transport services	11.	Country-specific tourism characteristic goods
	64121 Inland water transport services of passengers by ferries 64122 Inland water transport services of passengers on cruises 64129 All other inland water transport services of passengers 64133 Sightseeing services by water 64231 Coastal and transoceanic water transport services of passengers by ferries 64232 Coastal and transoceanic water transport services of passengers on cruise ships 64239 All other coastal and transoceanic water transport services of passengers		
		12.	Country-specific tourism characteristic services

19. Revised EBOPS suggests a separate supplementary breakdown of travel into types of goods and service that would allow for closer links with TSA as well as Supply and Use Tables:

- (a) Goods;
- (b) Local transport services;
- (c) Accommodation services;
- (d) Food serving services; and
- (e) Other services

of which:
Health services

Education services

In addition to this supplementary breakdown, an in order to highlight the link between travel and passenger transport services and tourism statistics, *MSITS 2010* proposes a supplementary item, *Tourism-related services in travel and passenger transport*, as an estimate of tourism as an international traded service .

20. All tourism characteristic products that are identified in TSA are linked to CPC, Version 2.0

and may be identified in *MSITS 2010*, although in some cases the relationships are only partial.¹²⁷ For example, the tourism characteristic product relating to passenger transport is partly described by EBOPS components [3.1.1; 3.2.1; and 3.3.1] relating to *passenger transport services* which coverage also includes passengers been transported by a third country carrier, different from that of origin or of destination (see Chapter III of *MSITS 2010* for the definition of *passenger transport services*).

21. If statistics compiled on trade in services are to be used for compiling the tourism satellite account, or vice versa, adjustments will be needed for these differences in coverage. However, the data sources used for compiling the tourism satellite account are also likely to be relevant for balance of payments statistics.

¹²⁷ See online annexes to *MSITS 2010* on <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010annexes.htm> and annex IV of *IRTS 2008*.