

III. Services Transactions between Residents and Non-residents

[N.B. This draft chapter is based on current drafts of the IMF's draft 6th edition of the Balance of Payments and International Investment Position Manual (BPM6). It will need to be reviewed against the final version of BPM6 and to include more material on the final list of EBOPS items, proposals on which form part of this 2008 worldwide consultation]

A. Principles of resident/ non-resident trade in services

3.1. The principles for the measurement of services transactions between residents and non-residents in the present *Manual* are the same as those prescribed in BPM6 and the 2008 SNA. This is to ensure that compilers may make use of the same data sources as for compiling balance of payments statistics and that statistics on international trade in services are compiled on a basis consistent with that of other macroeconomic statistics. This is important both within each country's statistical system and for purposes of international comparability. The main principles for recording these transactions are described below. The BPM6 provides additional guidance on recording these transactions.

Concept and definition of residence

3.2. The concept of *residence* is central to the measurement of transactions between residents and non-residents and is identical to that used in BPM6 and the 2008 SNA. It is not based on nationality or legal criteria but on a transactor's *centre of predominant economic interest*. Further, because territorial boundaries recognized for political purposes may not always be appropriate for economic purposes, the *economic territory* of a country is used as the relevant geographical area to which the concept of residence is applied. An institutional unit is resident unit of the economic territory with which it has the strongest connection, that is, the country or economy where it has its centre of predominant economic interest.

3.3. The most commonly used concept of *economic territory* is the area under the effective control of a single government. Other types of economic territory include currency and economic unions, and additionally, a part of a country may be considered as an economic territory. The economic territory includes:

- (a) land area;

- (b) airspace;
- (c) territorial waters, including areas over which jurisdiction is exercised over fishing rights and rights to fuels or minerals;
- (d) in a maritime territory, islands that belong to the territory; and
- (e) territorial enclaves in the rest of the world. These are clearly demarcated land areas (such as embassies, consulates, military bases, scientific stations, information or immigration offices, aid agencies, central bank representative offices with diplomatic immunity, etc.) physically located in other territories and used by governments that own or rent them for diplomatic, military, scientific, or other purposes with the formal agreement of governments of the territories where the land areas are physically located.

3.4. 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 so 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.

3.5. The main attributes of an institutional unit are that:

- (a) it is entitled to own goods or assets in its own right; it is, therefore, able to exchange the ownership of goods or

assets in transactions with other institutional units;

- (b) it is able to take economic decisions and engage in economic activities for which it is itself held to be directly responsible and accountable at law;
- (c) it is able to incur liabilities on its own behalf, to take on other obligations or future commitments and to enter into contracts; and
- (d) either a complete set of accounts, including a balance sheet, exists for the unit, or it would be possible and meaningful, from both an economic and legal viewpoint, to compile a complete set of accounts if they were to be required.

3.6. As a general principle, an enterprise (that is, a unit engaged in production) 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. Production undertaken outside the economic territory of a resident enterprise by the personnel, plant and equipment of that resident enterprise is treated as part of host country production, and the enterprise is treated as a resident unit of that country, if the enterprise meets the conditions noted in paragraphs 3.4 and 3.5 above. If these conditions are met, the enterprise is considered a foreign affiliate (see also chapter IV below). If these conditions are not met, the output of the enterprise should be classified as an export by a resident enterprise. Such production can generate an export only if the production is classified as domestic production (undertaken by a resident even though the physical process takes place outside the economic territory).

3.7. These considerations also apply to the particular case of construction activity carried out abroad by a resident producer. Special mention should be made of construction involving major specific projects (bridges, dams, power stations etc.) that often take several years to complete and are carried out and managed by non-resident enterprises through unincorporated site offices. In most instances, site offices will meet the criteria requiring that site office production be treated (as would the production of a branch or affiliate) as the production of a unit resident in the host economy and as part of the production of the host economy rather than as an export of services to that economy.

3.8. “Offshore” enterprises and enterprises in special zones within a country’s economic territory, including those engaged in manufacturing processes (including assembly of components manufactured elsewhere), trading and financial activity, are residents of the economies in which the enterprises are located. This applies regardless of location in special zones of exemption from customs or other regulations or concessions.

3.9. Similarly, the principles used to determine the residence of an enterprise are applicable to an enterprise that operates mobile equipment (such as ships, aircraft, drilling rigs and platforms, and railway rolling stock) outside the economic territory where the enterprise is resident. Such operations may take place in (a) international waters or airspace or (b) another economy. In the first case (an enterprise with operations taking place in international waters or airspace), the activities should be attributed to the economy in which the operator maintains residence. In the second case (an enterprise with production taking place in another economy), the enterprise may be considered to have a centre of economic interest in the other economy. If operations (such as a railway network) are carried out by an enterprise on a regular and continuing basis in two or more countries, the enterprise is deemed to have a centre of economic interest in each country and thus to have separate resident units in each. In cases involving the leasing of mobile equipment to one enterprise by another for a long or indefinite period, the lessee enterprise is deemed the operator, and activities are attributed to the country where the lessee is resident.

3.10. For ships flying flags of convenience, it is often difficult to determine the residence of the operating enterprise. There may be complex arrangements involving ownership, mode of operation and chartering of such ships. In addition, the country of registry differs, in most instances, from the operator’s (or owner’s) country of residence. Nonetheless, in principle, the shipping activity is attributed to the country of residence of the operating enterprise. If an enterprise establishes, for tax or other considerations, a branch in another country to manage the operation, the operation is attributed to the resident (branch) operating in that country.

3.11. Transactions arranged by an agent¹ on behalf of a principal should be attributed to the principal, not to

¹ An agent is an entity that acts on behalf of or as a representative for another entity.

the agent. For example, if an agent issues tickets on behalf of an airline resident in another economy, the transactions and positions related to those tickets are attributed to the airline. Likewise, an insurance agent sells policies on behalf of a principal then the insurance service is attributed to the principal. In the latter case, the principal would maintain responsibility for establishing the insurance premium rates and processing claims arising from the policy. However, an agent may also undertake transactions on its own account, including the agency services it provides to the principal; such services should be attributed to the economies in which the agents are residents.

3.12. A household is resident in the economic territory in which household members maintain a dwelling or succession of dwellings treated and used by members of the household as their principal dwelling. The principal dwelling is defined with reference to time spent there, rather than other factors such as cost, size, or length of tenure. 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.

3.13. Usually, these criteria give a clear result, but there may be some highly mobile individuals who do not have continuous actual or intended presence in any one territory for one year. For such persons, the territory of the principal dwelling they maintain is the key consideration. In cases of no principal dwelling, or two or more principal dwellings in different economies, the territory of residence is determined based on the territory in which the predominant amount of time is spent in the year. 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.

3.14. People who go abroad for full-time study generally continue to be resident in the territory in which they were resident prior to studying 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 territory of study after the completion of the studies. Similarly, people who go abroad for the purpose of medical treatment maintain their predominant centre of 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. In both cases, the rationale for not changing the territory of residence is that the movement to the different territory is considered to have a temporary motivation, that is, their centre of predominant economic interest remains with the home territory. The residence of accompanying dependents of students and patients is determined in the same manner as the persons they accompany.

3.15. 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 there.

3.16. National diplomats, military personnel, and other civil servants employed abroad in government enclaves and 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, and the personnel often live as well as work in the enclaves. They continue to be residents in their home economies even if they live in dwellings outside the enclaves. However, locally recruited staff is resident in the location of their principal dwelling.

3.17. Staff of international organizations, including those with diplomatic status, is 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 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.

3.18. Transactions in services between residents of an economy and international organizations are included within the scope of resident/non-resident transactions.

3.19. No special treatment is adopted for individuals who cross borders for a short period to undertake work. Border workers are employed persons who cross from one territory to another to attend their place of employment. Seasonal workers cross the border for particular periods, such as the harvest or tourist seasons to attend a place of employment. Other short-term employment may occur for a particular task, such as a construction project, repairs, delivery of advice, etc. In

each case, the residence of the persons concerned is based on the principal dwelling, rather than the territory of employment.

3.20. No special treatment is adopted for refugees. If they have stayed or intend to stay in their place of refuge for a year or more, they are residents of the place of refuge even if that residence is involuntary, transient, and future status is unclear.

3.21. The present *Manual* follows BPM6 in its concept of residence; issues relating to this concept are discussed in more detail in Chapter 4 of the BPM6.

Valuation of transactions

3.22. 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.” Thus, transactions will generally be valued at the actual price agreed on by the supplier and the consumer. 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 it is appropriate to develop a proxy measure, if possible by analogy with known market prices established under conditions that are considered essentially the same as those pertaining to the un-priced transaction.

3.23. Particular problems may arise in valuing international transactions between related² 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. The BPM6 notes that replacing book values (transfer prices) with market value equivalents is desirable in principle, 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.³

3.24. 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; this 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, growth in money terms in transactions over time may result from this depreciation. A similar effect may be observed if a country is experiencing hyperinflation. In such cases, it may be more analytically useful to express all transactions in another, more stable currency.

3.25. 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 para 3.146). 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.

3.26. BPM6 should be consulted for recommendations on conversion where there are

² Please refer to the BPM6 for a fuller discussion of related enterprises.

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

multiple official exchange rates, or black or parallel market rates.⁴

Time of recording of transactions

3.27. The appropriate time to record transactions in services is when they are delivered or received. 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 are recorded continuously as long as they are being provided. 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, port services, etc.). 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 they are paid for. 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.

3.28. Services international transactions are in practice referred to as trade in services; a credit entry representing an export of services and a debit entry an import of services.

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

3.29. The present 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 :

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.*

3.30. The detail of the services components has been refined to obtain more precise information on the services being traded. 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 classification is described in detail in this chapter.

3.31. However, this chapter first sets out the principles underlying the recording of trade in services. It discusses the concept of residence and its practical application, valuation of transactions, and the time of recording of transactions. It also touches on the relation between trade in services and other economic activities and shows the communalities with measurement of similar business statistics.

C. EBOPS

3.32. In 1996, the OECD and Eurostat, in consultation with the IMF, developed a more detailed classification than that of the Fifth Edition of the Balance of Payments Manual—the version of the Balance of Payments Manual in use at that time—to record international trade in services between residents and non-residents. The Extended Balance of Payments Services (EBOPS) Classification of transactions between residents and non-residents, as it is called, is therefore a breakdown of a number of the balance of payments services components. The revised version of this classification presented in this *Manual*, 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 GATS. A number of supplementary items are included in EBOPS 2010. These supplementary items are not always confined to services transactions; they are included to provide additional information on the transactions that are to be recorded. Some, such as the travel items, are alternative

⁴ See BPM6, Chapter 3

breakdowns. 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. These supplementary items provide useful additional information for trade negotiations and other analytical purposes, including data quality assessment. Often the data necessary for compiling the supplementary items are available as part of the data-collection process for the related EBOPS 2010 components. In such cases, the supplementary items 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 further data-collection systems to obtain appropriate data for the supplementary items.

3.33. The full EBOPS 2010 classification is given in Table 1. The further detail recommended in EBOPS 2010 recognizes the detail necessary for trade negotiations, primarily those conducted under GATS, as well as the importance of services in studies of globalization. In the present *Manual*, it is recognized that not all countries have the same needs for data, and that compilers will make decisions on the data to be compiled based on individual country needs. EBOPS 2010 is consistent with the BPM6 classification of services; Annex II shows the relationship between EBOPS 2010 and the BPM6 classification of services.

3.34. The classifications of services (BPM6 and EBOPS 2010) are primarily product-based classifications, and may be partially described in terms of the international classification of products, CPC. BPM6 describes the various services components in terms of CPC Ver.2. A similar, but more detailed, approach has been used in the present *Manual*, and annex III provides a detailed correspondence between EBOPS 2010 and CPC, Ver.2. However, as in BPM6, there are a number of EBOPS components for which a correspondence with the CPC 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. Further, 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 in a few areas the reverse is true.

Table 1**EBOPS 2010(Draft proposals)**

(New EBOPS proposals are shown with shading indicating if they are standard EBOPS items (labelled A), supplementary EBOPS items (labelled B), for descriptions only (labelled C), or alternative groupings (labelled D). Unshaded EBOPS items are direct from the draft BPM6 as published in July 2008 and are automatically regarded as standard EBOPS items.)

- 1 Manufacturing services on physical inputs owned by others
 - 1.1 Goods for processing in reporting economy
 - *Goods sent (Credit), Goods received (debit)
 - 1.2 Goods for processing abroad
 - *Goods sent (Credit), Goods returned (debit)
 - * these supplementary EBOPS items are intended to assist reconciliation with customs-based merchandise trade statistics

- 2 Maintenance and repair n.i.e.

- 3 Transport

Alternative 1 by mode

 - 3.1 Sea transport
 - Passenger *Of which: Payable to border and seasonal workers*
 - Freight
 - Other
 - 3.2 Air transport
 - Passenger *Of which: Payable to border and seasonal workers*
 - Freight
 - Other
 - 3.3 Other modes of transport*
 - Passenger *Of which: Payable to border and seasonal workers*
 - Freight
 - Other
 - 3.4 Post 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 A**
- 3.10 **Electricity transmission A**
- 3.11 Other supporting and auxiliary services
- For all modes of transport**
- Alternative 2 transport presentation*
- 3a.1 Passenger
 - Of which: Payable by border, seasonal, and other short-term workers*
- 3a.2 Freight
- 3a.3 Other
 - Post and courier
 - Other
- 4 Travel
 - 4.1 Business
 - Acquisition of goods and services by border and seasonal workers
 - Other
 - 4.2 Personal
 - Health-related
 - Education-related
 - Other
- For both business and personal travel
- Alternative presentation for Travel*
- 4a.1 *Goods*
- 4a.2 *Local transport services*
- 4a.3 *Accommodation services*
- 4a.4 *Food-serving services*
- 4a.5 *Other services*
 - Of which:*
 - Health services*
 - 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 B**
 - 6.1.2 Freight insurance B**
 - 6.1.3 Other direct insurance B**
 - 6.2 Reinsurance
 - 6.3 Auxiliary insurance services
 - 6.4 Pension and 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 **Licenses to reproduce and/or distribute computer software A**
 - 8.2 **Licenses to reproduce and/or distribute audiovisual and related services A**
 - 8.3 **Outcomes of research and development A**
 - 8.4 **Franchises and trademarks licensing fees A**
- 9 Telecommunications, computer, and information services

- 9.1 Telecommunications services
- 9.2 Computer services
 - 9.2.1 **Computer software A**
(of which originals) B
 - 9.2.2 **Other computer services A**
- 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 *(Subject to further discussion in NA R&D group)*
 - 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
Possible new supplementary item
Convention, trade-fair and exhibition organisation services(CPC Ver.2 8596) B
 - 10.3 Technical, trade-related and other business services
 - 10.3.1 Architectural, engineering, scientific and other technical services
Possible new supplementary items
 - 10.3.1.1 **Architectural services CPC Ver. 2 832 B**
 - 10.3.1.2 **Engineering services CPC Ver.2 833 B**
 - 10.3.1.3 **Scientific and other technical services CPC Ver.2 834 B**
 - 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 CPC Ver.2 861 A**
 - 10.3.2.3 **Services incidental to mining, and oil and gas extraction CPC Ver.2 862 A**
 - 10.3.3 Operational leasing services
 - 10.3.4 Trade-related services
 - 10.3.5 Other business services n.i.e.
Possible inclusion in description only
Employment services: search, placement and supply services of personnel (CPC Ver.2 851) C
- 11 Personal, cultural, and recreational services
 - 11.1 Audiovisual and related services
 - 11.2 Other personal, cultural, and recreational services
 - 11.2.1 Health services
 - 11.2.2 Education services
 - 11.2.3 Other
Possible inclusion in description only

12 Government goods and services n.i.e.

Supplementary items

- 1 *Gross insurance premiums*
 - 2.1 *Gross premiums--life insurance*
 - 2.2 *Gross premiums--freight insurance*
 - 2.3 *Gross premiums--other direct insurance*
- 2 *Gross insurance claims*
 - 3.1 *Gross claims--life insurance*
 - 3.2 *Gross claims--freight insurance*
 - 3.3 *Gross claims--other direct insurance*
- 3 ***Architectural services CPC Ver.2 832 B***
- 4 ***Engineering services CPC Ver.2 833B***
- 5 ***Scientific and other technical services CPC Ver.2 834 B***
- 6 ***Convention, trade-fair and exhibition organisation services (CPC Ver.2 8596) B***
- 7 ***Embassies and consulates B***
- 8 ***Distribution services B***

Alternative EBOPS groupings

- 1 *Tourism-related services in travel and passenger transport*
- 2 *Audiovisual transactions*
- 3 ***Computer software transactions D***
- 4 ***Call-centre services D***
- 5 ***Related - unrelated trade dimension for total services D***
- 6 ***Environmental services or environmental transactions D***
- 7 ***Health services D***
- 8 ***Education services D?***

***N.B 3-9 are so far proposals without an agreed definition.
For 3-9 below definitions are suggested ones for comment***

Definitions of alternative groupings

1. As defined in BPM6
2. Updated from MSITS 2002
3. Computer software transactions; would be a grouping of computer software goods; computer software services; and licenses to distribute or reproduce computer software;[need to align with Ch 3 eventually]
4. Call centre services are discussed in the draft MSITS Chapter 3 but the components are not separately identified in MSITS under current proposals
- 5 “Related” trade is trade between units linked by a foreign direct investment relationship, as defined in BPM6 and BD4
6. Environmental transactions [This proposal will be recast in terms of CPC Ver.2]
It includes the following sub-items:
 - i) Environmental services (this sub-item is closely related to the BPM6 item *Waste treatment and depollution*)

Solid and hazardous waste management and recycling activities (CPC Prov. 9402 Refuse disposal services; CPC v1.1 942 Refuse disposal services)
Wastewater collection, treatment and purification services (CPC Prov. 9401 Sewage services; CPC v1.1 941 Sewage services)
Cleaning services for public facilities, sites and roads (CPC Prov. 9403 Sanitation and similar services; CPC v1.1 943 Sanitation and similar services)
Protection of ambient air and climate (CPC Prov. 9404 Cleaning services of exhaust gases; CPC v1.1 949 Other environmental protection services n.e.c.)
Remediation and cleanup of soil and water (CPC Prov. 9409 Other environmental protection services n.e.c.; CPC v1.1 949 Other environmental protection services n.e.c.)
Noise and vibration abatement (CPC Prov. 9405 Noise abatement services; CPC v1.1 949 Other environmental protection services n.e.c.)
Protection of biodiversity and landscape (CPC Prov. 9406 Nature and landscape protection services; CPC v1.1 949 Other environmental protection services n.e.c.)
Other environmental and ancillary services n.i.e. (CPC Prov. 9409 Other environmental protection services n.e.c.; CPC v1.1 949 Other environmental protection services n.e.c.)

ii) **Environmental research and development services** (CPC Prov. 85300 Interdisciplinary research and experimental development services; CPC v1.1 81300 Interdisciplinary research and experimental development services)

iii) **Environmental consulting services** (CPC Prov. 86721, Advisory and consultative engineering services; CPC v1.1 83131, Advisory and consultative engineering services)

iv) **Environmental impact assessment services** (CPC Prov. 86721 Advisory and consultative engineering services; CPC v1.1 8333 Engineering advisory and pre-design services)

v) **Charges for the use of intellectual property relating to environment**

7 Health services = health services in travel + health services in personal cultural and recreational services

8 Education services = Education services in travel + Education services in personal cultural and recreational services

3.35. The GATS explicitly excludes some services that are supplied by Governments - those that are supplied on a non-commercial basis and not in competition with one or more service suppliers.⁵ These services are included in *government goods and services, not included elsewhere*, within BPM6 and EBOPS 2010.

3.36. Included in GNS/W/120 are the *distribution services* of wholesale trade and retailing. Following BPM6, these services are not identified in EBOPS 2010. As in the 2008 SNA, wholesalers and retailers are entities that purchase and resell goods with no or only minimal processing (in the form of 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. Such services are not part of the international services transactions described in BPM6 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, so are transactions between residents. However, the BPM6 and the EBOPS 2010 recognize trade-related services, which cover the commissions on transactions payable to merchants, traders, and commission agents (see also para.3.xx and box xx in Chapter V).

3.37. In the 2008 SNA, the *purchaser's price* is the amount paid by the purchaser, excluding any deductible value-added tax or similar deductible tax, in order to take delivery of a unit of good or service at the time and place required by the purchaser. 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).

3.38. 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.

3.39. However, for goods, BPM6 identifies the pricing level as FOB at the border of the exporting country. In general, the FOB price will not necessarily be the same as the purchaser's price because the FOB 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, but are of interest in a GATS analytical context.

3.40. It may not be possible for all compilers to develop statistics at the detailed component level specified in EBOPS 2010. Therefore, compilers should give the highest priority to the development of statistics on international trade in services at the level described in BPM6. Secondly, compilers should 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. Thirdly, compilers should 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 have been identified.

3.41. Although data that are more frequent would be useful for a range of analytical purposes, the present *Manual* recommends that EBOPS-level data and the supplementary items be produced on an annual basis, consistent with and reconcilable to quarterly data at a more aggregated level.

D. Transactions between related parties

3.42. Information on the value of all transactions between related parties is helpful in understanding the degree to which globalization of services supply is taking place. The present *Manual* 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 a large burden on both suppliers and compilers of data and could pose additional problems of confidentiality. Therefore, the present *Manual* recommends that such a breakdown be made only at the total services transactions level and shown as a supplementary item. This recommendation is accorded a lower priority than the compilation of statistics, including the memorandum items, at the level of detail described in EBOPS. It is also of lower priority than the development of FATS statistics (see chapter IV

⁵ See annex V, part I, article I.

below) and statistics on the movement of natural persons supplying services under the GATS (see annex I).

E. Statistics by trading partner

3.43. 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 multilateral and bilateral trade in services negotiations that are 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 FATS statistics).

3.44. Thus, in the present *Manual*, it is recommended 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 the present *Manual*, and data collection by trading partner should be developed, if practicable, concurrently with the development of data collection at the EBOPS 2010 level. It is recognized that, depending on the data collection methods used, it may be very resource-intensive and difficult for compilers to develop statistics by trading partner.

3.45. Given the obstacles, such as disclosure or incomplete information, to providing a complete detailed geographic breakdown of trade in services, the present *Manual* 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.

F. Modes of supply and EBOPS

3.46. The allocation of the various services to the modes of supply is a basic requirement in GATS. Services transactions between residents and non-

residents may be supplied according to one or more of four modes of supply (mode 1, *cross-border supply*; mode 2, *consumption abroad*; mode 3, *commercial presence*; and mode 4, *presence of natural persons*). This is discussed in chapter V.

G. Difference between service provision and provision of labour

3.47. Services provided by a consultant, independent contractor, or employment agency are distinguished from the provision of labour. Payments for the use of labour are measured as 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, if an employer-employee relationship exists, then the payment constitutes compensation of employees⁶.

3.48. Self-employed individuals sell the services they produce, and may employ others. They generally control or direct what shall be done and how it shall be done, and 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. If the individual is solely responsible for the payment of social contributions then that would suggest that the individual is a service provider. The BPM6 provides further guidelines on distinguishing between the provision of services and the provision of labour.

Outsourcing

3.49. Services that are "outsourced"—that is, where a company contracts another (specialist) company to

⁶ BPM6 Chapter 11 provides a comprehensive discussion of the factors that determine an employer-employee relationship.

provide services that were previously internal company functions, such as billing services 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 supplementary aggregation of call centre services is discussed in paragraph 3.218 below.

Electronic commerce

3.50. E-commerce (commerce that occurs at least partly through electronic means) 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 supplied across the border are generally classified as goods (except that products obtained with a license to use, rather than through change of economic ownership, are included in services). Shipping charges associated with e-commerce are allocated in line with the FOB valuation principle.⁷ Financial services associated with e-commerce are included in financial services.

⁷ In the macroeconomic statistics system, goods are valued at *free on board* valuation. Freight and insurance services beyond the border of the exporting economy are the responsibility of the importer.

Box 1

Balance of payments trade in goods and services and IMTS

Users of statistics may be interested in aggregating statistics on international trade in services (SITS) and international merchandise trade statistics (IMTS) to arrive at global international trade statistics. However, there are conceptual differences between the SITS and the IMTS that users need to take into account when attempting to aggregate the two statistics. If these differences are not considered, aggregation may lead to double counting or omissions. Detailed merchandise trade statistics is based on the IMTS, Rev.2 while trade in services between residents and non-residents is defined within the framework of the BPM6. Thus, the general merchandise component of the balance of payments complements the SITS. Differences between the IMTS and general merchandise balance of payments are shown in the table hereafter. A few of those differences concern certain trade transactions that appear in the IMTS, but are classified in the balance of payments under trade in services, as follows:

- CIF/FOB adjustments: The costs of freight and insurance of 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. They are classified as imports of services, if provided by a nonresident.
- Goods for processing without change of ownership are excluded from the recording of general merchandise in the balance of payments (both imports and exports of goods). 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 nonresident construction enterprises are considered in the balance of payments as part of construction imports.
- Computer software, audiovisual and other personal, cultural and recreational products with a periodic license fee are excluded from general merchandise in the balance of payments and the license fee is included in the service component *Charges for the use of intellectual property, n.i.e.*

Bridge table between IMTS and General Merchandise BOP	Exports	Imports
IMTS is the data source and adjustments are necessary to obtain General merchandise BOP		
- <i>CIF/FOB adjustment</i>		
- <i>Goods for processing without change of ownership</i>		
- <i>Goods imported for projects by nonresident construction enterprises</i>		
- <i>Returned goods</i>		
- <i>Migrants' effects</i>		
- <i>Inventories of goods held abroad (at time of dispatching abroad)</i>		
- <i>Computer software, audiovisual and other personal, cultural and recreational products (non-customized with periodic license for use)</i>		
- <i>Goods lost or destroyed before change of ownership</i>		
+ <i>Goods lost or destroyed after change of ownership</i>		
+ <i>Goods entering/leaving territory illegally</i>		
+ <i>Goods procured or supplied in ports by carriers</i>		
+ <i>Inventories of goods held abroad (at time of sale)</i>		
+ <i>Fish catch, minerals from the seabed and salvage sold from resident-operated vessels in foreign ports or from resident-operated vessels on the high seas to foreign vessels</i>		
+ <i>Equipment that changes ownership while outside the territory of owner</i>		

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

3.51. In the remainder of the present chapter, the definitions of the various components of EBOPS 2010 are discussed in detail. The classification, shown in Table 1, is primarily product-based, but is transactor-based for travel and government goods and services *n.i.e.* The classification is listed in annex II. Annex III provides a detailed correspondence table between EBOPS 2010, CPC, Ver.2 and the GNS/W/120 services sector list that was used by trade negotiators during the Uruguay Round; it may be used to assist the compiler in resolving classification problems and to link statistical classifications with the classifications used in GATS commitments.

1. Manufacturing services on physical inputs owned by others

3.52. *Manufacturing services on physical inputs owned by others* covers processing, assembly, labelling, packing, etc., services undertaken by an enterprise on goods that it does not own. That enterprise is paid a fee by the owner of these goods. Only the fee for the service rendered is included under this item.

3.53. Manufacturing services on physical inputs owned by others refers to all work done on goods 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.

3.54. Examples of processes that are often undertaken under arrangements for manufacturing services on physical inputs owned by others include oil refining, liquefaction of natural gas, assembly of clothing and electronics, other types of assembly (excluding assembly of prefabricated constructions, which are included in construction), labelling, packing (excluding those incidental to transport included in transport services), and other on-site manufacturing services.

3.55. The gross values of goods associated with these services can be identified as supplementary items in 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 these goods 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 (with no change of ownership to the processor):
 - goods supplied for processing (goods sent);
 - goods dispatched after processing (goods returned);
- (b) for providers of manufacturing services on goods processed in the compiling economy (with no change of ownership to the processor):
 - goods received for processing (goods received);
 - goods dispatched after processing (goods sent).

3.56. A market-equivalent valuation for goods supplied/received might be required. Gross values of the goods are shown after processing, and again a market-equivalent valuation might be required.⁸

2. Maintenance and repair services n.i.e.

3.57. *Maintenance and repair services n.i.e.* cover 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. Repairs and maintenance 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 excluded; they are included under construction. Repairs and maintenance of computers are included under computer services.

3.58. The value recorded for repairs is the value of the repair work done—not the value of the goods before and after repairs. The value of repairs includes any parts or materials supplied by the repairer. Repairs and maintenance *n.i.e.* covers both minor repairs that maintain the good in working order and major repairs that extend the efficiency or capacity of the good or extend its life.

⁸ BPM6 chapter 10 presents further discussion of the subject.

3. Transport

3.59. **Transport** is the process of carriage of people and objects from one location to another as well as related supporting and auxiliary services, including rentals (charters) of carriers with crew. Transport can be classified according to: (a) mode of transport; and (b) what is carried - passengers or freight.

3.60. EBOPS 2010 follows 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, and other supporting and auxiliary transport services, as well as postal and courier services. EBOPS 2010 recommends the same classification of kind of service as BPM6—transport of passengers, transport of freight, other supporting and auxiliary services, and postal and courier services. An alternative grouping at the all transport modes total level is suggested as an alternative grouping in EBOPS 2010. Discussion of the modes of transport and kinds of service follows.

3.61. **Sea transport** covers all transport services by sea.

3.62. **Air transport** covers all transport services provided by air, including international passenger transport.

3.63. The remaining modes of transport are a disaggregation of the single BPM6 mode “other transport.”

3.64. **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.

3.65. **Rail transport** covers transport by trains.

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

3.67. **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.

3.68. **Pipeline transport** covers international transport of goods in pipelines, such as the transport of petroleum and related products, water and other goods transported through pipelines. Excluded are distribution services for water, gas and other petroleum products (included in *other business services*).

3.69. **Electricity transmission** covers the transfer of electricity in bulk from the energy-generating source (the power plant) to a substation at or near the concentration of consumers. This is to be distinguished from electricity distribution, which is the delivery of electricity from the substation to the consumer. The electricity itself is excluded, as is the service of distribution of electricity, which is (included in *other business services*)

3.70. **Other supporting and auxiliary transport services** cover all other transport services that cannot be allocated to any of the components of transport services described above.

3.71. EBOPS 2010 and BPM6 distinguish the same breakdown into kinds of transport service.

3.72. **Passenger services** cover the transport of people. It includes all services provided in the international transport of non-residents by resident carriers (export) and that of residents by non-resident carriers (import). Also included in passenger services are those passenger services performed within an economy by non-resident carriers. The valuation of passenger transport should include fees payable by the carriers to travel agencies and other providers of reservation services. Excluded are passenger services provided by resident units to non-residents within the territory of residence of the carrier where these are provided/purchased separately from international travel; these are included in travel.

3.73. Passenger services include fares and other expenditure related to the carriage of passengers. Included are any taxes levied on passenger services, such as sales or value added taxes. Passenger services includes 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. Also included in passenger services 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.

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

3.75. **Freight services** may be divided into four categories. The first two are related to the fact that, in line with the recommendations of the BPM6, goods are valued FOB⁹ at the customs frontier of the exporting economy, and thus freight charges are, by convention, borne by the importing economy (whether or not these are directly charged to the importer or included in the import price). The first category relates to international transport of the compiling economy's exports and imports of goods; included are transport services provided by (a) resident operators, beyond the customs frontier of the compiling economy, on the compiling economy's exports (exports of freight services), and (b) non-resident operators, beyond the customs frontier of the exporting economy, on the compiling economy's imports (imports of freight services).

3.76. The second category of *freight* transport is transport services provided by (a) 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 (b) operators not resident in the compiling economy, inside the customs frontier of the compiling economy, on the compiling economy's exports (imports of freight services).

3.77. The third category is concerned with *freight* transport supplied for goods that are not exports or imports of the compiling economy, but rather are one of the following:

(a) transit trade through an economy;

(b) transport of goods between third economies (cross-trade);

(c) coastal transport or other transport of goods between points within an economy;

(d) movements of goods to or from entities located outside territories where the entities are residents (such as government agencies) provided by non-resident carriers; and

(e) transport of mail for postal and courier services. This category comprises transport services provided by resident operators for these goods when they are owned by non-residents (exports of the compiling economy) and by non-resident operators on these goods when they are owned by residents of the compiling economy (imports of the compiling economy).

3.78. The fourth group consists of rentals (or operational leases) provided by residents to non-residents, and vice versa, of vessels, aircraft, freight cars or other commercial vehicles with crews for limited periods (such as a single voyage) for the carriage of freight. Also included are towing related to the transport of drilling platforms, floating cranes and dredges. Financial leases and time charters without crew are excluded.

3.79. **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 for the appropriate mode of transport (sea, air, rail, road and inland waterway transport). 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 agents' fees associated with passenger and freight transport (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*.

⁹ For a fuller discussion of valuation f.o.b., see BPM6, Chapter 10.

Box 2 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 that are distant from the population centers, such as hydro-electrical plants and nuclear plants. In addition, the generating plant may be located in areas to allow production 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. Further, since demand variability tends to be correlated with geography, the increased demand is normally met from distant power plants. Thus, transmission networks may span several countries across vast areas of continents.

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. The companies generally specialize in transmission and are not engaged in generation or distribution.

3.80. 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 *repairs and maintenance n.i.e.*); repairs of railway facilities, harbours and airfield facilities (included in *construction*); and rentals or charters of carriers without crew (included in *operational leasing services*). Paragraph 3.9 above discusses the issues relating to the attribution of residence of owners and operators of mobile equipment, including ships and aircraft.

3.81. **Postal and courier services** covers the pick-up, transport and delivery of letters, newspapers, periodicals, brochures, other printed matter, parcels and packages, including post office counter and mailbox rental services.

3.82. Included are post office counter services, such as sales of stamps and money orders, poste restante services, telegram services etc. 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, other*), and administration services related to postal communication systems (included in *telecommunication services*). Postal services are subject to international agreements, and the service entries between operators of different economies should be recorded on a gross basis. Postal services provided to travellers are included in *travel*.

3.83. Courier services include express and door-to-door delivery. Couriers may use self-owned, privately shared, or public transport to carry out these services. Courier services may encompass combinations of road, sea, air, and other methods of transport. Express delivery services might include, for example, on-demand pick-up or time-definite delivery. Excluded are the movement of mail carried by air transport enterprises (recorded under *transport, air, freight*), storage of goods (recorded under *transport, other, auxiliary and supporting services*), and mail preparation services (recorded under *other business services, other*).

3.84. 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 para 3.86. This treatment is a consequence of the FOB valuation of the goods concerned in BPM6 and 2008 SNA. The principles for recording postal and courier services on other items, such as documents, personal effects, and goods for repair is that the service is payable by the party responsible for payment.

4. Travel

3.85. The *travel*¹⁰ component of EBOPS differs from most internationally traded services in that it is a transactor-based component; it therefore covers an assortment of goods and services. 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. Thus, the consumer of

¹⁰ The term *travel*, as used in the present *Manual*, 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* and the *Tourism Satellite Account: Recommended Methodological Framework*, published by the World Tourism Organization. The differences between the present *Manual* and BPM6, on the one hand, and the tourism guidelines on the other hand, relate to expenditure by students and medical patients if they stay in the host economy for one year or more and expenditure of individuals with an employer-employee relationship with an employer resident in the visited economy (see annex VII).

these goods and services gives *travel* its distinctive characterization.¹¹ It is for this reason that *travel* is not identified with any corresponding categories of CPC, Version 2.0. It covers stays of any length provided there is no change of residence (see para 3.14 above).

3.86. Travel includes goods and services acquired by persons undertaking 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.

3.87. The goods and services 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*. However, it excludes transport within the economies being visited by the non-resident, where such transport is provided by carriers not resident in the particular economy being visited, as well as the *international* carriage of persons, both of which are 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. Further, the acquisition of valuables, consumer durable goods, and other consumer purchases for own use, which are in excess of customs thresholds, are excluded.

3.88. 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. It also excludes goods for resale or to give away

3.89. EBOPS 2010 recommends a breakdown of *travel* into *business* and *personal* travel with a further breakdown of each of these components.

3.90. ***Business travel*** covers the acquisition of goods and services by persons whose primary purpose of travel is for business. Examples include carrier crews stopping off or laying over; government employees on official travel; employees of international organizations on official business; employees travelling on behalf of their employing enterprise that 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

¹¹ But these goods and services may be actually purchased before or after the physical movement occurs, as well as during the period of travel.

resident in that economy. The business activities 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. *Business travel* also includes the acquisition of goods and services for personal use by seasonal, border and other workers who are not resident in the economy in which they are employed and whose employer is resident in that economy.

3.91. *Business travel* includes the goods and services acquired for their own personal use by persons whose main purpose of travel is for business (including the goods and services for which they are reimbursed by employers) but not the sales or purchases that they may conclude on behalf of the enterprises they represent.

3.92. The acquisition of goods and services for personal use 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 subcomponent *acquisition of goods and services by border, seasonal and other short-term workers*. All other *business travel* is included in the EBOPS subcomponent *other business travel*.

3.93. *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 with friends and relations, pilgrimage, and education- and health-related purposes. The present *Manual* recommends a breakdown of personal travel into three sub-components:

- *health-related expenditure* (that is, medical services, other healthcare, food, accommodation, local transport, and so on acquired by those travelling for medical reasons);
- *education-related expenditure* (that is, tuition, food, accommodation, local transport, health services, and so on acquired by non-resident students); and
- *other expenditure* (this component includes health expenditure by those not travelling for health or educational purposes).

3.94. An alternative disaggregation of *travel* services is also recommended, according to the following categories:

- *goods*;
- *local transport services*;
- *accommodation services*
- *food-and beverage-serving services*, and
- *other travel-related services*.

3.95. A further breakout of *health services* and *education services* is also suggested. This alternative disaggregation, included in the supplementary items to EBOPS, will allow the allocation of expenditure on services to *mode 2 supply of services*. It will also allow for closer links to tourism statistics and supply and use tables. The separate identification of expenditure on local transport, accommodation and food services will facilitate the analysis of travel expenditure.

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

3.97. 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).

3.98. 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, and 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).

3.99. The term time-share covers a wide range of arrangements. They can roughly be classified in the

categories described in Table 2. Accommodation services consumed by the time-share holder would be partially received and paid in kind (with a counter entry of investment income receivable for the value of accommodation services in kind net of operational costs) and partially financed by the payment of the periodic management fees.

Table 2 Treatment of Alternative Time-Share Arrangements

Type of Arrangement	Classification	Up-front Payment	Financial Asset	Annual Flow
Deeded Ownership	Ownership of land and buildings (that is, not included in EBOPS)	Direct investment in notional unit in economy where the time share is located (that is, not included in EBOPS)	Equity of the time-share holder (direct investment, that is, not included in EBOPS)	Accommodation services in travel (imputed based on equivalent market prices) and investment income (income on equity)
Right to use	Transferable right to use (amounts to economic asset)	Lease (zero initially, difference between market price and initial payments when transferred to the third party) Prepayment of accommodation	Nonproduced nonfinancial asset (capital account, that is, not included in EBOPS) Advances (other investment, trade credit and advances)	Accommodation services in travel
Membership system	Nontransferable right to use (does not amount to asset)	Prepayment of accommodation	Advances (other investment, trade credit and advances, that is, not in EBOPS)	Accommodation services in travel

5. Construction

3.100. **Construction** covers goods and services relates to construction activity. It includes construction work done on buildings and other structures as well as installation and assembly work. It covers both repairs and new work. It includes site preparation and general construction for buildings and other structures, construction work for civil engineering, installation and assembly of machinery, renting services of construction or demolition equipment with operator, and exterior cleaning work of buildings, as well as specialized services such as painting, plumbing, and demolition. In

each of these cases, the work is provided in locations outside the territory of residence of the enterprise performing the work. Construction also covers the cost of acquisition of goods and services by these enterprises in the economy of location of the work. Also included are construction repairs.

3.101. If the external operations of a construction enterprise are substantial enough, they may constitute a branch resident in the economy of operations (see para 3.7). 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; there may also be goods and services supplied between the branch and the parent, such as for materials. Such cases are mode 3 activity, and are discussed in para 4.XXX. As a result of this treatment, the contracts covered in services will tend to be short-term and small-scale.

3.102. Construction can be disaggregated into *construction abroad* and *construction in the compiling economy*. This disaggregation allows for the recording on a gross basis of both the construction work undertaken and the goods and services acquired in the host economy by non-resident enterprises that are providing the services. **Construction abroad** comprises: (a) construction work for non-residents by enterprises resident in the compiling economy (export); and (b) the goods and services acquired from the host economy by these enterprises (import). **Construction in the compiling economy** comprises: (a) construction work for residents of the compiling economy by non-resident

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

3.103. *Construction* is valued on a gross basis—that is, inclusive of all goods and services used as inputs to the work, all 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 SNA.

3.104. Construction is deemed to change hands at the same time as progress payments. Repairs on embassies, bases, etc. owned by the government that occupies them are included in *government goods and services n.i.e.*

Box 3. A numerical example of 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	435
Materials and labour purchased in country B	6 655
Of which:	
Imported from country A	525
Imported from country C	1 730
Sourced in country B	2 290
Labour	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 the construction services produced 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?

In country A

In country B

<i>Construction abroad</i>		<i>Construction in the compiling economy</i>	
Credit	10 260 ^a	Credit	4 545 ^b
Debit	4 545 ^b	Debit	10 260 ^a

^a Gross value of construction.

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

3.105. 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,

3.106. *Expenditure on goods and services in the host economy* includes expenditure by the construction enterprise on locally supplied items as well as expenditure in the host economy by the construction enterprise on goods and services that have been imported to the host economy, where the goods and services are for use on the construction site. 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 economy*.¹² 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 purposes, 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.

3.107. It may not 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.

¹² Balance of payments 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 merchandise 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. If the goods are purchased in the host economy, no such adjustment is necessary.

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.

6. Insurance and pension services

3.108. *Insurance and pension services* cover the provision of various types of insurance to non-residents by resident insurance enterprises, and vice versa. Included are life insurance and annuities, nonlife insurance, reinsurance, freight insurance, pension funds, auxiliary services to insurance, and the provision of standardized guarantees.

3.109. The present *Manual* recommends that *insurance and pension services* be disaggregated into four separate subcomponents—*direct insurance services*; *reinsurance services*; *auxiliary insurance services*; and *pension and standardised guarantee fund services to insurance*. Information on *gross premiums* and *gross (unadjusted) claims*, which may be the basis for estimating the service charge, is of analytic value and is recorded in the supplementary items.

3.110. 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.

3.111. 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.

3.112. 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 nonlife insurance (including term life insurance) is largely undertaken to pool risk.

3.113. 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 identify the service element separately from the other elements (investment income, transfers and investment).

3.114. 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.

3.115. Direct insurance and reinsurance may take place for both life and nonlife 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.

3.116. Nonlife 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, nonlife 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, and so term life insurance is included in nonlife insurance. Types of nonlife insurance include accident and health; term life; marine, aviation and other transport; fire and other property damage; pecuniary loss; general liability; and credit insurance.

3.117. Reinsurance and direct insurance services are estimated or valued by the service charges included in total premiums rather than by the total value of the premiums. The estimation procedures recommended in the present *Manual* (as in BPM6) are summarised in Box 4.

3.118. Premiums for insurance policies are paid in advance, while claims are only paid after the insured events happen, sometimes much later. Insurance technical reserves therefore represent the amounts identified by insurance companies to account for these prepayments of premiums and claims incurred but not paid. Insurance companies hold assets to meet the liabilities represented by the reserves. The management of these financial and nonfinancial 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 (indeed, in some cases, they have allowed claims to exceed premiums). 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.

3.119. Thus, the value of insurance services can be expressed as follows:

Gross premiums earned

Plus: premiums supplements

Less: claims payable

Less: adjustments for claims volatility, if necessary

3.120. 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. Therefore, 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. Thus, an adjustment in claims due is required to reflect a more longterm 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 the large values of claims are incurred, the adjustment would be negative, while in other period the adjustment would be positive.

3.121. The formula can also be expressed as follows:

Gross premiums earned

Plus: premiums supplements

Less: expected claims

3.122. **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, if that occurs before maturity. 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. Term life insurance, is a type of direct insurance where benefits are paid in the case of death but in no other circumstances. Therefore, it is not considered life insurance.

3.123. **Freight insurance services** relate 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 complete loss of freight. Excluded from the coverage of *freight insurance* services is the insurance of the vehicles that are used to transport the goods.

3.124. Freight insurance premiums payable on international traded goods before they reach the customs frontier of the economy of the exporter are included in the FOB 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 (a) relate to exports of goods beyond the customs frontier of the compiling economy and are supplied by resident insurers (credits) or (b) 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).¹³ 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.

3.125. **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 cards.

¹³ 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 4 Calculation of nonlife insurance services

(This example is applicable to types of insurance not subject to fluctuations in claims; for an example with an adjustment for claims volatility, see BPM6 Appendix 6c.)

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

Premiums earned from abroad.....	100	(premiums received 105)
Claims payable abroad.....	95	(claims paid 85)
Technical reserves relating to insurance with non-residents.....	200	
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)

3.126. *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.

3.127. *Auxiliary services* comprise 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.

3.128. *Pension schemes* are separate funds established to provide income on retirement, or in some cases, benefits for death or disability, for specific groups of employees. These funds may be organized by the employers or by the government. They may also be organized by insurance corporations on behalf of employees. In some cases, special units may be established to hold and manage the assets to be used to meet the pension fund obligations. 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, as the amounts accruing to corporations are termed "contributions", while the amounts accruing to the employees are generally described as "benefits."

3.129. *Standardized Guarantee schemes* represent a class of identical loan guarantees that are issued in large numbers, usually for small amounts. Guarantee schemes are arrangements where one party (the guarantor)

undertakes to cover the losses of the lender in the event that the borrower defaults. In the case of standardized guarantee schemes, the guarantors may be government units or financial corporations, usually insurance companies. A guarantor working on a commercial basis will charge fees, meet claims, and earn investment income in a way similar to nonlife insurance. Thus, the value of service is calculated in the same way.

7. *Financial services*

3.130. *Financial services* cover financial intermediation and auxiliary services, except those of insurance enterprises and pension funds. These services include those usually provided by banks and other financial intermediaries and auxiliaries.¹⁴ Included are services provided in connection with transactions in financial instruments, as well as other services related to financial activity, such as advisory, custody and asset management services, 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.

3.131. *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 interest payable and the reference rate on loans and deposits (called financial intermediation service charges indirectly measured, abbreviated as FISIM).

3.132. 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.

¹⁴ 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.

3.133. 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. (However, 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.) EBOPS identifies FISIM separately from all other financial services.

3.134. 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. 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, if possible estimates should be included in *financial services*.

3.135. 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. 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.

3.136. 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. 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.

3.137. Some financial intermediaries provide services for which they do not charge explicitly. FISIM is an estimate of the value of these services. Financial intermediaries do this by paying to lenders (those from whom they borrow funds in the form of deposits and/or loans) rates of interest lower than the rates that they charge to those to whom they lend through loans (and to different categories of these lenders and borrowers). The financial intermediaries use the resulting interest margins 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 (in the cases of moneylenders and loans made from banks' own funds). By convention, FISIM only arises on loans and deposits, not other financial instruments. Financial corporations may generate FISIM even if they have only loans or only deposits, for instance a bank that raises funds by issuing debt securities can earn FISIM on its loans. Only loans and deposits by financial corporations give rise to FISIM; to illustrate, a loan by a parent that is not a financial intermediary to its direct investment enterprise does not generate FISIM.

3.138. More information on FISIM may be found in BPM6, paragraphs 10.xxx – 10.xxx

3.139. Included in *financial services* are, for example:

(a) Commissions and fees associated with financial transactions, such as:

- (i) Letters of credit, bankers' acceptances, lines of credit and other similar instruments;
- (ii) Financial leasing;
- (iii) Factoring;
- (iv) Commodity futures;
- (v) Arrangement of financial derivative contracts;
- (vi) Underwriting, placement of issues, brokerage and redemption of securities,

including commissions related to the income payments related to securities;

(vii) Clearing of payments;

(b) Financial advisory services;

(c) Custody services for financial assets or bullion;

(d) Financial asset management services;

(e) Merger and acquisition services;

(f) Corporate finance and venture capital services;

(g) Credit card and other credit granting services;

(h) Foreign exchange;

(i) Regulation and administration of financial markets;

(j) Credit rating;

(k) Service charges on purchases of IMF resources; and

(l) Charges associated with undrawn balances under standby or extended arrangements with the IMF.

3.140. Excluded from *financial services* are, for example:

(a) Interest earned on deposits, loans, financial leases and debt securities (this is investment income, not included in EBOPS);

(b) Dividends earned;

(c) Life insurance and pension intermediation services (included in *insurance and pension services*);

(d) Other insurance services;

(e) 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

(f) Gains and losses made on purchase and sales of securities and financial derivatives on own account.

Box 5. Estimation of financial intermediation services indirectly measured (FISIM)

FISIM is measured in principle as the difference between the interest receivable by financial intermediaries on their loan and deposit assets and the interest payable on deposit and loan liabilities.

FISIM payable by each of 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 either 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 were 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)

Table 3 Treatment of Intellectual Property and related products

	Use of intellectual property		Sale/purchase of ownership rights*³
Franchises and trademarks	charges for the use of intellectual property		Balance of payments capital account
Outcomes of research and development	charges for the use of intellectual property		research and development services
Computer, audiovisual and related services.:	License to use excluding reproduction and distribution*¹	License to reproduce and/or distribute*²	relevant service item* ⁴
	(a) Customized all types	charges for the use of intellectual property, n.i.e.	
	(b) Non-customized—downloaded or otherwise electronically delivered		
	(c) Non-customized—provided physical media with periodic license fee		
	(d) Non-customized —provided 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 service item is either computer services, audiovisual and related services, or other personal, cultural, and recreational services, depending on the nature of the content provided.

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). 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).

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

3.141. *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 including 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 live performances and television/ cable/ satellite broadcast).

3.142. 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 license to use. Alternatively, the owner may license other producers to reproduce and distribute the content. 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 is summarised in Table 3. In contrast to temporary rights to use results arising from research and development, outright sales of patents, copyrights, and industrial processes and designs are included under research and development services.

3.143. Following the accrual principle, charges for the license to use intellectual property should be spread over all periods in which the product is used. In practice, it may be feasible only to record the payments when they are made.

Franchise fees, trademark revenue, payments for use of brand names, etc. include aspects of property income (i.e., putting a nonfinancial, nonproduced 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 generally 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.

9. Telecommunications, computer and information services

3.144. The present Manual recommends that the BPM6 component *telecommunications, computer and information services* be further disaggregated into three sub-components — telecommunications services, computer services, and information services.

3.145. *Telecommunications services* encompasses the transmission of sound, images, data or other information by telephone, telex, telegram, radio and television cable and broadcasting, satellite, electronic mail, facsimile services etc., including business network services, teleconferencing and support services. It does not include the value of the information transported. Also included are mobile telecommunications services, internet backbone services and on-line access services, including provision of access to the internet. Excluded are installation services for telephone networks equipment (included in *construction*), and database services (included in *information services*).

3.146. *Computer services* consists of hardware and software-related services and data-processing services. Table 3 shows the classification of various arrangements for software products and related charges for the use of intellectual property. *Computer services* includes:

- sales of customized software (however delivered) and related licenses to use. The development, production, supply, and documentation of customized software, including operating systems, made to order for specific users are included;
- noncustomised (mass-produced) software downloaded or otherwise electronically delivered;
- licenses to use noncustomised (mass-produced) software provided on a storage device such as a disk or CD-ROM with a periodic license fee. (Licenses that convey perpetual use are classified as goods.);
- sales and purchases of originals and ownership rights for software systems and applications;
- hardware and software consultancy and implementation services;
- hardware and software installation, including installation of mainframes and central computing units;
- repairs and maintenance 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.

3.147. Excluded from *computer services* are computer-training courses not designed for a specific user (included in *other personal, cultural, and recreational services*). Also excluded are charges for licenses to reproduce and/or distribute software, which are included in *charges for the use of intellectual property*.

3.148. *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*.

3.149. *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— 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 nonbulk 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 classified

as goods.) Downloaded content that is not software (included in *computer services*) or audio and video (included in *audiovisual and related services*) is included in *information services*.

10. Other business services

3.150. The coverage of *other business services* is identical to the coverage of the BPM6 component; however, the disaggregation proposed is more detailed than that of BPM6, although it corresponds broadly to

3.151. *Research and development services* covers those services that are associated with basic research, applied research, and experimental development of new products and processes. In principle, such activities in the physical sciences, social sciences and humanities are covered, including the development of operating systems that represent technological advances. This category also includes commercial research related to electronics, pharmaceuticals and biotechnology, and other product development that may give rise to patents. Excluded are technical studies and consultancy work; both are included in professional and management consulting services. Outright sales of the results of research and development (such as represented in patents, copyrights, and sale of information about industrial processes) are included in *research and development services*. However, amounts payable for use of proprietary rights arising from research and development are included under charges for the use of intellectual property (see para. 3.xx).

3.152. *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*.

3.153. 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, however, disproportionately large values of services between affiliated enterprises should be examined for signs that they are disguised dividends, for example, indicated by large fluctuations

the BPM6 supplementary breakdown. 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.

that do not reflect actual changes in the services provided.

3.154. *Legal services* covers 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.

3.155. *Accounting, auditing, bookkeeping and tax consulting services* covers 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.

3.156. *Business and management consulting and public relations services* covers 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 advisory, guidance and operational services related to improving the image of the clients and their relations with the public and other institutions.

3.157. *Advertising, market research and public opinion polling* services transacted between residents and non-residents covers 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.

3.158. It may be desirable, if there are substantial resident-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.

3.159. *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; operational leasing services; trade-related services; and other business services n.i.e.*

3.160. *Architectural, engineering, scientific and other technical services* covers transactions between residents and non-residents related to architectural design of urban and other development projects; planning and project design and supervision of dams, bridges, airports, turnkey projects etc.; surveying; cartography; product testing and certification; and technical inspection services. Mining engineering is excluded and included in *mining services*.

3.161. *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.*

3.162. *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.

3.163. *Services incidental to agriculture, forestry and fishing* comprises services that are incidental to agriculture, such as the provision of agricultural machinery with crew, harvesting, treatment of crops, pest control, animal boarding, animal care, and breeding services. Services in

hunting, trapping, forestry and logging, and fishing are also included here.

3.164. *Services incidental to mining, oil and gas extraction* comprises 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.

3.165. *Operational 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 cover resident/non-resident leasing (rental) and charters, without crew, of ships, aircraft and transport equipment, such as railway cars, containers and rigs,. Also included are the operational lease payments relating to other types of equipment.

3.166. Operational leasing may be distinguished by the following characteristics:

- The lessor normally maintains a stock of 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.

3.167. Operational leasing of dwellings and other buildings are included in this item. If there exists no objective basis on which to split the payment between rent on land and rental on the buildings, then the whole amount should be treated as rental 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 treated as rent and excluded from operational leasing. Likewise, rent of land alone and rent of other natural resources are excluded from services. Excluded 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 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*.

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

3.169. *trade-related services n.i.e.* 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. However, any margins not included in the FOB 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*); brokerage on financial instruments (included in financial services), and transport-related charges, such as agency commissions (included in transport services).

3.170. *Other business services n.i.e.* includes distribution services for water, steam, gas and other petroleum products, where these are identifiable separately from transmission services; air conditioning supply; the placement of personnel; 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.

11. Personal, cultural and recreational services

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

3.172. *Audiovisual and related services* comprises services and associated fees related to the production of motion pictures (on film, videotape, disk, or transmitted electronically), radio and television programmes (live or

on tape) and musical recordings. Table 3 summarises the treatment of intellectual property associated with audiovisual and related services, as well as other types of intellectual property.

3.173. Included 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). Fees to actors, directors, and producers involved with theatrical and musical productions, sporting events, circuses, and other similar events are included in this item (unless they are employees of the entity making payments, in which case the transactions are classified as compensation of employees).

3.174. Mass-produced recordings and manuscripts that are purchased or sold outright are outside the scope of EBOPS if on CD-ROM, disk, paper, etc., and in *audiovisual and related services* if downloaded (i.e., delivered electronically). Similar products obtained through a license to use (other than when conveying perpetual use) are included in *audiovisual and related services*, as is the use of other on-line content related to audio and visual media.

3.175. Charges or licenses to reproduce and/or distribute radio, television, film, music, etc. are excluded from audiovisual and related services and included in charges for the use of intellectual property.

3.176. Purchases and sales of original manuscripts, sound recordings, films, etc. are included in audiovisual and related services.

3.177. *Other personal, cultural and recreational services* cover the same services as in BPM6. It is divided into three parts: *education services*, *health services* and *other personal, cultural and recreational services*.

3.178. *Education services* comprise services relating to education, such as correspondence courses and education via television or the Internet, as well as by teachers etc. who supply services directly in host economies. Education services provided to non-residents who are present in the territory of the service provider are included in *travel*.

3.179. *Health services* comprise services provided by hospitals, doctors, nurses and paramedical and similar personnel, as well as laboratory and similar services,

whether rendered remotely or on-site. Health services provided to non-residents who are present in the territory of the service provider are included in *travel*. Veterinary services are included in *miscellaneous technical services*.

3.180. *Other personal, cultural and recreational services* include those associated with museums and other cultural, sporting, gambling,¹⁵ and recreational activities, except where these are included in *travel services*. Membership dues of business associations are included in this item.

3.181. Cultural services cover the activities associated with the conservation and preservation of museums, historical buildings, artifacts. It also includes display services of collections of art and history.

12. Government goods and services, not included elsewhere

3.182. *Government goods and services, n.i.e.*, is a residual category covering supply and acquisition of goods and services by governments (including official entities of these governments located in other economic territories and their non-local staff) and international organizations that are not included in the other categories of goods and services. The scope of *government goods and services n.i.e.* is limited to transactions where one or both parties are general government, an international organization, or any other agency or individual with similar diplomatic privileges, and their non-local employees.

3.183. In the macroeconomic statistics framework, government and international organization enclaves are not residents of the territory in which they are physically located, so their transactions with residents of the territory of location are international transactions. For the same reason, transactions of embassies etc. with their home economies are resident-to-resident and outside the scope of international accounts.

Services supplied by and to government where operations located in home territory

3.184. When operations of a government are located in the home territory, services imported and exported by

¹⁵ The value of lottery and other gambling services is the difference between the total value of the bets (wagers) placed by households and the payments in winnings to households. See 1993 SNA Rev. 1 Chapter 8.

this government are included under *government goods and services n.i.e.* if these cannot be classified to relevant EBOPS categories. For example, technical assistance to governments covers a variety of different services and should be classified to specific services (business services, health, etc.), if possible. Only technical assistance not able to be classified to a specific service category should be classified as government goods and services n.i.e. Technical assistance provided by an entity resident in the donor economy, even if the employees are resident in the customer's economy, should be recorded as an export of a service from the donor economy to the recipient economy. Technical assistance and other services may be subject to payment by the recipient, but may also be supplied in kind or funded by a current or capital transfer from the donor. Transactions involving public (that is, government-owned) corporations are not included, unless the other party is one of the specified types of institutions.

Goods and service supplied by and to enclaves

3.185. *Government goods and services n.i.e.* exports include the supply of goods and services to embassies, consulates, military units, defence agencies, and other official entities (such as aid missions; government tourism, information, and trade promotion offices) of foreign governments located in the compiling economy. *Government goods and services n.i.e.* imports 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 are also included in government goods and services n.i.e. The acquisition of goods and services for joint 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.

3.186. All types of goods and services, such as such as office supplies, furnishings, vehicles, repairs, electricity, rental of premises, or official entertainment, purchased from the host economy or economies other than the home economy are included under *government goods and services n.i.e.*

3.187. **Expenditure by government staff employed in enclaves and their dependants.** All personal expenditures on goods and services incurred by diplomats, consular staff and military personnel, as well

as their dependants in the same household, in the economies in which they are located are also included. However, the expenditure of locally engaged staff of embassies, military bases, etc. is not included in *government goods and services n.i.e.* (and is usually a resident-to-resident transaction). The supply of goods and services to foreign diplomats etc. located in the compiling economy are exports, while the expenditure of the compiling economy's diplomats etc. in the economy of their posting is shown as imports.

3.188. Government licenses, permits etc. 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. However, if the government uses the issue of licenses to exercise some proper regulatory function, for example, checking the competence or qualifications of the person concerned, checking the efficient and safe functioning of equipment, or carrying out some other form of control which 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. The borderline between taxes and payments of charges for services rendered is not always clear-cut in practice. 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, while amounts payable by households for all other kinds of licenses, permits, certificates, passports, etc., are treated as purchases of services.

3.189. Most transactions included in this EBOPS component are not covered by GATS as GATS does not cover 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, see annex xx, part 1, article 1).. In particular, GATS excludes:

(g) Goods supplied to or by embassies, consulates, military units etc. because GATS applies only to services transactions;

(h) Services supplied on a non-commercial basis by government including by embassies, consulates, military units etc.;

(i) Supplies of services to embassies, consulates, military units etc. by government entities from other countries (including from the country of location).

3.190. Most transactions included in this EBOPS component are not covered by GATS. In particular, GATS excludes:

(a) Goods supplied to or by embassies, consulates, military units etc. because GATS applies only to services transactions;

(b) Services supplied by embassies, consulates, military units etc. because these services are supplied in the exercise of government authority (see annex V, part 1, article 1);

(c) Supplies of services to embassies, consulates, military units etc. by government entities from other countries (including from the country of location).

3.191. GATS covers only the supply of services by non-government entities to government entities, foreign diplomats, and consular staff and their dependants, which are allocated to mode 2. These services are included in *government goods and services, n.i.e* when they cannot be classified in other components. However, identification of these transactions would require the compilation of data on goods supply separately from the supply of services, as well as a further breakdown by type of supplier of the service. This is not recommended in the present *Manual*.

I. Alternative aggregations of service and non-service transactions

3.192. For various analytical purposes, compilers may wish to aggregate service and non-service transactions to provide information on areas of particular interest or concern to users, such as all transactions relating to health care, environmental issues or audiovisual activities. As with the components described above, for comparison purposes, it is useful if compilers in different economies follow the same guidelines for producing these alternative aggregations. In the following paragraphs, five alternative groupings are discussed:

- Tourism-related services in travel and passenger transport

- Audiovisual transactions
- Computer software transactions
- Call center services
- Transactions between related enterprises

These alternative groupings are listed at the end of the EBOPS classification in Table 1 and Annex XXX.

Tourism-related services in travel and passenger transport

[Description from BPM6 to be included]

Audiovisual transactions

3.193. The coverage of *audiovisual transactions* is the same as that of *audiovisual services*, which is discussed above, except that it deviates from BPM6 and EBOPS 2010 principles in that all relevant balance of payments transactions between residents and non-residents, except for transactions in goods, should be included. *Audiovisual transactions* has been included as a memorandum item because one of the stated needs of analysts is 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.

3.194. This memorandum item should be used to show the total value of such resident/non-resident transactions. Thus, it covers transactions included in *charges for intellectual property, n.i.e., telecommunications, computer and information services, and other business services*. Thus, 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, and it is recommended for its analytical usefulness.

3.195. Included are, for example:

(a) Distributive rights and fees of film and television programmes;

(b) Television retransmission rights for sport events;

(c) Distributive rights and fees of video games that are downloaded through television channels;

(d) Sale of rights for films and television programmes, for cinema release or for broadcasting;

(e) 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;

(f) Subscription services provided for encrypted television channels, such as cable and over-the-air, or free-to-air, broadcasting;

(g) Music composers' rights that are linked to the sale of records paid through collecting societies;

(h) Performing rights related to live musical or theatrical performance;

(i) Rights for theatrical releases abroad by drama companies;

(j) Musical shows produced abroad.

3.196. Excluded are, for example, all goods, but the sale and purchase of video tapes, compact discs and video discs are included.

3.197. 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.

3.198. 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." The enterprises carrying out these transactions are mainly (a) producers of audiovisual services and goods that receive distributive rights (for example, when there is a television or radio transmission), author/composers' rights (for example, when records are sold), and performing rights (for example, when a theatrical company or an opera company is producing and performing abroad); (b) television and radio channels that pay rights for retransmission and encrypted television channels receive income (both receipts and payments should be recorded as audiovisual transactions); or (c) performing rights societies, such as the Société des auteurs compositeurs éditeurs de musique or the Association for the Collective

Management of Audio-visual Works, which act as intermediaries between producers and the media.

Computer software transactions

3.199. *Computer software transactions* includes transactions covered in *computer services, charges for the use of intellectual property n.i.e.*, and *business services*. It therefore includes the following:

- a. sales of customized software (however delivered) and related licenses to use;
- d. noncustomized (mass-produced) software provided on a storage device such as a disk or CD-ROM with a periodic license fee. (software on storage devices with licenses that convey perpetual use are included in goods,
- e. sales and purchases of originals and ownership rights for software systems and applications; and
- f. charges for licenses to reproduce and/or distribute intellectual property embodied in produced computer software.

1. Call centre services

3.200. *Call centre services* is not identified as a separate category in the BPM6. These centres provide information or support to customers on behalf of clients primarily through telephone communications. Improvements in telecommunications and information technology, has seen the expansion of cross-border call centre services. The services of call centres span a range of activities including computer technical support, debt collection, and marketing services.

Transactions between related enterprises

3.201. This item provides information on the value of the various types of service and nonservice transactions 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.

- b. the development, production, supply, and documentation of customized software, including operating systems, made to order for specific users;
- c. noncustomized (mass-produced) software downloaded or otherwise electronically delivered, whether with a periodic license fee or a single payment;

J. Data collection

3.202. Methods of collection can be described in terms of seven main types of sources—IMTS; international transactions reporting systems (ITRS); surveys of enterprises; surveys of households, administrative data; official data; and information obtained from partner countries and international organizations. Appropriate data may be obtained directly through one or more of these methods, or it may be that some type of modeling is used in order to obtain estimates of the balance of payments components.

3.203. 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*.

3.204. 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, supplementary data must be collected. Typically, supplementary data are needed for transactions through bank accounts held abroad by residents and for transactions where no money changes hands (such as in barter trade or when trade credits are extended).

3.205. Surveys of enterprises collect information in aggregate form on the transactions of resident enterprises with non-residents. Such surveys may be full coverage or 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 imputation techniques).

3.206. 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. Such sources include migration statistics and household income and expenditure surveys.

3.207. 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.

3.208. 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.

3.209. 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.

3.210. Compilers must consider many things when choosing a method or methods for estimating the various services components, including the legislation that permits data collection, the data that are already available, the available resources, the needs of users and

the appropriateness for the particular country of the various methods of data collection that might be used.

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

K. Summary of recommendations

3.212. The main recommendations of the present chapter 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. Of less immediate priority is the compilation of data on EBOPS supplementary items.
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. This is accorded a low priority.

