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Draft Chapter I

Note by UNSD

At the Task Force meeting of September 2006 in Paris, UNSD presented a summary of responses to the worldwide consultation regarding Chapter I. The conclusions were that a large majority would like to keep the current list of priority recommendations and the order of the priorities, while supporting the proposal to include the partner country dimension in the second, third and fourth recommendations on EBOPS, FDI and FATS rather than as a stand alone fifth recommendation. Suggestions received included the need for compilation guidance and for coherence of MSITS with SNA/BPM5 revisions.

The annex to this introductory note shows a complete draft of Chapter I, highlighting those parts that need further discussion. The draft reflects the above mentioned conclusions. Further, we removed the recommendation to have the same geographical breakdown for each of EBOPS, FDI and FATS, as suggested by India. Also, the wish expressed by Eurostat to make a clear distinction between BOP trade in services statistics and FATS statistics has been integrated in this text (see especially box 2). UNSD took the decision to keep the FATS abbreviation but rename it in full to *Foreign Affiliate Statistics* reducing the confusion that FATS statistics would cover imports and exports of services.

Given that the revision processes of related manuals are still ongoing and given that Chapter I should reflect the shape of a not-yet-existing new manual, this draft is built on a number of assumptions which might need to be modified as drafting progresses.

The purpose of this initial draft is to show the direction chosen by UNSD in the update and to invite discussion among the members of the Task Force, especially regarding all highlighted text.

I. General introduction and foundations of the Manual

A. Introduction

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

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

1.3. This *Manual* is particularly important for trade agreements, since these now cover services as well as goods. Statistics are consequently needed both to guide the negotiations and to support implementation of these agreements. The most well known and wide-reaching agreement involving services is the *General Agreement on Trade in Services* (GATS), which became effective in 1995 with updates by GATS 2000 and by the Doha Development Agenda. This need for statistics had fuelled the demand for development of a more comprehensive and better integrated approach to statistical issues pertaining to trade in services.

1.4. The term *international trade in services* is construed broadly in the *Manual*. It covers trade in services in the conventional sense of transactions between residents and non-residents but covers as well services delivered through locally established enterprises. In the *Manual*, these latter transactions are designated as *Foreign Affiliates Statistics* (FATS)¹. Also

¹ To make a clear distinction between delivery of services through commercial presence and imports and exports of services between residents and non-residents, the full name of FATS has been changed from *Foreign Affiliates Trade in Services* to the more general *Foreign Affiliates Statistics*, which at the same time allows inclusion of statistics other than sales. For historical consistency the abbreviation FATS has been maintained.

discussed in the context of trade in services are certain categories of service related employment of individuals non-permanently located abroad to the extent that they are covered by trade agreements. Although it extends the concept of *trade in services*, it does not extend the concept of *services*, and it conforms almost entirely to existing international statistical standards. Discussion of the usage of the terms *services* and *international trade in services* in this *Manual* is provided in boxes 1 and 2, respectively.

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

B. Overview of changes to the Manual

1.6. Aside from updates to the *Manual* due to changes in related conceptual frameworks and classifications, the opportunity was taken for an overall review. A short questionnaire was constructed by the inter-agency Task Force on Statistics of International Trade in Services and was sent to all national, regional and international institutes that either compile or use trade in services statistics. The main points of each Chapter were questioned and respondents were also given the opportunity to add any other suggestion or comment. The general outcome of this worldwide consultation was that only minor revisions were recommended. One of these minor updates is inclusion of a breakdown by partner country to the second, third and fourth recommendation in the priority list. Further, a more in-depth discussion of modes of supply is now given in a separate chapter, as is done for the measurement of supply of services through the presence of natural persons (Mode 4). Chapter 4 now separates more clearly

inward and outward FATS. Finally, an analytical annex has been added, as well as an annex on service export and import prices. **Annex I shows the questionnaire used in the worldwide consultation and gives the main results.**

1.7. The recently released sixth edition of the Balance of Payment Manual (BPM6) deviates significantly from its previous version, especially for the Goods and Services Account. Following the recommendation of the updated SNA93 never to impute change-of-ownership certain economically important items were rearranged in the classification of goods and services. *Goods for processing* and *Repairs* were reclassified from goods to services; and *Merchandising* was moved in the opposite direction. The Extended Balance of Payments Services Classification (EBOPS) is an extension of the main services components of the BPM6 Goods and Services Account. Consequently, the EBOPS classification was significantly changed by introducing *Processing of goods* and *Repairs* as two new main components and removing *Merchandising* from *Other business services*. As will be further explained in Chapter III, the *Other Business Services* component was split and replaced by three main BOP/EBOPS categories *Research and Development Services*, *Professional and management consulting services* and *Technical, trade related and other services*. Annex III provides tables showing the correspondence between EBOPS, the new CPC, Version 2.0 of the United Nations, and the GNS/W/120 list of services identified within the scope of GATS.

C. Foundations of the Manual

1.8. An important feature of the *Manual* is a discussion of the modalities through which services may be delivered, of which GATS identifies four: *cross border*, *consumption abroad*, *commercial presence* and ***movement of natural persons***. Distinctions are made based on whether the service supplier, the consumer, or neither, moves from one country to another for the transaction to be effected.

1.9. For services delivered through subsidiaries and branches abroad, referred to in the present *Manual* as the *commercial presence* mode, methodological antecedents are not fully developed. However, drawing on work conducted by the Organisation for Economic Co-operation and Development (OECD) and the Statistical Office of the European Communities (Eurostat), as well as on the experience of a number of countries in collecting this type of data, the *Manual* reflects the emerging international consensus that statistics on such

services should be developed for firms in which a foreign investor has a majority interest. They should be classified as a first priority on an activity basis (i.e., by industry of the producer rather than by type of service produced). Industry groupings drawn from the new version of ISIC (ISIC, Rev.4), are provided for use in reporting these statistics to international organizations. These groupings, known as the *ISIC Categories for Foreign Affiliates* (ICFA), allow the activities of services enterprises to be viewed in the context of the activities of all enterprises. Although detail by product for foreign-owned firms is encouraged to enable comparability between FATS data and trade between residents and non-residents, compilation on a product basis will remain a longer-term goal for most countries because of current limitations on data collection.

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

1.11. With respect to one of the modes of supply, the ***movement of natural persons***, the definitions and concepts used in GATS require some information that lies outside the BPM6 and FATS domains or that pertains to transactions that BPM6 records in components other than services. Since the publication of the first version of the *Manual*, significant improvements have been in developing concepts and definitions supply of services through the movement of natural persons. This newly developed framework is included in Chapter V of this *Manual*.

1.12. The approach of the *Manual* is to build on, rather than suggest modifications to, internationally agreed standards for compilation. First and foremost among these standards is the already mentioned BPM6, which contains recommendations for the definition, valuation, classification, and recording of resident/non-resident trade in services. Also important is the updated SNA93, whose concepts and definitions underpin many of the *Manual's* recommendations about data on services delivered through foreign affiliates. Although there are

important advances in the *Manual*, it recognizes that in some areas there is farther to go; where questions are raised that are not adequately resolved, this *Manual* also sets an agenda for further research and development work.

1.13. The *Manual* provides descriptions of the major services involved in international trade as well as the GATS nomenclature and provisions. However, for a range of services that have attracted particular attention in trade negotiations, there is insufficient agreement on a detailed taxonomy and corresponding statistical treatment. These include telecommunications, financial services, professional services, environmental services, and internet related services. For these services, some further development work, beyond their treatment in the *Manual*, is recommended.

1.14. The *Manual* does not give more than summary practical guidance to national compilers as is the purpose of the IMF *Balance of Payments Compilation Guide*.² It is recognized, however, that the successful implementation of the *Manual*'s recommendations will be greatly aided by further guidance and technical support from international agencies to supplement existing provision. The Task Force on SITS has, therefore, committed itself to produce a Compilers Manual to help producers of the statistics in the actual implementation of the recommendations of the *Manual*.

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

1.16. Measurement of trade in services is inherently more difficult than measurement of trade in goods. Services are more difficult to define. Some services are defined through abstract concepts rather than by any physical attribute or physical function. Unlike trade in goods, for trade in services there is no package crossing the customs frontier with an internationally recognized commodity code; a description of the contents; information on quantity, origin, and destination; an

invoice; and an administrative system based on customs duty collection that is practiced at assembling these data. The required information on services trade, once defined, is dependent on reaching a common understanding of concepts with data providers. It depends on information that may be reported either from business accounting and record keeping systems or by individuals, and on a variety of data sources, including administrative sources, surveys, and estimation techniques.

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

D. Set of recommended elements for phased implementation

1.18. The *Manual* recommends a complete set of elements for compilers to implement that build on internationally agreed standards so as progressively to achieve comparability of published statistics on international trade in services. These elements, if fully implemented, would represent a considerable increase in the detail of information available on trade in services. It is recognized that many countries will see the full implementation of the recommendations as a long-term goal. The main elements are listed below and represent a summary of the recommendations.

1.19. The first four are proposed as *core* elements to tackle first. It is suggested that these core elements should be given particular priority and that the other elements can be implemented incrementally thereafter. The four core elements would, when implemented, provide a basis for a common internationally comparable basic data set. All countries, including those that are beginning to develop statistics on international trade in services, can follow this phased approach to begin to structure available information in line with this new international standard framework. The sequence of elements, as suggested, takes into account the relative

² Washington, D. C., 1995.

ease that many compilers may find in their implementation, commencing with the easier elements. However, the order is intended to be quite flexible so that countries can meet the priority needs of their own institutions.

1.20. In general, as countries implement the recommendations in the present *Manual*, it is suggested that they provide explanatory notes along with published data in order to enhance the transparency of their methodologies and users' ability to compare data internationally. These notes should include information about data coverage and definitions, particularly where these deviate from the *Manual's* recommendations. Such metadata provide users of the statistics with useful background information on such things as how the data are collected or estimated, where coverage is thought to be deficient, and where the data deviate from the internationally agreed standards (as described in the present *Manual*). The provision of such explanatory notes along with the actual data is a practice now followed by many countries in a broad range of statistics.

1.21. As a deviation from the original *Manual* the main recommendations for EBOPS, FDI and FATS statistics now include for each the recommendation to add breakdown by partner country. For transactions between residents and non-residents, the aim would be to report partner country detail at the level of services trade as a whole and for each of the main types of services in BPM6 and EBOPS. In the case of FATS and FDI, it would be to report partner country detail both in the aggregate and for the major industry categories within ICFA. In both cases, it is recommended that countries give a higher priority to providing data with respect to their most important trading partners.

1. Recommended core elements

BPM6

1.22. Implement the BPM6 recommendations, including the definition, valuation, classification and recording of service transactions between residents and non-residents.³

EBOPS: first part – more detail

³ See paras. 3.1-3.23 below and annex II.

1.23. Compile balance of payments data according to EBOPS,⁴ which involves disaggregating the BPM6 standard components for services into EBOPS subcomponents. Where the compilation of the main EBOPS classification is developed and carried out in stages, compilers should commence by separately identifying those EBOPS subcomponents of major economic importance to their own economies. Where data for related memorandum items are available as part of this compilation process, these memorandum items should also be compiled. As mentioned in para 1.21, the aim would be to report partner country detail at the level of services trade as a whole and for each of the main types of services in BPM6 and EBOPS.

Foreign direct investment statistics

1.24. Collect complete statistics on foreign direct investment (FDI) (i.e., the flows, income, and period-end positions) classified by ISIC, Rev.3 activities to be complementary to the FATS statistics. For those countries that must delay the implementation of FATS statistics, FDI statistics provide an alternative interim indicator of commercial presence.⁵ It is further recommended to report partner country detail both in the aggregate and for the major industry categories.

FATS: basic variables

1.25. Record certain basic FATS statistics, such as sales (turnover) and/or output, employment, value added, exports and imports of goods and services, and number of enterprises. For achieving comparability when reporting to international organizations, these are classified by specified activity categories based on ISIC, Rev.4, i.e., ICFA.⁶ Again it is recommended to report partner country detail both in the aggregate and for the major industry categories within ICFA.

2. Other recommended elements

EBOPS: second part – full detail

1.26. Complete the implementation of EBOPS⁷ to the extent relevant to the compiling economy, including the memorandum items. As above, memorandum items should be compiled where the data are available as part of the data collection process for the related

⁴ See paras. 3.52-3.143 below and annex II.

⁵ See para. 4.9 and box 7.

⁶ See paras. 4.46-4.66 below and table 3.

⁷ See paras. 3.52-3.143 below and annex II.

EBOPS components. Other memorandum items should be compiled where there is a demand for these data in the compiling economy. An elaboration of the full EBOPS classification and its memorandum items together with their correspondence to CPC, Version 2.0 is shown in annex III.

FATS: further details

1.27. Augment the basic FATS statistics by compiling data on additional aspects of the operations of foreign affiliates, such as assets, net worth, operating surplus, gross fixed capital formation, taxes on income, research and development expenditures, and compensation of employees.⁸

1.28. Detail of sales by product is desirable, not least because of the potential comparability between FATS data and trade between residents and non-residents. While compilation on this basis may well have to remain a long-term goal for most countries, as a first step toward a product basis, countries may wish to disaggregate sales in each industry as between services and goods. In addition, countries that are building their statistical systems for FATS on existing data systems that already include product detail may wish to use this detail from the outset because it could help them in monitoring commitments under GATS that are specified in terms of services products. Similarly, countries that are building their FATS data systems from the ground up should consider the feasibility of providing for a product dimension.⁹

Persons working abroad

1.29. Collect statistics on natural persons under the GATS framework, both those from the compiling economy working abroad and foreign natural persons working in the compiling economy, taking into account the needs, resources, and special circumstances of the compiling country. In this process, the framework, and definitions set out in Chapter V should be followed.

Trade between related¹⁰ and unrelated parties

⁸ See paras. 4.67-4.68 below.

⁹ See paras. 4.44-4.45 below.

¹⁰ Trade with related enterprises is defined to include trade with all enterprises with which there is a direct investment relationship.

1.30. Within the statistics on trade in services between residents and non-residents, separately identifying the trade with related parties from that with unrelated parties.¹¹

GATS modes of supply

1.31. Allocate the transactions between residents and non-residents over the GATS modes of supply. The simplified procedure set out in paras. 3.41-3.49 below may be used as a starting point in compiling a first approximation of this allocation.

Shape of the Manual

1.32. Chapter II of the present *Manual* discusses user needs, describes links with existing international frameworks, sets out the approach of the *Manual* with a statistical framework for measurement of international trade in services, and considers the modes of supply, introducing a simplified approach for statistical analysis of these. Chapter III addresses services trade between residents and non-residents, describes EBOPS in detail and explains how its components should be measured. Chapter IV describes the new domain of FATS statistics, the criteria used to define the coverage of FATS, the classifications used, and the variables recommended for compilation. Chapter V gives a more in-depth explanation of the GATS modes of supply, including measuring trade statistics of services delivered by the movement of natural persons.

1.33. Supplemental information is provided in the annexes. The old Annex I (Movement of natural persons supplying services under GATS) is now included into the new Chapter V (Measuring trade in services by mode of supply). The annex on tourism satellite accounts has been updated and two new annexes have been added, namely one dealing with analytical indicators of SITS data and one on Services Export and Import Prices. Other annexes cover EBOPS; the correspondence between EBOPS, CPC, Version 1.0 and GNS/W/120, between ICFA and ISIC, Rev.3, and between ISIC, Rev.3 and ICFA; the GATS; and the list of services used by GATS negotiators. A glossary and bibliography conclude the Manual.

¹¹ See paras. 3.36-3.37 below.

Box 1. Services definition

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

The present *Manual* generally respects the updated 1993 SNA use of the term *services*, which is defined as follows: “Services are not separate entities over which ownership rights can be established. They cannot be traded separately from their production. Services are heterogeneous outputs produced to order and typically consist of changes in the condition of the consuming units realised by the activities of the producers at the demand of the customers. By the time their production is completed they must have been provided to the consumers.”

However, the updated 1993 SNA then qualifies this relatively simple definition as follows: “There is a group of industries, generally classified as service industries, that produce outputs that have many of the characteristics of goods, i.e., those concerned with the provision, storage, communication and dissemination of information, advice and entertainment in the broadest sense of those terms—the production of general or specialized information, news, consultancy reports, computer programs, movies, music, etc. The outputs of these industries, over which ownership rights may be established, are often stored on physical objects—paper, tapes, disks, etc.—that can be traded like ordinary goods. Whether characterized as goods or services, these products possess the essential characteristic that they can be produced by one unit and supplied to another, thus making possible division of labour and the emergence of markets.”

The updated 1993 SNA recommends the use of CPC for the classification of products or outputs of industry (where services products are approximately classified in sections 5 through 9) and of ISIC, Rev.4 for the classification of industry. In practice, service industries (or activities) are mainly taken to be those in sections G through S of ISIC, Rev.4, with some exceptions in other sections. In BPM6, the concept of services is essentially that of the updated 1993 SNA, but for practical measurement reasons international trade in services between residents and non residents includes some trade in goods, such as those bought by travellers and those purchased by embassies. On the other hand, under certain circumstances international trade in goods may indistinguishably include such service charges as insurance, maintenance contracts, transport charges, royalty payments and packaging.

Examples of service activities are wholesale, retail, certain kinds of repair, hotel, catering, transport, postal, telecommunication, financial, insurance, real estate, property rental, computer-related, research, professional, marketing and other business support, government, education, health, social, sanitation, community, audiovisual, recreational, cultural, personal, and domestic services.

Box 2. International trade in services

Before the publication of the present *Manual*, the conventional statistical meaning of *international trade in services* was that described in BPM6, which defines international trade in services as being between residents and non-residents of an economy. This also corresponds very closely to the concept of trade in services in the “rest of the world” account of the updated 1993 SNA. Such trade is described in chapter III of the present *Manual*.

This concept of international trade in services combines with the concept of international trade in goods, to form international trade in the BPM6 Goods and Services Account. But as described in box 1, it is not always practical to separate trade in goods from trade in services.

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

For international trade in such non-transportable services to take place, either the consumer must go to the supplier or the supplier must go to the consumer. International trade agreements concerning services, in particular those embodied in GATS, make provision for agreement on suppliers moving to the country of the consumer.

To reflect this type of trade, the *Manual* extends the scope of *international trade in services* to include the delivery of services provided through foreign affiliates established abroad, described here as *Foreign Affiliates Statistics* (FATS). Such delivery of services and its statistics is described in chapter IV.

Services are also supplied by individuals located abroad, either as service suppliers themselves or employed by service suppliers including those in the host country. A large part of this type of trade in services is covered by the BPM6 and FATS frameworks. An in-depth discussion of it is given in chapter V.

Note: Although the *Manual* extends the general scope of the term “international trade in services” to accommodate the GATS provisions, the *Manual* does not suggest that provision/acquisition of services by foreign affiliates established abroad be referred to as exports/imports of services. These terms are reserved to reflect trade in services between residents and non-residents of different economies. Consequently, statistics of international trade in services consists of (i) statistics of services exports/imports and (ii) statistic related to provision [acquisition] of services by foreign affiliates established abroad. In this sense, the total of internationally delivered services could be seen as BOP exported services plus services delivered via foreign affiliates.