

**12th Meeting of the Advisory Expert Group on National Accounts,
27-29 November 2018, Luxembourg**

Agenda item: 3.a

A proposal for a satellite framework on the digital economy

Introduction

Demand from users for estimates relating to digital activity has increased in response to not only the large ramp up in digital goods and services being consumed by both households and businesses, but also the digitalisation in the provision of even the most basic goods and services. For several years, national statistical organisations have independently attempted to measure the digital economy and made efforts in deriving various indicators contained within it. Often these efforts have been limited to delineating a range of industries and products and labelling them as “digital”.

The attached paper includes a proposal for digital supply and use tables that attempts to capture, in a more systematic way, the production chains and value added of the units involved within the digital economy. This includes activities of digital intermediary platforms, the producers that rely on them, online only retailers and producers as well as businesses that provide free digital services such as social media. In the paper, more details are provided on how the proposed digital supply-use tables would operate; it also includes more precise definitions on the digital industries and products distinguished. The proposal attempts to strike a balance between what is practically possible and statistically informative. Not all data required to populate the cells will be available immediately, but much will be, allowing countries to begin to create internationally comparable estimates of activity within the digital economy.

The paper was presented at the meeting of the OECD Informal Advisory Group on Measuring GDP in a Digitalised Economy on November 9, 2018, and includes a range of questions that the Advisory Group was asked to provide guidance on. A brief summary of the main outcomes of the discussions on these issues are included as an annex to this cover page.

Documentation

- John Mitchell, A Proposed framework for Digital Supply-Use Tables, paper present at the meeting of the OECD Informal Advisory Group on Measuring GDP in a Digitalised economy (Paris, November 9, 2018), SDD/CSSP/WPNA(2018)3. Available at <https://community.oecd.org/docs/DOC-142825>

Main issues to be discussed

The AEG is requested:

- To provide general advice on the proposed satellite account for the digital economy, including any specific omissions, while being cognisant of the need for compilers to populate the tables relatively quickly.

- To provide advice on where units that are operating on both digital and non-digital channels should be placed in the tables (see also point 2 of the annex).
- To provide advice on the appropriate treatment of transaction involving digital intermediary platforms. (see also point 3 of the annex)
- To provide advice on the appropriateness of the non-digital goods and services that have been selected for further breakdown by transaction. (see also point 4 of the annex)
- To provide its opinion on how financial services should be treated within the proposed digital supply-use tables, specifically considering the defining characteristics of digitally ordered and digitally delivered (see also point 5 of the annex).
- To provide its opinion on whether it is useful to separately distinguish market and non-market units within the group “other digital business” considering that the vast majority of businesses providing “free services” are profit based supported by an advertising, data, or marketing-oriented business model (see also point 6 of the annex).

Annex: Summary of discussions on item 2c on the meeting of the informal advisory group on measuring GDP in a digitalised economy, Friday 9 November, OECD, Paris.

1. John Mitchell, analyst within the OECD National Accounts Division, presented the overall framework. He explained the importance of data relating to the method of transaction as the fundamental determinant to output being included as digital or non-digital. The separately identified products were explained, including the newly defined, as well as the traditional products for which additional breakdowns are requested.

Does the Advisory Group generally agree with the proposed digital S-U tables, and the information that can be derived from them?

Feedback from delegates was broadly supportive with no singular overriding concern. Some specific issues and discussion points included the following:

- Confidentiality issues may arise if the requested data is too disaggregated.
 - Whether the free services product is truly outside of the production boundary, as is indicated in the proposal. In some cases, the provision of the free service could also be considered as a barter exchange (i.e. the business receiving information about the user in exchange for the consumer being entertained or informed).
 - While free services are included, data as a product or an asset is currently not (yet) included in the proposed tables.
 - The arguments for and against the need to define the “digital economy”.
 - Confirmation that the digital categories described are primarily meant for compiling the digital supply-use tables, it is not suggested these would become part of any formal proposal for changing the current classifications of industries and/or products.
2. The digital decision tree was shown to the group along with the classification of several well known examples. It was explained that decisions would be needed regarding the allocation of units transacting on digital and non-digital channels, and the outcome of this decision would greatly influence the size of the various digital categories. This decision on how to allocate units would obviously become less relevant if transactional level data at product level is available. However, as long as this is not possible, users may want to arrive at an estimate based on the units which produce a majority, or (close to) 100%, of their output via digital channels.

Does the Advisory Group agree with the classification of units into various categories based on the criterion of having a majority of sales via a specific channel? (digital/non digital/platform)

Feedback and discussion points from delegates included the following:

- The current lack of information on whether a unit is getting 1%, 51% or 100% of its output digitally or non-digitally would result in a large amount of modelling or assumptions.
 - It may prove to be quite problematic to operationalise a filter based on this assumption within the business register.
 - The need for case studies by NSOs that can be shared internationally to show best practice in classifying these types of units.
3. The various options for recording transactions associated with digital intermediary platforms were presented. It was recommended that the option consisting of recording the full amount of the charges for the service provided as a payment from the consumer to the producer, with a subsequent payment from the producer to the intermediary platform (as intermediate

consumption) be endorsed. This would remove unnecessary trade flows if the platform was a non-resident as well as limit the amount of imputed transactions required.

Does the Advisory Group agree with the proposal presented for recording transactions involving an intermediary platform?

Feedback from delegates was supportive. Some specific issues and discussion points included the following:

- Several participants noted that divergences across countries or changes over time in legislation may need to be reflected in the way how this type of transactions is to be recorded.
 - It was also questioned whether the wide variety of business models that existed for platforms charging an explicit fee would all fit under this proposal.
4. There were further discussions on the product breakdown in the proposed tables. It was reiterated that the 10 (traditional) products at CPA level, which were listed in the proposal as those needing an additional breakdown, were just those seen as having the biggest influence on the digital economy currently. Countries could add additional products if it was deemed important to do so. It was explained that while the tables allow all products to have this additional layer of transactional detail, the more products that it is done for, the more challenging it is for the compiler of the tables.

Does the Advisory Group agree with the proposed delineation of non-digital products?

Feedback from delegates was broadly supportive. Some specific issues and discussion points included the following:

- The more countries breaking down the same products, the more useful the estimates become.
 - Some countries may have a particular interest in some products.
 - The products in the proposal are very consumer focused, should there be a consideration towards products purchased predominantly by businesses.
5. The subject of financial services was discussed. It was explained that financial intermediation does fit as easily as other products into the concept of digital ordering and delivering. It was observed for a majority of consumers, both households and business, the majority of their interactions with banks are digital, even though most banks maintain some form of physical presence. This could result in the entire industry being classified into this digital category.

Does the Advisory Group agree with separately classifying “digital only units providing finance”, and if so, should this be limited to just units that are 100% digital?

Feedback from delegates included the following:

- Non-digital banks often own a digital subsidiary, they would often share back office facilities, which makes measuring them separately very difficult. Are users interested in this split?
 - More guidance is needed on what constitutes digitally ordering and delivering for the financial sector.
6. It was briefly discussed whether units within the “other digital business” category should be separated between market and non-market. While the vast majority of businesses providing free services are profit based there are some that are not, and the question arises whether there is a need for users to have these recorded separately. This issue would also need further consideration on the treatment and the recording of free assets that are produced by communities of people (e.g. Wikipedia, R, etc.).

Does the Advisory Group consider it useful to separately distinguish market and non-market units within the group “other digital business”?

Feedback from delegates broadly thought this might be unnecessary. Additional discussion points included the following:

- A mix of NPISHs and market producers may also exist in some other categories, and it has not been proposed to separately identify them.
 - Practically, how could certain free assets built by communities of people be apportioned to specific countries?
 - While these free assets may be hard to measure, and its recording not considered as a high priority by compilers, users may still want to have them recorded and valued.
7. The OECD then outlined the way forward for this work, with the intention to present it at the Advisory Expert Group (AEG) on National Accounts on November 27 – 29. A final proposal including a more detailed template would be sent out to members of the OECD Working Party on National Accounts before the end of the year. Following this consultation, it would also be presented to the OECD Committee on Statistics and Statistical Policy in June 2019.
8. The chairperson then summarised the session detailing the benefits of the work and the useful discussions that had taken place. He believed that there had been widespread agreement on various aspects of the work and that delegates had offered no significant objections to the proposal. He noted the ability for the proposal to be flexible and non-prescriptive, including surrounding the products identified for additional breakdowns, was praised, as was the overwhelming support to show online platforms and cloud computing separately in the proposal. On the other hand, however, additional discussion and clarification is still required on the treatment of financial services and the treatment of units producing output that is ordered both digitally and non-digitally.