

**Fifth Meeting of the Advisory Expert Group on National Accounts
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**Substantive Comments on the Draft Chapters of the 1993 System of
National Accounts Revision 1**

Chapter 6: The Production Account

Prepared by Intersecretariat Working Group on National Accounts

Comments on Chapter 6: The Production Account

Comments received as of 12 March 2007¹ from:

Countries (2)	ISWGNA (4)	Others (1)
Russia Australia	OECD UNSD IMF Eurostat	European Central Bank

Comments from OECD, UNSD and Russia on services

OECD:

A change is proposed by the editor regarding the definition of services. This change is not, in our view, in the scope of the 44 issues. The AEG should therefore decide whether it proposes to add this change to the list of issues.

6.12 : this paragraph is new and includes a new criterion for services: “*when goods dispatched to another unit for processing do not include change in ownership the work done on them constitutes a service.*” While this change to the SNA apparently originates from issue 40 “goods for processing”. The AEG decided that there would be no more an imputation of change of ownership for goods sent for processing, whether outside the economic territory or inside. However, the AEG did not decide that this entailed a new definition of services. Moreover this criterion is not very convincing: in the same chapter it is first said that the “non ownership of the good” is a criterion to classify the output as service, and a few paragraphs later (6.139) , it is said that retail trade and wholesale trade are services, while these are characterized by owning the goods they resale! The issue is really whether the SNA should discuss conceptually of the classification of products between goods and services. The main message of the SNA is that all products are included, whether goods or services. The classification of these products between goods and services should be left to the classification experts.

Introducing the concept of knowledge-capturing products as a third type of product implies that the SNA should avoid referring to goods and services when all three products are meant to be covered. This requires quite numerous changes.

6.22 The existence of the category “*Knowledge-capturing products*” is an illustration of the vanity of trying to categorize products as goods or services: as explained in this paragraph, these products may be tangible or intangibles (software). The important thing in national accounts is indeed that they are classified in the same group, whether tangible or intangible, it is not whether they are goods or services.

6.28- 6.31 These paras, unchanged from the old SNA, explain that the household production of most services for their own consumption is excluded from the production boundary. However, from these paragraphs, national accountants have generally understood that only

¹ All comments on this chapter received as of 12 March 2007 can be found at the 1993 Update website.

goods produced for own use by households are included in the production boundary. But now the concept of knowledge-capturing products has been introduced, and the fact that they are not specifically excluded implies that software, databases, home movies or photographs, for example, produced by a household for its own consumption should be recorded as production. Although, the old SNA does not specifically exclude them, I believe national accountants have assumed that they are excluded. Given that the arguments used for not including services produced by households for own use mostly apply to these products they should be excluded too. Hence, it needs to be made clear that products of this nature are not in the production boundary.

6.139 second sentence. Please refer to my general comments on paragraph 6.12. Because of the choice made by the editor to give a definition of service based on the fact that the goods are not owned, one has to introduce here an arcane discussion on whether retailers have a "legal ownership of the good" or an "economic ownership of the good". This all originates from the proposal to include the criterion of legal ownership in the definition of services. If this first proposal was abandoned, as I propose, this discussion would not be useful here. Moreover, the qualification of retailers as being "passive" regarding the goods that they sell is irrelevant and could not be sustained in a face to face meeting with retailers... You only have to know the amount of advertising that they spend to realize that they are not passive...

UNSD:

The definition of services in para 6.17 covers transformation services and margin services. However, it does not seem to cover services that are implicitly measured such as insurance services and FISIM. Those services do not fit into the definition of margin services.

Margin services result when one institutional unit facilitates the change of ownership of goods, knowledge-capturing products or financial assets between two other institutional units.

Russia:

I would support the comment that a new definition of services would be one of update issues and therefore the AEG should decide whether this issue is treated. If a new definition of services is being edited I would not agree with the wording suggested in the paragraph 6.17. Isn't the fundamental characteristic of services as mentioned in the paragraph 6.8 of the actual SNA? Services "can not be treated separately from their production". Why the definition of services should omit this feature?

<p>1. Questions for the AEG on services</p> <p>a) Paragraph 6.12 says: <i>when goods dispatched to another unit for processing <u>do not include a change in ownership</u> the work done on them constitutes a service.</i> This implies a new definition of what are services, a feature which was not included among the 44 issues and has implications for classifications. Should there be a change to the definition of services?</p> <p>b) Should the concept of "knowledge-capturing products" be introduced, and if so when they are produced by households for own use should they be in the production boundary?</p>

Comments from OECD and UNSD on intra-enterprise flows

OECD:

6.95 (d) the fact that the two establishments are part of the same enterprise is contradictory with the fact that there is a change in ownership. In other words, if the two establishments are part of the same enterprise, there will be no change of ownership. Indeed, legal ownership resides with the enterprise, not the establishment.

6.100 This paragraph says “intra-enterprise deliveries should be only recorded when there is a change of ownership”. The relevance of this paragraph is questionable, because when deliveries are made between two establishments of the same enterprise, there is no change of ownership. It is the enterprise which legally owns the products, not the establishments.

6.109 (f) It is said in this new bullet point: “*In specified cases, the value of goods and services for intermediate consumption within a same establishment or enterprise is recorded as output*”. It would be useful to explain what are the specific cases that are referred to for this unusual exception to the general rule.

6.115 It is indeed unusual to start a paragraph of the SNA by “*It is unusual*”. But this paragraph starts indeed by these terms, and with some reason, because the proposal made in this paragraph is quite disturbing. This paragraph says that “*it may be desirable to record an output for a good or a service used as intermediate consumption within the same establishment.*” This is quite different with the old SNA paragraph 6.152 which said (quite reasonably): “*When goods and services produced within the same establishment are fed back as inputs into the production within the same establishment, they are not recorded as part of intermediate consumption.*” Of course the new paragraph says that it is rare and that there are only “occasions” to do that. Apparently, the occasions are listed below in paragraphs 6.116, 6.117, and 6.118. 6.116 refers to delivery services. It is quite difficult to understand how delivery services can happen within the same establishment. 6.117 refers to deliveries between two separate establishments. Thus this is not a good example. 6.118 refers to the “output placed in inventories for use as intermediate consumption in the future”. This is not relevant because it is not the issue that was raised in 6.115: indeed the use as intermediate consumption will be in the next accounting period, not the same. Overall, I do not understand the objective of this paragraph 6.115.

6.116 The old SNA contained a sentence saying: “*The production of transportation services for own use within enterprises is an ancillary activity that is not separately identified and recorded.*” This has been apparently deleted and superseded by this paragraph. The origin of this change to the SNA is unclear.

6.117 This paragraph says: “*If a product is delivered by one establishment to another within the same enterprise it is shown as output of the first establishment and intermediate consumption of the second.*” This is contrary to paragraph 6.100 which says: “*Intra-enterprise deliveries are only recorded when there is a change of ownership*”. Nota: I already remarked that deliveries between establishments of the same enterprise do not imply, by definition, a change in ownership.

6.182 This new paragraph changes the treatment of own account production for intermediate consumption. The old SNA said: “*When goods and services produced within the same establishment are fed back as inputs into the production within the same establishment, they are not recorded as part of the intermediate consumption or the output of the same establishment.*” This seemed quite reasonable. The new paragraph says: “*When goods and services produced within the same establishment are fed back as inputs into the production within the same establishment, they are only recorded as part of the intermediate*

consumption if they have been recorded in the output of that establishment". The new paragraph therefore allows that some output for intermediate consumption inside the same establishment is recorded. We do not understand why the old SNA has been changed (please see our remarks on paragraph 6.115). This should be taken up to the AEG. The new paragraph continues by saying that deliveries of goods between establishments of the same enterprise are recorded as outputs and intermediate inputs if there is an effective change in ownership. But, by definition, there are no changes in ownership within the same enterprise.

UNSD:

2. The description about output of establishment deviates from the SNA and AEG decision.

- In the SNA, production for own intermediate consumption in an establishment is not recognized as output.
- This principle remains the same with the update.
- Though the AEG decides that some output of ancillary units may be recognized but these units are recognized as separate establishments when conditions are met:

AEG decision: "If an establishment undertaking purely ancillary activities is statistically observable, in that separate accounts for the production it undertakes are readily available, or if it is in a geographically different location from the establishments it serves, it may be desirable and useful to consider it as a separate unit..."

With this new treatment, there is still no recognition of goods and services as output produced by an establishment for own intermediate consumption. Exceptions to this rule are applied only to goods for own-capital formation, goods for own final uses, and goods entered into inventories whatever their subsequent use (see SNA, para 6.81).

3. The extension of the concept of economic ownership exposed by the Editor in the draft in the case of goods for processing to the level of establishment, transactions between one establishment and another establishment within the same enterprise is problematic and not even discussed by the AEG for the following reasons:

- Ownership can be established only at the institutional unit level.
- When goods and services produced by one establishment and delivered to another establishment of the same parent enterprise, there is no change of economic ownership, although these goods and services are recognized as output. Ownership is immaterial here.
- Should we generalize the rule applied to goods in processing such that the other establishments add only services to the output of the first establishment? We don't think so. The extension only complicates the treatment since, firstly, ownership is clearly with the parent enterprise, not the children establishments and secondly goods as a total can be easily valued.

4. Given comments on 2 and 3, we have problems with interpretations of the draft given in para 6.16, 6.81, 6.81, 6.104, 6.110-6.112, 6.130:

- Para. 6.16 reads: "It is also possible for a unit to produce a service for its own consumption provided that the type of activity is such that it could have been carried out by another unit." This should be deleted.

Para. 6.85 should be modified (changes are underlined or crossed):

Thus *output is defined as the goods and services produced by an establishment that are delivered to another establishment, or*

~~a. excluding the value of any goods and services used in an activity for which the establishment does not acquire economic ownership, and~~

~~b. excluding the value of goods and services consumed by the same establishment except for goods and services used for capital formation (fixed capital or changes in inventories), own final consumption or, in clearly specified circumstances, for own intermediate consumption~~

- Para. 6.27 (a) should be modified:

(a) The production of all goods or services that are supplied to units other than their producers, or intended to be so supplied, ~~including the production of goods or services used up in the process of producing such goods or services;~~

- Para. 6.95(d) should be modified.

The value of goods or services supplied by one establishment to another belonging to the same market enterprise ~~to be used as intermediate inputs where a change of economic ownership is involved;~~

- Para. 6.109(f) should be deleted.

~~In specified cases, the value of goods and services for intermediate consumption in the same establishment or enterprise.~~

- Para. 6.115-6.118 on own intermediate consumption should be deleted.

- Para. 6.178 should be modified:

...When a unit provides only ancillary services, it ~~continues to be shown~~ may be recognized as a separate unit as long as the necessary information is available.

- Para 6.182 should be deleted.

~~When goods or services produced within the same establishment are fed back as inputs into the production within the same establishment, they are only recorded as part of the intermediate consumption if they have been recorded as part of the output of that establishment. There is discussion on when this might be appropriate in section E.~~

~~Deliveries of goods and services between different establishments belonging to the same enterprise are recorded as outputs by the producing establishments and intermediate inputs by the receiving establishments only when there is an effective change of economic ownership to the receiving establishment.~~

Change in ownership applies at the level of the institutional unit. The draft goes overboard in extending it to the producing unit (i.e. establishment)

2. Questions for the AEG on intra-enterprise flows

- a) The current SNA recommends that recording an output for products that are used as intermediate consumption within the same establishment should be avoided. A change of this recommendation was not included in the 44 issues submitted to the UNSC. Do you agree, as the revised text proposes, that this treatment should be changed in the SNA?
- b) Do you agree to limit the change of the SNA to the following AEG decision: *If an establishment undertaking purely ancillary activities is statistically observable, in that separate accounts for the production it undertakes are readily available, or if it is in a geographically different location from the establishments it serves, it may be desirable and useful to consider it as a separate unit...* ?
- c) Do you agree that the draft of 6.95 (d) or 6.100 is inappropriate, as, by definition, there is no change of economic ownership within establishments of the same enterprise?

Comment from OECD on measuring FISIM

6.158 The exact sentence should be (AEG decision, Frankfurt, page 28): *The reference rate is a risk-free rate that has no service element in it and that reflects the maturity structure of the loans and deposits to which FISIM applies.*

3. Question for the AEG on measuring FISIM

Do you agree that the SNA recommendation on the reference rate to be used should not be too specific (i.e. refer to the inter-bank rate) and should be as above?