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## **Comments on volume 1 of the updated SNA 93 from Statistics Denmark**

### **Violation of earlier decisions**

To our big surprise our attention has been brought to two cases where AEG-recommendations which were adopted at the UNSC-meeting in 2007 are not followed in the draft Volume 1. The two cases are presented below, and it is our firm view that in these cases the draft Volume 1 should be changed and follow the AEG-recommendations/UNSC-decisions.

We have unfortunately not had the resources to go through all the chapters, but if there are similar cases we recommend that the rules are brought in line with the AEG-recommendations/UNSC-decisions.

### **Inclusion of rent on land in the estimation of the value of non-market output**

Statistics Denmark does not accept the inclusion of “rent on land used in the production” in the estimation of the value of non-market output (par. 6.128). The inclusion of this type of rent within the production function of government is a conceptual change in violation with the decisions made at the UNSC-meeting in 2007.

At this meeting ISWGNA in the “Report of the ISWGNA on National Accounts: Supplement” recommended:

*In the meantime, the updated 1993 SNA will recommend that countries continue with the current 1993 SNA's recommendations regarding the estimation of non market output.*

This recommendation was adopted at the UNSC-meeting.

### **Treatment of non-life insurance**

The new proposed treatment of non-life insurance (chapter 17) has set aside one of the decisions made by the AEG adopted at the UNSC-meeting in 2007. In particular, the conditions under which part of non-life insurance claims could be treated as a capital transfer has been significantly changed from the UNSC-decision.

Statistics Denmark believes that the UNSC-decision should be restored.

### **Other comments**

#### **R&D**

We cannot find any sentences in the text reflecting the decision to put the treatment of R&D as capital formation on “a hold” –making the final decision later on when more experience has been gained. We believe that in the medium term it should be possible for a country to claim that they follow the revised SNA93 even if they do not capitalize R&D. This is a very important issue for European Union countries since the capitalization of R&D will not be part of the implementation of the revised ESA95. Instead a set of R&D satellite accounts will be compiled.



### **Chapter 14 and the CIF/FOB adjustment**

Please find attached an annex by Mr. Bent Thage with a number of substantive comments on chapter 14 in general and on the CIF/FOB adjustment in particular.

## **Additional comments on Chapter 14: The supply and use tables and the goods and services account.**

This comment consists of two parts: (1) Substantial comments in the chapter exclusive of the problem related to the CIF/FOB adjustment, and (2) Analysis and substantial comments and suggestions related to the CIF/FOB adjustment and related tables.

### **1. Substantial comments in the chapter exclusive of the problem related to the CIF/FOB adjustment**

A general observation is that the many substantial (as well as drafting) comments received from a total of 18 countries have only to a very limited extent been taken into account in the redrafting of the following version (the SC-version) of the chapter. As the countries (and organizations) have in most cases put great efforts into reading and commenting on the draft of this in many respects completely new text as compared to the 1993 SNA, and broadly agreed on the changes that needed to be made, is it disappointing that so little has come out of it, and *it is therefore recommended that these first-round comments are considered once more with a view to being more responsive to them*, as it cannot be expected that the countries in general will resubmit their original comments. This is also the case for the comments from Statistics Denmark, and only a few of those that we see as absolutely essential are repeated below.

- In the 1993 SNA the chapter 15 on IO consistently used the terms “establishments” and “industries”. The term “producing unit” is only used once in the introductory part (15.14) when defining homogeneous units of production (with which we are not dealing in the new chapter 14). In chapter 14 the terms “producer unit” and “groups of producer units” are used instead of establishments and industries, and “industries” is only mentioned as a kind of curiosity in par. 14.22. (Also the term “type of producing unit” is used (14.85)). Compared to the precise meaning of “establishments” and “industries”, the terms now used can mean practically anything, and do not carry the essential requirements to units and groupings of units that are desired in the supply and use framework. To our knowledge no decision has been taken about such an important change of terminology, and furthermore the general format of supply and use tables used in the literature (and for example in the new Eurostat IO Manual) is **product x industry**. We therefore believe it is absolutely essential to (re)introduce the standard SNA terminology in the chapter. We should not give the signal that supply and use tables are in nature different from other data classified by industry in the system, nor is it conceivable that in the future we should talk about *product x groups of producing units tables*. [And to the extent that a similar change of terminology has entered other chapters of the system, it should be changed there as well]
- Related to the above: In par. 14.22 “products” is not a “modern usage”, but has been the standard term since the 1993 SNA.
- Par. 14.37 and 14.42. It is overkill to indicate that before the new treatment of “goods for processing” the table was portraying technology, and now something quite different. As discussed in Geneva the columns of a use table (also on a strict establishment basis) has always depended on many institutional and organisational circumstances, and “goods for processing” is just (for the great majority of countries) an additional (minor) one. And if processing is important, industries can be subdivided etc. But (par. 14.38) of course the flows of products between establishments belonging to the same enterprise should be recorded in the SUT framework. This is the very idea of defining establishments.

- In general the text is flawed by expressive words such as “traditional”, “natural” , “obvious”, and others that do not convey any useful information. And where “most usual” (such as in 14.43) “easy”, and “straightforward” are indicated, we have not really any knowledge to base it on.
- Transport margins and trade margins. The example assumes two factories (14.54). Just to indicate the *interrelationship* between trade and transport margins it should be mentioned that a trader in between the two factories may in various ways “absorb” the transport margin into the trade margin. Thus wholesale trade margins may vary across different customers depending on the arrangements about transport costs. This aspect should also be mentioned in the (extremely brief) section on trade margins, from which it appears that trade margins are uncomplicated compared to transport margins – which is far from being the case.
- Par. 14.60. The first part. This is very far from being the case in any countries that we know about. Deciding the subdivision of transport cost into that part that is a normal purchase of a service, and that part that should be treated as a margin is heavily dependent on assumptions, also concerning its distribution to users.
- Par. 14.76. It should also be *other* subsidies
- The tables illustrating the industry supply and use matrices in the text (such table 14.1 and 14.6) should have (aggregated) industries in the columns, and not columns relating to the type of market relation. This is a secondary criteria in the 1993 SNA (whereas it was primary in the 1968 SNA), and should not appear as being that important – in fact very few countries, if any – would make this distinction in their SUT. The general expectation, and the pedagogical thing to do, would be to show aggregated product x industry tables. (With columns for example for Agriculture etc(0-1), Manuf. ind. etc. (2-5), and Services (5-11)). And to comment on the data in table 14.6 as is done in par. 14.90 could hardly be relevant.
- Par. 14.89. The latter part, starting with: There is absolutely..... should be deleted. Who are we talking to here?
- Par. 14.92. Why only *ten* main categories of expenditures? It could be any number and level of detail.
- Par. 14.103. Ships should be added
- Several par. of the text deals concentrates in the properties of square supply and use matrices (see our original comments) even though the general understanding should be that supply and use matrices are rectangular. Comments on the “diagonal” elements etc should be avoided.

## **2. Note on the CIF/FOB adjustment in Chapter 14: The supply and use tables and the goods and services account.**

Already the explanation of the nature of this adjustment in the 1993 SNA was difficult to understand, even though the text was elaborated in detail over half a page (15.68 and 15.69), and the supply table table (15.1) had as many as 6 footnotes relating to this subject. The experience is that most users had to use a long time to capture the idea, and next time they came to it, had to start all over again.

The much shorter text in the new Chapter 14, par. 14.65d has much less explanatory power, and will leave the reader even more confused.

The following need to be made clear:

- **In chapter 14 exports of services** are assumed not to include any fictional amount of services that are rendered by domestic producers to importers of goods. (Therefore the CIF/FOB adjustment in chapter 14 does not affect the export side).
- On the **import side** the CIF/FOB adjustment in chapter 14 takes place on *the assumption*, that the initially entered data in the supply table include a double counting, as some imports of services (which is only that share of the CIF/FOB difference which is supplied by foreign producers) is counted both in the CIF value of imports of goods and as separate imports of services.
- Therefore, prior to the “CIF/FOB adjustment” in chapter 14, the foreign trade data (goods and services) in the SUT does not give the correct BOP surplus on goods and services, as there is a double counting of some imports of services, and some purely domestic uses of services are counted as imports. In total the underestimation of the BOP surplus is equal to the CIF-FOB difference.
- The double counting of imports of services (let us assume it makes up 5 and 2 respectively of the 6 and 4 in the example) should of course be eliminated, which must be done by deducting these amounts (5 and 2) from imports of relevant services at the detailed product level. But this should in practice have been done already before the data are entered into the table. This omission was simply a mistake by the compiler, and should not be mixed up with the global CIF/FOB adjustment that we must carry out to obtain totals that are equal to those shown for foreign trade in goods and services in the aggregated accounts of the system.
- We are then left with the domestically supplied part of the CIF/FOB difference (which is 3 in this example). This domestic supply is included in the supply of CIF-valued imports of goods, and can logically only be imported if it has first been exported. (*This type of fictional exports must be what is discussed in the last part of par. 14.71*). This must also be put in place before the balancing of the supply-use tables can be carried out at the detailed product level.
- In *table 1* below it is shown how the adjustments from the **unbalanced** starting point in the example in chapter 14 can **first** be adjusted to a **balanced SUT-basis** (where imports of goods are still on a CIF basis). These entries *are not part of the CIF/FOB adjustment*, but just some data work that is needed to bring the detailed supply-use framework on a form, where it can be balanced.
- It should be noted that these entries that relate to *detailed services* have no counter entries as they are basically corrections of inconsistent data on exports and imports that have earlier been entered into the tables.
- The CIF/FOB adjustment proper takes place between the data on the balanced (correct surplus on goods and services) SUT basis and the BOP basis. It should be noted that this global adjustments exclusively belongs in a special adjustment **row** in the table, and that there are no vertical column reclassifications involved.
- What is confusing in chapter 14 (as well as in the 1993 SNA) is that the data entries of these in nature very different adjustments are mixed into one single process and called the CIF/FOB adjustment.
- In particular it is important to realise that the proper CIF/FOB adjustment is all contained in a single row. This is also clearly illustrated in the just published Eurostat IO Manual table 11.1 (to be found on the Eurostat web site). And further it is of course important to show to the readers that this adjustment is simple, logical and straightforward, and not – as it now appears - some extremely complicated set of entries in the table, that hardly anyone can understand. (Here I speak from a long experience in many countries).
- That the CIF/FOB adjustment is global also implies that it should never be distributed by product or use. The *import table 14.15* should therefore not contain any distribution in the row for CIF/FOB correction, and most likely no adjustment row at all.

- *Table 2* illustrates the way the entries have actually been made in the “CIF/FOB” adjustment in chapter 14. The difference from table 1 is that the domestically produced services (3) that forms part of the difference between the CIF and the FOB value of imported goods, has now been entered as a negative imports of services rather than as an exports of services. In bookkeeping terms this leads formally to the same result, but the interpretation is more complicated, as we now have a reduction in imports of services to make room for the use of total output of domestic services domestically. Thus, even though we know that some domestically produced services are already included in the imports CIF, the full amount is distributed to domestic uses.
- The way the entries are made in table 2 (reflecting the chapter 14 method) is also confusing in the way that the total CIF/FOB difference of 10 is easily associated with the sum of 7 and 3 now both entered on the imports side to arrive to the consistent IO-basis, although the background for these entries is quite different.
- Thus, even if there had been *no problem* of adjusting the totals of the foreign trade in goods and services in the SUT to the corresponding totals in the main accounts of the system (no such adjustment was needed according to the 1968 SNA), there would still have been a need to carry out the adjustment of the services elements to obtain a consistent SUT-basis with imports on a CIF valuation. It is therefore obvious that this adjustment is not the CIF/FOB adjustment, but just one of many data adjustments that the compiler must undertake before reconciling the detailed products balances.
- The CIF/FOB adjustment is just the row with the -10 and +10, although it would be preferable to have this row organised as the one in table 1, with also exports involved, as this approach makes clear in a logical way how the domestic output of services are disposed of.

### Consequences in chapter 14

Make a better explanation of what is going on.

Considering the tables as they now appear it may not be realistic to introduce the fictional exports solution (although here is still the question about what 14.71 really means)

On this background a suggested new version of the **table 14.4** is shown below. By adding for explanatory reasons two new columns for imports of services and a new row for Total, FOB-based, it is made very clear, what is just making data consistent (which would be needed anyway, even if no global CIF/FOB adjustment had been required in the system), and the CIF/FOB adjustment, which is just a simple row operation.

It is noted that in the suggested table total CIF based imports are obtained as the sum of data in columns 1 and 4, whereas the FOB-based imports are obtained as the sum of data in columns 1 and 2. This implies that in the measures of the total imports according to the alternative definitions the CIF/FOB adjustment items will not appear, as these total measures includes actual goods and services only.

In addition changes must be made to **table 14.11**, **table 14.12** and **table 14.15**:

#### Table 14.11.

The title of the table is not correct. It should be “Breakdown of **use of products for intermediate consumption** into the five elements.....” It is not obvious why the “total” column is on several elements not identical to the column “Total industry” in the use table part of table 14.12.

The columns for imports, trade and transport margins, and taxes on products can be found in tables 14.15 and 14.13 in identical form. The explanation of table 14.11 in par. 14.164 is not correct, as it indicates that the table covers total supply at purchasers prices and not only that part that is used for intermediate consumption.

#### Table 14.12.

It must be assumed that this table should be identical to table 15.1 in the 1993 SNA. But in the “Use of products” part the text to rows 12 and 13 is wrong. Row 12 should be “Direct purchases abroad by residents”, and row 13 should be “Direct purchases in domestic market by non-residents”. There should be no row for CIF/FOB adjustment on imports in the Use Table (as now erroneously indicated in row 12).

**Table 14.15.**

It must be assumed that this table should be identical to table 15.5 in the 1993 SNA.

Here are several problems (also with the old table 15.15):

The old table 15.15 indicates that intermediate consumption is by homogeneous units of production, but correctly it is industries, and this will also be the case in the new table 14.15

The old table 15.15 assumes that the import values to be distributed in the import matrix consist of the CIF-values of the detailed goods (in total **382**) and the imports of the detailed services on the FOB basis (in total **84**). This (in total 466) is, however - as is also obvious from the suggested new version of table 14.4 - too much, as total imports of goods and services (disregarding “direct purchases abroad by residents) is only 456.

The total supply of imports of goods and services that originates from the supply side after the “adjustment of services to SUT basis” is only **74**, and as the CIF/FOB adjustment plays no role whatsoever on the Use side, there is simply not 84 of services available.

In table 15.15 this **mistake** is “corrected” by introducing an out of the blue air coming “CIF/FOB adjustment” of the size -10 that makes no meaning at all in this context, as there can exist no such item on the use side. The way it is entered in the table is also completely devoid of any logic – except to make a deduction to arrive at a known total.

In table 14.15 the same mistake is inherited, but the way it is corrected is even fancier. It is obviously now realised that the “CIF/FOB” correction of -10 cannot stand alone, and it is therefore distributed to certain uses as negative imports, which actually implies that the total intermediate and final uses of imports of detailed goods and services – when this correction is also taken into accounts, becomes **456**, as it should. However, the problem is that this is not at all a CIF/FOB adjustment, but just the “adjustment of services to SUT-basis” item of the imports of product groups 5 and 6, which is already deducted at the supply side, and therefore cannot appear here on the use side. Instead the 62 and 17 items of imports of services should have been 56 and 13. Thus, if we want to make any sense out of the “CIF/FOB adjustment” row in the table it should be included in the rows 5 and 6 (and thus disappear as a separate item). It is also seen that the -10 in this sense belongs in the import of services column, and not in the imports of goods column.

However, if for some reason we may want to show global values for goods and services in the import matrix at the BOP level, it could be done by adding an additional row to the otherwise completed table with -10 for goods and +10 for services. But this would be something completely outside the design of the system.

In the description of table 14.15 in par. 14.163 it is not obvious why there is a reference to table 14.1.



**Table 1. Illustrating the two stages covered by the “CIF/FOB” adjustment in chapter 14**

		Supply		Use		BOP
		Imports		Exports		Surplus
		Goods	Services	Goods	Services	
<i>Chapter 14</i>	<i>Imports CIF</i>	<i>100</i>	<i>7</i>	<i>120</i>	<i>0</i>	<i>13</i>
SUT basis adjustment	Foreign prod.		-7			
	Domestic. prod				+3	
<b>SUT basis</b>		<b>100</b>	<b>0</b>	<b>120</b>	<b>3</b>	<b>23</b>
CIF/FOB adjustment	Foreign prod	-7	+7			
	Domestic prod	-3			-3	
<b>BOP basis</b>		<b>90</b>	<b>7</b>	<b>120</b>	<b>0</b>	<b>23</b>

**Table 2. What is actually going on in the adjustments now shown in chapter 14?**

		Supply		Use		BOP
		Imports		Exports		Surplus
		Goods	Services	Goods	Services	
<i>Chapter 14</i>	<i>Imports CIF</i>	<i>100</i>	<i>7</i>	<i>120</i>	<i>0</i>	<i>13</i>
SUT basis adjustment	Foreign prod.		-7			
	Domestic. prod		-3			
<b>SUT basis</b>		<b>100</b>	<b>-3</b>	<b>120</b>	<b>0</b>	<b>23</b>
CIF/FOB adjustment		-10	+10			
<b>BOP basis</b>		<b>90</b>	<b>7</b>	<b>120</b>	<b>0</b>	<b>23</b>

**Suggested new version of table 14.4 in chapter 14**

	Imports of goods	Imports of Services			Total imports
	CIF based <i>detailed</i> goods	FOB based <i>detailed</i> services (BOP data)	Adjustment of services to SUT basis	CIF based <i>detailed</i> services (SUT basis)	
	1	2	3	4	5
1 Agriculture	37				
2 Etc.	61				
3	284				
4					
5		62	-6	56	
6		17	-4	13	
7					
8		5		5	
9					
10					
11					
Total, CIF-based	<b>382</b>	84	-10	<b>74</b>	(1+4) <b>456</b>
<b>CIF/FOB adjustment</b>	<b>-10</b>			<b>+10</b>	
Total, FOB-based	<b>372</b>	<b>84</b>		84	(1+2) <b>456</b>
Purchases abroad by residents	20	23		23	
Total	392	107		107	