

**Comments on draft SNA chapter:
Chapter 6: The production account**

**Deadline for comments: 15 April 2007
Send comments to: sna@un.org**

| | |
|-------------------------------|--|
| Your name: | Gallo Gueye |
| Your country/organization: | Eurostat |
| Contact (e.g. email address): | gallo.gueye@ec.europa.eu |
| Submission date: | 12 March 2007 |

This three-part template allows you to record your comments on draft chapter 6 easily and, at the same time, makes it easy for us to use your comments in considering revisions to the draft chapter. You may complete any one, any two, or all of the three parts of the template.

Save this template and send it as an attachment to the following e-mail address:
sna@un.org

Part I: General comments

In the space below, please provide any general comments, such as about the clarity with which the new recommendations were incorporated (30 words or less).

Comment:

| |
|---|
| <p>6.2 & 6.7 The sentence immediately following the definition in 6.2 ("the production account shows the output of production and the various inputs to it") should be amended. In effect, is not consistent, if inputs are those mentioned in the definition of 6.2, with the last but one sentence of para 6.7: "the inputs recorded under uses ... consist of intermediate consumption and consumption of fixed capital".</p> <p>6.22 The introduction of the <u>new category of products</u> called "knowledge-capturing products" (see 6.22, but in 6.24 and 6.27 they are called "knowledge-embodiment services") should be discussed in depth (see some detailed comments under comments to section B). In addition, it may be better to use the same terminology. Typo in second sentence of 6.22. Should read "The industries that produce <u>these</u> products..."</p> <p>In general, the agreement reached on issue 16 at February-March 2007 UNSC for this SNA update should be reflected in the relevant parts of this chapter.</p> |
|---|

Part II: Comments on specific draft paragraphs or passages

In your review of draft chapter 6, you may wish to devote particular attention to the passages listed below. There is space after each issue for any comment you wish to make.

1. In section B, the text extends the definition of services to cover margin services explicitly. Is this a useful extension? This section also is more precise about products capturing knowledge, some of which have many of the characteristics of goods. Is this precision useful?

Comment:

6.16-6.21 Concerning the distinction between "transformation services" and "margin services", the terminology chosen may not be effective in some cases. In particular, "transformation" refers to a characteristic of the service itself, namely that it "consists of changes in the conditions of the consuming unit..."; while the term "margin" seems to refer to a category of services "facilitating the change of ownership".

We would suggest replacing "*margin services*" with "*exchange facilitating services*".

6.22 Concerning the introduction of the new category "knowledge-capturing products" (KCP) we have the following comments:

- 1) Paragraph 6.11 says that "it is often necessary to understand which products have been treated as goods and which as services". However, afterwards, KCP appear as a hybrid category that possesses some characteristics of goods and some of services. In para 6.13 and 6.22 KCP seem to be treated as a sub-category of services having many of the characteristics of goods, in particular the possibility of establishing ownership rights and storability. But if this is the proposal of the editor, this should be spelled out more clearly.

Furthermore, one could make the same reasoning to say that KCP could be treated as a subcategory of goods with some of the characteristics of services¹. We don't have a definite preference on this at this moment, but the alternative subdivision proposed by Hill should also be considered in the discussion.

- 2) The creation of third category (goods, services, KCP - which seems suggested by the subdivision of the sections from 6.14 to 6.22) would be a too far reaching change, in that all references to "goods and services" in the SNA should refer also to KCP.

- 3) From a procedural point of view, it may be questionable if this issue was ever discussed under the AEG issues and if it can be introduced at this stage.

6.24: see comment on 6.2 on the general definition of production activity. 6.24 could be used to clarify some of the interpretative questions mentioned in our comment to 6.2.

6.24 and 6.27 refer to "knowledge-embodied services" rather than to "knowledge-capturing products".

6.29 the meaning of point (c) is not clear.

¹ See in particular the article by P Hill *Tangible, intangible and services: a new taxonomy for the classification of the output*, Canadian Journal of Economics, vol. 32, No. 2, 1999, in which the equivalent of KCP are called intangible goods and classified under goods. According to Hill, they share most of the economic characteristics of goods and association with services is criticized.

2. Section D now discusses GDP as derived from the production account only. The expenditure based estimate and the relationship between this, the income based estimate of GDP and the production based measure are now discussed in chapter 14 after the components of the other estimates have been discussed in the accounts where they occur. Do you agree to this placement of the material on the alternative estimates of GDP?

Comment:

Yes.

However, we have following comments on section D

SNA93 6.223 and 6.224 have been deleted. Yet we consider that some of their content should be kept. Notably, the definition of value added as an unduplicated measure of output (production) in 6.223, and the entire 6.224.

In contrast, new para 6.66 defines value added first as "contribution of labour and capital to the production process", and then as "compensation" of "labour and capital". These two concepts are mixed together in the same paragraph. The first sentence does not seem necessary.

6.66 Delete the word "formation" in the third sentence of paragraph.

3. The AEG recommended that goods sent abroad for processing should be recorded without imputing a change of ownership when no change actually happened. They further recommended that the same principle should be adopted for processing of goods by another resident unit. Does the text in section E reflect this recommendation adequately?

Comment:

6.81-6.85 The new formulation culminating in 6.85 should better clarify the concept of economic ownership. The inclusion of "own intermediate consumption...in clearly specified circumstances" may result in different interpretations according to compilers, possibly leading to a lack of comparability. It is not clear if the advantages balance this risk. This is developed in 6.115 - 6.118, but the treatment is not particularly clear.

6.89 should include the same wording as in paragraph 6.120, and, in particular list the same costs (a to f), because the term value of capital services is less clear.

4. Section E introduces the recommended change in terminology for kinds of production. Market production covers production for sale (short-hand term that includes other deliveries also) and for own use; non-market production relates only to production by general government and NPISHs. Is the resulting text sufficiently clear?

Comment:

6.111. Third sentence: delete consumption of fixed capital.

6.113 Title should be "own *gross fixed* capital formation".

6.116 This paragraph is particularly unclear.

6.125: There is no need to change the current wording of paragraph 6.91 of SNA 93

5. The output of the central bank is described in a stand-alone subsection of section F. Is the resulting text sufficiently clear on the proposals for compiling and allocating monetary policy services and financial intermediation services provided by the central bank?

Comment:

The question of the Central Bank has been in depth analyzed at the European level. It was considered that financial intermediation services produced by the Central Bank could not be measured using the reference rate method. The treatment is defined by an EU Regulation.

According to that Regulation, the output of the Central Bank is measured by the sum of costs. The part of that output not explicitly invoiced is considered as intermediate consumption of the banking sector.

6. In section F, new text has been provided for the financial services. Is this text accurate and clear? This part of the text has been extended to include margins as well as FISIM and insurance charges. Are there any comments on this extension? (Further material will be added when chapter 17 is posted).

Comment:

For FISIM, the annex of SNA93 is no longer referred to. This annex should be maintained as it is useful for those countries that have not yet implemented the allocation of FISIM to users.

7. Section G has a brief discussion of leasing, leaving the main discussion for chapter 17 on cross-cutting issues. Is the discussion here adequate in the context of chapter 6?

Comment:

Yes

8. The discussion of consumption of fixed capital, in section H, is reduced from that in the 1993 SNA. The previous recommendations have been superseded; fuller discussion will appear in chapter 19 on capital services. Is the discussion in chapter 6 adequate in this content?

Comment:

Part III. Other specific comments

You are welcome to make other comments. Please do so by using Adobe Acrobat Version 6 or 7 to comments directly on the PDF of the draft chapter.

If you don't have Adobe Acrobat Version 6 or 7 and would like to make very detailed comments please send a message to sna@un.org requesting to receive a version of the draft chapter permitting you to comment. To optimize your commenting tools please download Adobe Reader 7.0 for free from <http://www.adobe.com/products/acrobat/readstep2.html>