

TFSITS (06) 4

Balance of Payments Classification of Services

Update on Progress and a Look at the Remaining Issues

Draft Note by OECD Statistics Directorate

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Introduction

1. This paper updates BOP-05/14A on progress in developing a Balance of Payments Services Classification (BOPS) for the revised BPM5. It considers developments up to and including the IMF Balance of Payments Committee (BOPCOM) 2005, the SNA Advisory Expert Group (AEG) Summer 2005, and the September 2005 meeting of the Interagency Task Force on Statistics of International Trade in Services (TFSITS), and identifies the remaining unresolved issues.

2. The starting point for the paper was Chapter 9 of the Annotated Outline for the Revision of the Balance of Payments Manual, Fifth Edition in April 2004 (AO). The table 1 derived from AO table 9.1 shows separate balances for each of goods and services. The goods balance would differ from the one shown in international merchandise trade statistics, but the balance of payments goods balance is more comprehensive and involves a consistent f.o.b. valuation basis for both exports and imports.

3. The AO raised the question (paragraph 9.6) of whether separate balances for goods and services are supported. Behind this question may be the concern that it is difficult to divide products into goods and services. The two concepts, as defined in SNA 1993¹, are neither unambiguously mutually exclusive nor exhaustive of the universe of products in the SNA production boundary. Those who wish to divide products into goods and services may come to different conclusions depending on their purpose. A single product may have aspects of both goods and services. A wholesaler produces a service and charges for the service as a margin in the price of the goods he sells. In such a case national accountants may focus on the production of the service (in the production account), while if the wholesaler's sale enters the balance of payments, the focus will normally be on trade in goods. The interest to split products into goods and services appears greater amongst trade analysts than among national accountants, partly because of different tax and access treatment under GATT and GATS. Even though the borderline between goods and services is blurred and often controversial, it is agreed that standard aggregations for trade in goods and trade in services would be of analytical interest.

4. The October 2004 BOPCOM agreed that (i) *goods for repair* should be changed from goods to services; (ii) additional detail on *travel* be included on a supplementary basis; (iii) *communication and computing and information services* be combined, provided that *postal and courier services* be classified separately; (iv) *construction services* be shown with an additional split, to identify construction services abroad separately from construction services in the compiling economy; (v) the treatment of *financial services* be harmonized, in line with developments at the SNA AEG, to the extent possible; (vi) international passenger transport services should remain in *transportation services*; and (vii) a residual category for transactions between related entities **not** be included in BOPS classification.

¹ See 1993 SNA paragraphs 6.7 to 6.13

Table 1 Overview of Goods and Services Account in AO
(Based on AO table 9.1)

	Exports CR.	Imports DR.
Goods		
General merchandise on a BOP basis of which re-exports		
Nonmonetary gold?		
Merchanting ?(*net or gross - depends on SNA/BPM decisions*)		
Total goods		
Balance on trade in goods		
Services		
Processing of goods (now a net concept in SNA - in services or goods?)		
Repairs on goods		
Transport		
Travel		
Telecommunications, computer and information services		
Construction services		
Insurance services		
Financial services		
Franchise fees and payments for the use of proprietary Rights (*depends on outcomes from SNA AEG and Canberra II*)		
Other business services		
Personal, cultural, and recreational		
Government services, n.i.e.		
Total services		
Balance on trade in services		
Total goods and services		
Balance on goods and services		

BOPCOM and SNA AEG 2005

5. BOPCOM was divided about the preferred treatment of goods for processing, but SNA AEG decided to opt for a consistently net treatment of “goods for processing”². Should this now be categorised as trade in goods or a trade in services? This may be linked to other on-site processing of goods treated as a service currently and classified in “agricultural, mining, and other on-site processing services”

6. Should merchanting services be recorded gross or net and categorised as trade in goods or trade in services? BOPCOM failed to come to a conclusion and set up a working group to make recommendations to the SNA AEG meeting in February 2006.

² See also TFSITS (06) 7 Goods for processing: Letter from Chair of OECD International Trade Statistics Group

Regarding the draft BOPS classification

7. BOPCOM members agreed with the proposed classification emanating from TFSITS February 2005 i.e. to include post and courier services with transport and combine telecommunications with computer and information services.

8. “Insurance”, measured according to a revised SNA definition, would be split in BOPS into “direct insurance” and “reinsurance” as optional sub-items.

9. Regarding *financial services*, a split between explicitly charged financial services and implicitly charged financial services (which may not necessarily be identical to FISIM) was provisionally agreed. But before that the final decisions from the SNA AEG regarding that item are awaited. It was acknowledged that some difficulties for calculating FISIM were expected by countries, together with difficulty to do a geographical breakdown.

10. BOPCOM also agreed the timetable that would finalise BOPS in 2006, which was seen to be reasonable in the context of the ongoing work in other fora. It was noted that most of the issues raised in the BOPS paper, **(BOPCOM-05/14A)** for example the nature of technology and audiovisual services, are to be resolved for the whole economic statistics framework. Some of these issues will need to be taken into account in revising CPC, HS2007, SITC and other classifications.

On proposals from the TSA IACG TSG in BOPCOM-05/16

Definition of BOP Travel item

11. The BOP Committee decided to retain the present title of the travel item and endorsed the proposed clarifications with regard to the definition and scope of the item. Some minor wording amendments were suggested and will be introduced in drafting of the Manual (e.g., to clarify that goods acquired to give away and prepaid items consumed during travel were within the scope of the item). The Committee agreed to introduce a supplementary presentation on tourism in the *BPM6* that presents data on tourism by combining the travel and passenger transportation items, but considered that the proposed appendix on tourism statistics, which would present the concept of consumption related to tourism, was beyond the scope of the *BPM6*.

Net valuation of the activity of travel agencies and tour operators services

12. The Committee agreed to treat the services of travel agencies and tour operators working on margin similarly to the services of those working on commission, but not to identify these services separately in travel. While there was some support on conceptual grounds to record the services of travel agencies/tour operators that are residents of a third country in other trade-related services, there was a marginal preference, based on practical considerations, to classify these services under the travel item.

Treatment of military personnel and civil servants (including diplomats) employed abroad in the government enclaves

13. The Committee agreed to include expenditure by military personnel and civil servants employed in government enclaves abroad under the relevant services category, or failing specific identification, to government services n.i.e., as now, rather than in *travel*.

Business/personal breakdown of travel item

14. The Committee agreed to retain the current BOP split of the travel item into business and personal travel. While agreeing with the potential analytical use of the additional breakdown of the business component (i.e., employed by home economy; employed by host economy; self-employed in the host

economy), Committee members had serious reservations about the costs and practicalities, and suggested that, if introduced, it should be supplementary information.

CPC Revision

15. CPC revision: The UN Technical Sub-group on Classifications (TSG) issued in June 2005 a first draft of a revised CPC (version 2.0). This was out for worldwide consultation until the autumn 2005. There is no fundamental change in the CPC structure and the revised CPC is planned to be finalized in February 2006. Changes to HS 2007 and developments in ICT and information products are important drivers of change to CPC. The aim was to seek to strengthen where possible and to improve the links between BOPS and CPC.

16. Notable CPC developments are a restructuring of transport services by “passenger, freight and other”. New classes of international air passenger transport and domestic air passenger transport are introduced. The online delivery of products are elaborated and grouped alongside telecommunication services.

Classification discussions at the TFSITS September 2005

17. Goods for processing: The TF agreed that Processing of goods (including minor processing now classified as services) should replace ‘Goods for processing’ in the classification. Agricultural and mining services, that did not involve processing would remain in other business services.

18. Regarding treatment of financial services, licenses, originals and copies, it would be necessary to await the decisions and guidance of the SNA AEG.

19. Post and courier services: It was decided to keep the current proposal in the main presentation and to take ILO’s suggestion for the alternative presentation where post and courier would be included with other transport.

20. The question was put on whether the insurance breakdown as well as the financial services breakdown would be supplementary items in BPM6. This would be investigated. Other business services may lose the item Merchanting, depending on the AEG and BOPCOM decision; this category would then start with Trade-related Services. Borderline issues between telecommunications and audiovisual items should be elaborated.

21. The alternative breakdown for **Travel** was discussed. It was noted that the primary breakdown was agreed but an elaboration of business visitors was presented in the IMF travel document. The IMF representative said that ‘historically’ a supplementary presentation for tourism had been the primary intention. ‘Supplementary’ meaning that it would not be standard in BPM6. There had been an initiative to break up service of travel agency separately but the BOPCOM had rejected the idea. On the breakdown of the business travel item, it was suggested that the following 3 items would appear:

- i). Non-resident employees undertaking a productive activity for an enterprise that is not resident in the economy in which it takes place. Their productive activity does not contribute to the GDP of the country visited, but of the GDP of the home country.
- ii). Non-resident employees undertaking a productive activity directly for an enterprise that is resident in the economy in which it takes place (offering labour and receiving compensation of employees; the productive activity contributes to the GDP of the country in which it takes place)
- iii). Self-Employed individuals undertaking a productive activity (offering products, the productive activity contributes to the GDP of the home country.

22. It was noted that BOPCOM was concerned regarding the cost and practicality of this extra breakdown and observed that this could only be considered as supplementary information.
23. The Chair noted other issues in the classification paper including the possibility of a 'grey area' (where products are classified neither as good nor as services) and the need for a tightening of the definition of government services. The proposal for a 'grey area' was not supported.
24. The WTO/OMT would provide a short text with a matrix by product for the supplementary travel presentation, and by purpose of visit.
25. The OECD Secretariat would revise the classification paper by end 2005 in the light of the TF discussion and inputs.

Unresolved issues

26. There is a general question of the classification of trade in a variety of digital or information products, for which copies can be traded in physical form, sold as on-line delivered products, broadcast, licenses to reproduce and originals? These may include film, TV programmes, videos, video games, books, music, software.
27. Goods v services – There are grey area products which sit uneasily in both categories. What about goods which are not in HS and not in BOPS classification? For example standard software sold and delivered on-line might be classified as a good, but if so where, as it is not covered in merchandise trade.
28. How to treat trade in produced assets that are not classified as goods in HS? For example software originals, and presumably patents resulting from R&D if SNA is changed, would be regarded as produced assets. If tangible produced assets (ships, aircraft) are traded they are counted in trade in goods. Less tangible produced assets can be traded, how should they be treated in trade statistics? The analytical interest is high. Software is a single commodity, of special interest to national accounts, but is classified in many places and not separately identified.
29. Franchise fees and payments for the use of similar rights? There is a question of name and coverage. The borderline with income needs to be elaborated. The definition of "rent" (AO 10.28) may affect the coverage of services.
30. The implications for balance of payments trade statistics of SNA AEG decisions on the treatment of originals and copies and extended licenses to reproduce is not yet clear. Will software license fees for reproduction be included and if not where will they go?
31. Questions on the alternative classification of travel raised by the Technical Sub-Group of the Interagency Coordination Group on Tourism Statistics (TSG), and a possible matrix with type of traveller.s (raised by World Tourism Organization). Even where these have been rejected in the context of BPM6, should these be carried forward to the update of MSITS?
32. Does DITEG work on construction services have any implications for measurement of construction services?
33. Government services n.i.e.: Is it appropriate to leave this item to be a residual? It is not a group of products. At the least the definition should be more clearly and, if possible, more narrowly described in the revised BPM5.
34. The treatment of merchanting depends mainly on decisions taken at the February 2006 AEG. If merchanting is to be treated gross or net as goods and removed from services there may be a case for reviewing the order of the breakdown of other business services in BOPS.

Proposed next steps timing and process

- i. An exercise to examine links between BOPS/EBOPS and CPC is planned. Although CPC is now finalized, this may influence some aspects of the revision of EBOPS.
- ii. Final draft BOPS proposals should go to BOPCOM by May 2006.

Annex 1

Table A1 Draft Proposed Revised BOP Services Classification
(Based on AO Table 9.3)

Proposed Revised BOP Services Classification	BPM5 Services Classification
1. <i>Processing of goods (now a net concept in SNA – include in services or goods or between?)</i>	(included in goods)
2. Repairs on goods	(included in goods)
3. Transport	1. Transportation
<i>of which:</i>	
<i>Passenger+</i>	
<i>Freight+</i>	
<i>Other+ (including post and courier)</i>	
3.1 Sea transport	1.1 Sea transport
3.1.1 Passenger	1.1.1 Passenger
3.1.2 Freight	1.1.2 Freight
3.1.3 Other	1.1.3 Other
3.2 Air transport	1.2 Air transport
3.2.1 Passenger	1.2.1 Passenger
3.2.2 Freight	1.2.2 Freight
3.2.3 Other	1.2.3 Other
3.3 Other modes of transport	1.3 Other transport
3.3.1 Passenger	1.3.1 Passenger
3.3.2 Freight	1.3.2 Freight
3.3.3 Other	1.3.3 Other
3.4 Post and Courier Services	
4. Travel	2. Travel
4.1 Business	2.1 Business
4.1.1 Expenditure by seasonal and border workers+	
4.1.2 Other+	
4.2 Personal	2.2 Personal
4.2.1 Health-related+	2.2.1 Health-related*
4.2.2 Education-related+	2.2.2 Education-related*
4.2.3 Other+	2.2.3 Other*
5. Telecommunications, computer and information Services	3. Communications services
5.1 Telecommunications services	7. Computer and Information Services
5.2 Computer services	
5.3 Information services	
6. Construction services	4. Construction services
6.1 Construction abroad	
6.2 Construction in the compiling economy	
7. Insurance services (new definition)	5. Insurance services
7.1 Insurance +?	Gross premiums **
7.2 Reinsurance +?	Gross claims **
8. Financial services (to include FISIM)	6. Financial services

8.1 <i>Explicitly charged financial services +?</i>	
8.2 <i>FISIM +?</i>	
9. <i>Franchise fees and payments for the use of similar rights? (* name and contents depend on outcomes from SNA AEG *)</i>	8. Royalties and license fees
10. Other business services	9. Other business services
10.1 (<i>Merchanting and other</i>) trade-related services?	9.1 Merchanting and other trade-related services
10.2 Operational leasing services	9.2 Operational leasing services
10.3 Miscellaneous business, professional, and technical services	9.3 Miscellaneous business, professional, and technical services
10.3.1 Legal, accounting, management consulting, and public relations+	Legal, accounting, management consulting, and public relations*
10.3.2 Advertising, market research, and public opinion polling+	Advertising, market research, and public opinion polling*
10.3.3 Research and development+	Research and development*
10.3.4 Architectural, engineering and other technical services+?	Architectural, engineering and other technical services*
10.3.5 Agricultural, mining and on-site processing services+ ?	Agricultural, mining and on-site processing services*
10.3.6 Other business services+	Other*
11. Personal, cultural, and recreational services	10. Personal, cultural, and recreational services
11.1 Audiovisual and related services ?	10.1 Audiovisual and related services
11.2 Other personal, cultural and recreational services	10.2 Other personal, cultural and recreational services
11.2.1 Health services+	
11.2.2 Education services+	
11.2.3 Other+	
12. Government services, n.i.e.	11. Government services, n.i.e.
<u>Alternative breakdown for travel (*as in AO*)(also see matrix below)</u>	
Expenditure on goods+	
Expenditure on transport services+ (* Is this name sufficiently clear? cf item 2 of main classification*)	
Expenditure on accommodation services+	
Expenditure on food and beverage serving services +	
Other services +	

Note: + indicates supplementary information

Note: * indicates supplementary information

** indicates memorandum items

Annex 2

Draft travel expenditure/type of traveller matrix which could be of interest regarding net remittances, tourism and mode 4.

Possible data source for balance of payments travel/tourism/net remittances/migration frontier surveys in which this could be a model question:

Q 1 Reason for travel

Q2 Length of stay

Q3 Expenditure by type of traveller

	Business travellers			Other travellers	
Travel Expenditure	Employed in host economy	Employed in home economy	Self-employed in home economy	Students	Others
Goods					
Accommodation					
Food and beverage serving services					
Other services					