

## V. Measuring modes of supply

### A. Introduction

In-depth discussion on how to measure trade in services by mode of supply presents links between statistical frameworks and modes of supply using clear-cut examples as well as borderline cases to show that modes of supply are asymmetrical.

5.1. This chapter addresses the GATS modes of supply and explores their relationship for creating a framework on statistics of trade in services by modes of supply. Particular attention is given to the supply of services through the presence of natural persons.

### B. The GATS four modes of supply

#### 1. What are modes of supply: the GATS framework

5.2. The GATS coverage of trade in services distinguishes four different transactions or modes of supply. As mentioned in Chapter xx, in GATS **Mode 1**, *cross-border supply*, takes place when the supplier remains in one territory while the service crosses national borders, the consumer being located in a different country. The delivery of the service can be effected, for example, by telephone, fax, Internet or other computer mediated links, television or the sending of documents, disks, tapes, etc. by mail or courier. It is similar to the traditional notion of trade in goods, where both the consumer and the supplier remain in their respective territory when the product is delivered. Indeed, freight transport services, which support trade in goods, are themselves examples of cross-border supply of services. Correspondence courses and tele-diagnosis are other examples.

5.3. **Mode 2**, *consumption abroad*, occurs when a consumer is outside his or her home territory and consumes services in another country. Tourist activities such as visits to museums and theatres are typical examples of consumption abroad. Medical treatment of non-resident persons and language courses taken abroad are other examples of consumption abroad. Activities such as ship repair abroad, where only the property of the consumer moves or is situated abroad, are also covered.

#### [Local consumption of services by foreign affiliates in the host country?]

5.4. **Mode 3**, *commercial presence*, recognizes that it is often necessary for services suppliers to establish a commercial presence abroad as a way to ensure a close contact with the consumer in his or her home territory at the various stages of production and delivery, as well as after delivery. Commercial presence in a market abroad covers not only juridical persons in the strict legal sense, but also legal entities that share some of the same characteristics, such as representative offices and branches. Medical services provided by a foreign-owned hospital, courses in a foreign-owned school, and services supplied by a domestic branch or subsidiary of a foreign bank are examples of supplies through commercial presence.

#### [Should a box regarding the GATS definition of Mode 3 be included here – e.g. control defined by GATS?]

5.5. **Mode 4**, *presence of natural persons*, occurs when an individual has moved *temporarily* into the territory of the consumer to provide a service. Natural persons can be essentially (i) contractual services suppliers, whether employees or self-employed; (ii) intra-corporate transferees, or (iii) service sellers / persons responsible for setting up commercial presence, at all skill levels.

[Shouldn't the definition of Mode 4, temporary, etc, be included here rather than later in the chapter? A box could include the legal wording, while just the description be included in the main text.]

5.6. For example, within the context of a services contract, computer services delivered to the consumer either by an employee of a foreign computer company or by an independent computer consultant would fall under mode 4. Other examples for instance include a hospital doctor who is transferred temporarily to work abroad in the branch of his employer (intra-corporate transferee). [More examples?]

### *Intermodal linkages*

#### *Services can be delivered through various modes*

5.7. While GATS identifies different modes of supply, a one-to-one allocation of international services transactions to these modes is often impossible as it may involve multiple modes. For example, a service could be provided cross-border via the Internet (Mode 1), or, alternatively, by an affiliate established abroad (Mode 3) or eventually through an independent, temporarily moving consultant (Mode 4).

5.8. For example, a law firm could assist a foreign client by offering consultancy online (Mode 1), or it may request its client to travel for an appointment to the firm's headquarters (Mode 2). Alternatively, the firm may decide to open a partnership abroad (Mode 3), or may temporarily send a lawyer abroad (Mode 4).

#### *A single service delivery and/or transaction can involve several modes*

5.9. A single service delivery might involve several modes. For example, an architect designs a construction project and delivers it to its client through the Internet, but makes occasional visits to the country of the consumer at the implementation phase. Hence, the final delivery of the service involves a mode 1 and mode 4 component. [More examples?]

### *Complementarities of modes*

5.10. Occasionally, for delivering a service another service input is required. For example, to deliver computer services through Internet, adequate telecommunication facilities are needed. Similarly, the delivery of a service through a particular mode may be supplemented by other delivery modes. For example, direct contacts with a client might be needed for a lawyer to acquire credibility and establish a permanent business link which may then eventually lead to advisory work provided online (Mode 1) or attract new clients travelling abroad to consult that lawyer (mode 2). A direct relationship with a client abroad may provide the incentive for a subsequent setting up of an affiliate (Mode 3).

5.11. Moreover, the establishment of an affiliate in a foreign country, such as a branch of a bank, hospital, or of a foreign school (Mode 3) may be complemented by the temporary transfer of specialized personnel from the parent company such as managers or technicians to standardize management or spread know-how. Or, a company, for example, may sign a construction contract with a client abroad involving the establishment of a temporary commercial presence (mode 3) and the transfer of workers (Mode 4), including unskilled workers.

5.12. On the other hand, barriers may exist for a particular mode of supplying services. For example, complex or expensive visa procedures for a mode 4 service delivery may be circumvented through establishing a commercial presence. A typical example is the provision of computer services where off-shoring has progressively substituted a mode 4 delivery. As a matter of fact, improved technology has facilitated the setting up of databases or Internet-enabled web services. However, it is clear that, from a statistical point of view, the use of a particular mode rather than another does affect its value. [Do we need this paragraph?]

### *Determining the relevant mode*

5.13. The modes of supply are essentially defined on the basis of the origin of the service supplier and consumer, and the degree and type of territorial presence which they have at the moment the service is delivered. In certain cases, it may be difficult to determine which individual mode was involved in the delivery of a particular service. This ambiguity is noticeable between modes 1 and 2 where the supplier is not present within the territory of the member. The distinction between mode 1 and mode 2, therefore, hinges upon whether the service is delivered within the territory of the WTO Member from the territory of another member or whether the service is delivered outside the territory of the member.<sup>17</sup>

5.14. The ambiguity is due to the fact that the delivery of certain services, such as financial or insurance services, very often does not require the physical presence of the consumer. Electronic means associated with the globalization of financial markets has made it possible to "deliver" a financial service almost anywhere in the world. Once the physical presence of the consumer ceases to be a benchmark for determining the place of delivery of a service, it becomes extremely difficult to determine in an unambiguous manner where a service is delivered.

5.15. Box xx illustrates some of the situations in which determining the relevant mode, and subsequently its measurement, may be a concern. *(These examples can be taken up again in the part on the measurement to show solutions, see document S/L/92 Attachment 2).*

#### **Box xx: Which is the relevant mode?**

##### **Financial services**

*(i) Deposits: A consumer opens a bank account in a foreign country.*

If the consumer traveled abroad to open the account, this may be mode 2 supply, while the absence of travel (opening of the account through mail order and bank transfer, or through electronic means) may imply mode 1. However, the services directly associated with this account (payment of interest, debiting and crediting of payments and transfers, offsetting of balances, etc.) can be delivered either abroad or in the consumer's home country at the request of the consumer.

*(ii) Loan: A loan is made from a foreign bank established abroad to a consumer of a member.*

The loan can be delivered either within or outside the territory of the consumer's home country.

##### **Insurance services**

*(Property contract) A consumer concludes a property insurance contract with an insurer established abroad.*

It can be argued that if the insured property is abroad, the service is also delivered abroad, since the protection provided by the insurance contract is "delivered" with respect to the property; therefore this belongs to mode 2. However, it can equally be argued that the insurance provides protection to the consumer in his or her home country, as the premiums are paid by the consumer, and in the event of an accident, the indemnity will be paid to the consumer in the home country; therefore this would come under mode 1.

<sup>17</sup> In making this distinction between modes 1 and 2, one should focus on the delivery of the service itself, and not confuse this with the underlying flows of capital or the act of ordering or requesting the supply of a service.

5.16. The existence of inter-modal linkages and the difficulties to allocate services transaction unambiguously to relevant modes make the task of estimating statistical values of trade in services by modes of supply particularly challenging, especially for the case of Mode 4.

## 2. GATS mode 4

Introduction to mode 4, coverage, distinction between mode 4 and temporary labour mobility and focus of the section on mode 4.

**[Need to clarify on mode 4 coverage: actual (i.e., what is already there/happening) and potential (what is foreseen, what could still be included?), how these categories fall within categories defined in the statistical framework)]**

5.17. GATS Article I 2. (d) defines mode 4 as the supply of a service by “... a service supplier of one Member, through presence of natural persons of a Member in the territory of any other Member”. According to the GATS, a natural person is generally a national of a WTO Member country and, when specifically indicated, even a permanent resident.<sup>18</sup> The purpose of stay in the territory of the member is to supply a service.

5.18. The use of the term “presence” of natural persons refers to a non-permanent presence, thus a temporary stay, as the GATS Annex on the Movement of Natural Persons supplying Services under the Agreement specifies that the GATS does not apply “to measures affecting natural persons seeking access to the employment market” nor does it apply “to measures regarding citizenship, residence or employment on a permanent basis”.<sup>19</sup> However, the Annex clarifies that regardless of their obligations under the Agreement, WTO Members may regulate the entry of natural persons and their temporary stay in their territory provided that such measures are not applied in such a manner as to nullify or impair the benefits accruing to any member under the terms of a specific commitment.

5.19. If the country of the service supplier is defined as member B, and member A as the country of the service consumer, GATS Mode 4 covers the following categories of natural persons:

- *Contractual service suppliers - self-employed*: a self-employed of member B enters member A in the context of a service contract with a service consumer in A. For example, computer services delivered to foreign consumers by an independent computer consultant.
- *Contractual service suppliers as employees* of a juridical person: employees of the service supplier in member B are sent to member A in order to supply a service in the context of a contract between their employer and a service consumer in A. For example, telecommunication services supplied by an employee of a foreign IT services firm to consumers in another country;

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<sup>18</sup> A natural person can be presented by opposition to a juridical person: according to GATS a juridical person refers to any legal entity which is engaged in substantive business operations. According to GATS Article XXVIII(k) for example, if the member concerned does not have nationals or, subject to additional qualifications in its acceptance to the GATS, accords substantially the same treatment to permanent residents as to nationals in respect of measures affecting trade in services.

<sup>19</sup> The Annex also clarifies that regardless of their obligations under the Agreement, members may regulate the entry of natural persons and their temporary stay in their territory provided that such measures are not applied in such a manner as to nullify or impair the benefits accruing to any member under the terms of a specific commitment.

- *Intra-corporate transferee*: the service supplier of member B has commercial presence in member A and sends its employee to its affiliate in member A. The supply of the service is linked to mode 3. For example, a surgeon who is transferred temporarily to work in a branch of his employing hospital in a country abroad (intra-corporate transferee). The mode 4 commitment guarantees the right of the person to be present in member A in order for the service supplier of B to supply a service through its affiliate located in A.<sup>20</sup>
- *Services sellers / persons responsible for setting up commercial presence*<sup>21</sup>: these persons enter member A in the context of the negotiation for a service contract or for setting up the establishment of an affiliate in member A. There is initially no actual service supply for this category of persons. Their movement in order to conduct negotiations is guaranteed by commitments under mode 4.

5.20. Table 1 summarizes the coverage of GATS mode 4, what is excluded

**Table 1: Summary of GATS mode 4 coverage**

	<b>Included</b>	<b>Excluded</b>
<b>Duration of stay</b>	Temporary presence (temporary undefined)	Permanent migration (GATS does not apply to measures affecting residence, citizenship or employment on a permanent basis)
<b>Purpose of stay</b>	Presence of natural persons for the supply of commercial services	Persons seeking to access the employment market  Presence of natural persons for the supply of goods (e.g., agricultural products, manufactures)  Services supplied under governmental authority
<b>Skill level</b>	All skill levels included	
<b>Main categories of natural persons</b>	Self-employed service suppliers ( <i>Contractual services suppliers – self-employed</i> )  Employees of service suppliers sent abroad to supply a service ( <i>Contractual services suppliers – employees</i> )  Employees of foreign service suppliers established in the host country (linked to mode 3) ( <i>Intra-corporate transferees</i> )  <i>Services sellers / persons responsible for setting up commercial presence</i>	Employees of host country–locally-owned juridical persons

5.21. The GATS Annex provides for the possibility that commitments, and therefore access conditions, be scheduled by categories of natural persons. Members' commitments in Mode 4 have been undertaken largely on the basis of the categories identified above. However, a number of WTO Members refer to separate categories such as installers and

<sup>20</sup> Note that the mode 4 presence is not always necessary to supply a service via mode 3. This is just a possibility. Many services will be delivered by foreign affiliates without a mode 4 component involved.

<sup>21</sup> Trade negotiators often refer to this category as "business visitors". Business visitors as defined in a GATS context are not the same as business visitors or travellers as defined in international statistical frameworks such as BPM5, SNA93, etc.

servicers, artists, sportspersons or other suppliers of services taking part in public performances, graduate trainees etc. However for statistical purposes, these categories may be seen as falling under one of the four above categories (e.g., installers and servicers as contractual service suppliers or intra-corporate transferees, artists as contractual service suppliers, graduate trainees as intra-corporate transferees etc.).

5.22. In their commitments, WTO Members have in general indicated the length of stay of natural persons by categories of natural persons.<sup>22</sup> For example, in the case of contractual services suppliers, whether self-employed or employees, the duration ranges between 3 months to one year, rarely exceeding 2 years; for intra-corporate transferees (ICoTs), is generally limited to 2-5 years, finally for services sellers / persons responsible for setting up commercial presences is normally limited to 3 months. From the GATS text, Mode 4 should include service suppliers at all skill levels. However, in practice, WTO Members' current commitments are generally limited to highly skilled natural persons (managers, executives, specialists).

### C. Measuring modes of supply

5.23. This section outlines how an approximate picture of the value of transactions and other indicators by mode of supply may be built up.

#### 1. *Information needs for assessing trade broken down by modes of supply*

5.24. Two types of statistics are identified in order to assess trade in services by mode of supply: the **value** of the service exported or imported; and a number of more specific indicators relating to market access information and additional analytical needs, e.g. level of foreign direct investment in services industries or the number of persons moving (flows) and temporarily present (stocks) abroad in the context of the supply of services.

5.25. While it will be useful to analyse information broken down according to the overall needs of GATS, it may in some instances be difficult to obtain these detailed breakdowns (variables, data sources, etc.).

5.26. The most important needs are the following:

- (a) By type of service product provided (i.e. the service which is the subject of the transaction between the supplier and the consumer and for which a payment is made. If a breakdown by product is not possible then a breakdown by activity of the service supplier would be the best approximation. More information on the appropriate classifications may be found in chapters xx and xx;
- (b) Direction of trade (destination/origin of the service provided by the service supplier to the consumer). For mode 4, as a very low priority, origin/destination of persons (for some categories of persons this may be the only information available);

5.27. Additional breakdowns are mainly needed for mode 4 persons:

- (c) By skills and occupations of persons;<sup>23</sup> and
- (d) By length of stay, although this is a very low priority. In addition it will probably be very difficult to compile this type of breakdown (even just using the one year statistical guideline used for defining residency). The *Manual* therefore does not propose a further breakdown between permanent and short-term employment because the GATS notion of “non-permanent employment” differs among

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<sup>22</sup> Note that the in the "Guidelines for the scheduling of specific commitments under the General Agreement on Trade in Services" (S/L/92), which was adopted by the WTO Council on Trade in Service on 23 March 2001, members are encouraged to include in their commitments the duration of temporary stay of natural persons for the purpose of supplying a service. In the absence of a reference to a specific duration for the temporary stay of a foreign service supplier, it could be understood that no binding is being undertaken in respect of the duration of that stay.

<sup>23</sup> Some WTO Members make commitments on services products under mode 4 defining specific types of occupations and skills of persons involved, so a breakdown by type of occupations and/or skills would also be useful, although it may be difficult to obtain.

countries, and it is generally for a substantially longer period than the one-year rule recommended by the relevant statistical systems.

**[Are there other breakdowns that need to be added?]**

*(a) Value of trade*

5.28. This is central to measure trade. As outlined in the previous Section there is no one-to-one relationship between sales and modes of supply of a service. A single service contract may involve a combination of modes.

5.29. The *Manual* introduces modes of supply in the statistical context. However, a comprehensive statistical treatment of modes of supply that would fully mirror the GATS legal definition and other GATS articles would be out of the scope of the present *Manual*. Such an approach would fail to ensure compatibility with international statistical systems, such as BPM6 and the 1993 SNA Rev. 1, and would demand excessive resources for implementation.

5.30. As for mode 4, the value of services trade is relevant only in the case of contractual service suppliers, whether these services are supplied by an employee of the service supplier or if the service supplier is a self-employed and supplies the service himself. This information is not needed for intra-corporate transferees and services sellers/ persons responsible for setting up commercial presence: for intra-corporate transferees the supply of the service by the service supplier (i.e. the juridical person) to the consumer is taking place through mode 3 (the mode 4 commitment enables the presence of the person in order for the service supplier to supply the service via mode 3) and for the latter there is no service supply (the supply of the service takes place at a later stage).

*(b) Additional needs related to market access and analysis*

**[Number of persons for mode 4, FDI for mode 3, etc Other needs?]**

5.31. In a GATS context there exists not only the need for analysing the level and structure developments of trade values but also the level of market access to individual services sectors by modes of supply. Actually the GATS Article XVI provides a first guide on the type of information that is necessary. This article lists six types of restrictions: the number of service suppliers, the value of service transactions or assets, the number of operations or quantity of output, the number of natural persons supplying a service, the type of legal entity or joint venture and the participation of foreign capital.

5.32. Although it may prove difficult to obtain information relating to specific transactions or arrangements (e.g. the type of legal entity), it may be useful to obtain aggregated economic statistics to sense for instance the level of foreign direct investment in services activities of a country or the number of services foreign affiliates established in a foreign country.

5.33. The number of persons, crossing a border in the context of GATS mode 4 (both in terms of flows and stocks) is one of those needs. This type of statistics should be identified for all categories of persons: contractual service suppliers (either as an employee of the service supplier or as a self-employed person); intra-corporate transferees; and service sellers/persons responsible for setting up commercial presence (persons going abroad to negotiate services contracts or the establishment of commercial presence). For the number of persons, priority should be given to contractual service suppliers (either as employees of the service supplier or self-employed) and intra-corporate transferees, as services sellers / persons responsible for setting up commercial presence are not supplying services.

**[Is it worth mentioning links between modes and an ownership based concept of trade that US and Australia have experimented with? Or might that fit better in an analytical annex?]**

## 2. Value of trade by modes of supply

### (a) Statistical treatment of modes of supply for estimating the value of trade: the simplified approach

5.34. Drawing on GATS legal provisions, the *Manual* proposes, as a first approximation, a simplified approach to the statistical allocation of trade in services to modes of supply that is operational in the statistical context and consistent with international statistical standards.

**[Remind that it is to countries to do this exercise as not all have the same needs regarding all this. This is just a guide (e.g. Singapore estimates that most of its financial services are exported through mode 2: would be interesting to find out on what grounds they have made this decision....probably more for an analytical annex).]**

5.35. To allow the allocation of services transactions to modes of supply in a systematic way, the *Manual* proposes unambiguous criteria derived from the GATS definitions. The *Manual* acknowledges that this allocation is only a first step in the estimation process and that further research and empirical information will be required both to validate and to refine the estimates. These simplified criteria are based on the following considerations:

(a) To the extent that foreign affiliates are a good approximation of commercial presence entities, FATS statistics provide information of service supplied through mode 3;

(b) Service transactions between residents and non-residents, as captured in the balance of payments accounts described in the BPM6 system, broadly cover mode 1, mode 2, and part of mode 4.<sup>24</sup>

5.36. It is therefore possible to derive much information on services transactions by modes of supply from BPM6 and FATS statistics.

5.37. The simplified statistical criteria are based on the *territorial location* of the transactors (consumer and supplier) at the time the service is supplied, as well as on the type of the supplier (an individual or a business enterprise, respectively termed “natural or juridical persons” in GATS). They yield the same results as the GATS definition in most cases, while also providing clear guidelines for those that present special difficulties. However, it should be stressed that the *Manual’s* guidelines on the compilation of statistics by modes of supply are laid out only for statistical purposes and do not imply any legal interpretation of GATS provisions. These criteria are shown in chart xx **[Do we need to revise these in the light of mode 2 consumption of foreign firms?]**.

5.38. These statistical criteria for the allocation of modes of supply are further complemented with simplification rules discussed below.

### (b) GATS modes of supply and EBOPS

5.39. Ideally, each EBOPS component should be allocated among mode 1, *cross-border supply*; mode 2, *consumption abroad*; mode 3, *commercial presence*; and mode 4, *presence of natural persons*, using the principles above. It may be that compilers are only able to make this allocation at a less detailed level of EBOPS. Although less desirable, compilers are encouraged to make the allocation at least at the level of the 12 major components of the BPM6 classification (see para. 5.xx above). However, recognizing the difficulty of allocating balance of payments transactions to modes of supply, the *Manual* recommends that a full allocation of services by modes of supply be accorded a low priority. The discussion should not be limited to BPM6 items and should be linked to the more detailed analysis of EBOPS items which is included in Chapter xx.

<sup>24</sup> There are some limitations, however, to the assimilation of commercial presence entities to foreign affiliates or to the correspondence between BPM6 service transactions and modes 1, 2 and 4. For example, such limitations relate to the foreign ownership criteria used for the identification of foreign affiliates and to the residence criteria that underpin statistical systems, while GATS legal provisions are not based on these statistical criteria. These limitations are discussed further in the present chapter as well as in chapters III and IV below.



**[In the context of mode 4 (but not limited to mode 4) the clear and objective criteria for recording transactions as service transactions or compensation of employees should be repeated (see chapter xx).]**

5.40. As in many cases, a single service transaction may involve more than one mode of supply, the present *Manual* acknowledges that compilers will not be able to identify the real and full complexity of allocating each EBOPS type of service by the GATS mode of supply. Consequently, to facilitate the feasibility of data collection and as a first step, some simplifying assumptions are recommended following the principles set out in paragraphs 5.xx-5.xx above. In short, each EBOPS type of service is allocated either to one dominant mode or, where there is no single dominant mode, to the most significant mode of supply.

5.41. The value of international wholesaling and retailing services as well as merchanting services is not included in services defined in EBOPS but is integrated in the value of the goods sold (exported and imported).

**[Given the changes in the BPM classification of services and the fact that a growing number of countries are providing more detailed trade in services statistics, should a simplified approach go into more detail in terms of services items? Should it also include a very simple approach as a first step (according to 11 + 1 components)? Or should it combine both? Should also consider processing of goods.]**

#### *BPM6/EBOPS services components corresponding to mode 1*

5.42. Mode 1 applies when a service is delivered from a supplier abroad to a consumer in his or her territory of residence. This is the case for most balance of payments transactions recorded under transportation (except supporting and auxiliary services that are provided to domestic carriers in foreign ports or to non-resident carriers in domestic ports), communication services, insurance services, financial services, and royalties and license fees. Non-mode 1 transactions in these components mainly take place in two instances:

- Transactions fully occurring through presence of natural persons (mode 4), which are presumed to be marginal in these components;
- Transactions that involve both modes 1 and 4 (such as an insurance agent travelling to discuss the terms of a contract, whereas most of the insurance service would be produced in the country where the insurance company is located). In those cases, it might appear reasonable to allocate the transaction to mode 1.

5.43. Thus, applying the simplified approach, the BPM6/EBOPS components indicated above would be allocated to mode 1.

**Need to replace with: transport (except supporting and auxiliary services that are provided to domestic carriers in foreign ports or to non-resident carriers in domestic ports), telecommunication services, information services, insurance services, financial services, and franchise and similar rights (this is exclusively an EBOPS item, proprietary rights are not covered by GATS [check]), research and development, trade-related services and operational leasing services. [Shall we include more detail or less?]**

**[Should the use of statistics on wholesale margins (e.g. US experience), merchanting if estimated be mentioned?]**

#### *EBOPS services components corresponding to both mode 1 and mode 4*

5.44. Mode 1 also applies for the remaining commercial services covered by GATS namely, *computer and information services, other business services, and personal, cultural and recreational service*. However, the picture here is rather more complex and might involve significant elements of both mode 1 and mode 4 **(plus small elements of other modes?)**. These components also comprise transactions corresponding to mode 4 situations, where the supplier (or his employee) travels to the territory of the consumer to provide the service at the site of the client. To take a simple example, a consultant resident in the compiling economy providing services to a non-resident client may

deliver the service *either* on-site (mode 4) *or* from the office of the consultant transmitting reports cross border (mode 1) *or* a combination of those two.

Need to replace with computer services, professional and management consulting services, technical, trade related and other business services (other than trade-related and operational leasing services) and personal, cultural and recreational services. **[Do we want to provide further detail?]**

5.45. For these components, further analysis and empirical information is needed to determine how they can be separately identified or estimated. In particular, the knowledge of the location of the supplier at the time when major transactions are delivered would be critical for a proper assessment of the share of modes in these balance of payments components. A first proposal to estimate separately these modes within payments (at least for major transactions) is provided in paragraphs 5.xx-5.xx below. If research were to indicate that for certain EBOPS components a particular mode of supply provides only a small proportion of the total supply, then all of that type of service might be allocated to the dominant mode.

5.46. For the more specific case of mode 4, as stated above, information is needed for contractual service suppliers (either self-employed or employees of the service supplier) which travel in the territory of the host economy in order to supply a service. Depending on the category of person and the length of stay of this person abroad the value of the services trade is in principle recorded in the balance of payments as follows:

(a) Contractual service suppliers as employee of the service supplier: a service supplier obtains a service contract with a consumer in another country.<sup>25</sup> He sends his employee to that other country in order to supply the service. The transaction corresponding to the service contract remains between a resident and a non-resident and will be recorded as an export or import of services whether that person stays abroad more or less than 12 months.

(b) Self-employed service suppliers: a self-employed person obtains a service contract<sup>26</sup> with a consumer in another country. He/she moves abroad in order to supply that service. If the person stays less than 12 months, the corresponding transaction will be recorded as an export/import of services. However if he/she stays more than 12 months, the transaction corresponding to the service contract will no longer be a balance of payments transaction. This particular issue is further discussed in section (d) entitled *GATS mode 4 and remittances of self-employed service suppliers*. If this is possible the information on mode 4 should be provided separately for self-employed persons.

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<sup>25</sup> In the majority of cases considered in this chapter, the presence of employees of contractual service suppliers will not qualify for recognizing a branch (if it is a branch this could actually qualify as mode 3 commercial presence). As noted in chapter xx, all or most of the following factors should be present for a branch in the host country to be identified:

- undertake or intend to undertake production on a significant scale in the territory for one year or more. (i) If the production process involves physical presence, then the operations should be physically located in that territory. Some indicators of an intention to locate in the territory include purchasing or renting business premises, acquiring capital equipment, and recruiting local staff.; (ii) If the production does not involve physical presence, such as some cases of insurance or other finance, the operations should be recognized as being in the territory by virtue of the registration or legal domicile of those operations in that territory.
- having substantial operations in the entity's own right (i.e., rather than as an agent on behalf of another entity);
- the recognition of the operations as being subject to the income tax system of the economy in which it is located; and
- either a complete set of accounts, including a balance sheet, exists for the unit, or it would be possible and meaningful, from both an economic and legal viewpoint, to compile a complete set of accounts if they were to be required.

<sup>26</sup> In order to define if service contract can be identified one needs to also consider how an employee-employer relationship is defined. The draft of BPM6 states "Several factors may have to be considered in determining whether an employer-employee relationship exists. An important test of whether an employer-employee relationship exists is that of control. The right to control or to direct, both as to what shall be done and how it shall be done, is a strong indication of an employer-employee relationship. The method of measuring or arranging for the payment is not important as long as the employer has the effective control both on the method and the result of the work undertaken by the individual. If an individual is contracted to produce a given result it suggests a relationship of a service contract between the enterprise and a self-employed. "

[Above paragraphs are also valid for construction. How could we combine both? Should we add more on employee/self-employed differences as included in "Background note on GATS mode 4 measurement" box. 1 below? and on difficulties to differentiate both in certain cases and why we would rather go for services transactions and not employments related flows?]

**Box xx. The difference between employment contracts and service contracts :**

There may be several ways of differentiating between employment and services contracts:

1. The System of National Accounts 1993 (para 7.23-7.24) states that: "The relationship of employer to employees exists when there is an agreement, which may be formal and informal, between an enterprise and a person, normally entered into voluntarily by both parties, whereby the person works for the enterprise in return for remuneration in cash or in kind. The remuneration is normally based on either the time spent at work or some objective indicator of the amount of work done. Self-employed workers, on the other hand, are persons who are the sole owners, or joint owners, of the unincorporated enterprises in which they work, excluding those unincorporated enterprises which are classified as quasi-corporations." It also further specifies (para 7.27) that for outworkers (which could also be used in other cases) "A distinction can be drawn between two cases which, in principle, are quite different from one another:
  - a. The person is remunerated directly, or indirectly, on the basis of the amount of work done-i.e., by the amount of labour that is contributed as an input into some process of production, irrespective of the value of the output produced or the profitability of the production process. This kind of remuneration implies that the worker is an employee; or
  - b. The income received by the person is a function of the value of the outputs from some process of production for which that person is responsible, however much or little work was put in. This kind of remuneration implies that the worker is self-employed."
2. Law in several OECD countries (such as France, Portugal, Greece or Canada) enables to distinguish between both types of contracts in a different way. An employment contract is defined using the following criteria: a) remuneration that does not depend on profits; b) work under supervision or strict guidelines; c) use of capital equipment, information services, or premises of others; d) presence of a link of subordination between the employee and the employer, (i.e. the employer organises, controls the work and sets the working hours). The distinction between employment contracts and services contracts is usually made using the fourth criteria: in certain cases, the courts of justice have to question the existence of an employment contract between two parties before being able to state on the application of an employment regulation. This can be the case with service contractors that habitually provide their services to the same business. The existence or not of an employment contract will depend on the existence of the link of subordination, consequently the court will look for organisation constraints, for the presence of controls and at the definition of working hours. This will have important consequences : i.e. application or not of the employment legislation in case of dismissal, industrial injuries, existence of paid vacations, affiliation to the social security and payment of the relevant contributions.
3. ICSE 93 also provides information for the distinction between employment contracts (i.e. for 'employees') and self-employment contracts (i.e. for 'service providers') with the main emphasis placed on 'economic risks' and 'authority':
 

"Paid employment jobs are those jobs where the incumbents hold explicit (written or oral) or implicit employment contracts which give them a basic remuneration which is not directly dependent upon the revenue of the unit for which they work (this unit can be a corporation, a non-profit institution, a government unit or a household). Some or all of the tools, capital equipment, information systems and/or premises used by the incumbents may be owned by others, and the incumbents may work under direct supervision of, or according to strict guidelines set by the owner(s) or persons in the owners' employment. (Persons in "paid employment jobs" are typically remunerated by wages and salaries, but may be paid by commission from sales, by piece-rates, bonuses or in-kind payments such as food, housing or training.)

Self-employment jobs are those jobs where the remuneration is directly dependent upon the profits (or the potential for profits) derived from the goods and services produced (where own consumption is considered to be part of profits). The incumbents make the operational decisions affecting the enterprise, or delegate such decisions while retaining responsibility for the welfare of the enterprise. (In this context "enterprise" includes one-person operations.)

<http://www.ilo.org/public/english/bureau/stat/class/icse.htm>. we should probably add more see attached web site

### *BPM6/EBOPS services components and mode 2*

5.47. All services recorded in balance of payments as *travel* are deemed to be consumption abroad or mode 2 under GATS. However, the *travel* component of the balance of payments classification also includes the purchase of goods by non-residents during visits outside its economy. These goods are outside GATS and hence excluded from mode 2. Thus, travellers' expenditure on goods should be separately identified from their expenditure on services, and only the services portion of travel expenditure should be allocated to mode 2. The goods portion would not be allocated to any mode of supply. In addition further refinements of the services share of *travel* would be needed for a better measurement of mode 2. Although it does not categorize all the types of services supplied to travellers, the BPM6/EBOPS classifications provide an alternative supplementary breakdown of services consumed by travellers while abroad into local transport services, accommodation services, food serving services and other services. In order to respond to the particular interests in health and education services, BPM6 and EBOPS also provide for a distinction within the standard component *personal travel* into education-related expenditure and health-related expenditure. As noted in paragraph 3.xx if separate data are collected on specific expenditure on health and education services this would be particularly useful for analysing the supply of these services via mode 2.

**[Does TSA have anything to offer in terms of a more detailed breakdown of services (linked to BPM6/EBOPS classification)?]**

5.48. *Supporting and auxiliary services* that are provided to domestic carriers in foreign ports or to non-resident carriers in domestic ports (sub component of transportation) should be allocated to mode 2 if they can be separately identified. Finally *repairs on goods* are also covered by mode 2.

5.49. Services purchased in host economies by government units that are based in diplomatic and other similar enclaves in the host economy are included in *government services, n.i.e.* (although this is not totally clear from draft BPM6), which is a residual category for government transactions that are not classified to other components of EBOPS. Those services transactions are covered by GATS (mode 2) when provided by non-government entities. However, this *Manual* does not recommend that the purchases of those services (that is, those supplied by non-government entities) be separately identified from purchases of services supplied by government entities or from purchases of goods.<sup>27</sup> In addition services purchased by diplomats, consular staff, military personnel working in government enclaves and their dependants (these purchases of services are considered as GATS mode 2) are included in relevant services categories or failing specific identification to *government services n.i.e.*. Again this *Manual* does not recommend a separate identification of these transactions as if they are included within appropriate services categories (or government services) their share is believed to be relatively small [However some countries have big exports of government services n.i.e. according to BPM5 definitions (e.g. Djibouti). What will be the impact with BPM6 guidelines? How should this be treated in the context of modes of supply?].

**[question of local consumption of services by resident foreign-owned enterprises – mode 2? ]**

*An exception: EBOPS, mode 3 and mode 4 transactions in construction services*

5.50. The preceding paragraphs have set out how balance of payments transactions may be allocated to modes 1, 2, and 4. Commercial presence (mode 3) concerns mostly domestic sales of foreign affiliates (i.e., transactions between residents), as described in FATS statistics and is discussed in detail in paragraphs 5.xx-5.xx below.

5.51. There are cases, however, where a commercial presence is not considered as being resident in its host country in BPM6 and the present *Manual*. Foreign entities established on a short-term basis to supply services, such as an unincorporated site office carrying out a short-term construction project or providing consulting services, are considered as non-residents in the host country. Their transactions with residents in that country are recorded in the

<sup>27</sup> See paras. 3.xx-3.xx below for a more detailed discussion of these issues.

balance of payments. However, those entities are considered as *commercial presence* under GATS, which ignores the one-year statistical rule. A *commercial presence* may be any type of establishment owned or controlled by foreign entities, even those created for a short period. This is particularly relevant in the case of construction services. The services provided in the host country by this type of commercial presence are transactions between residents and non-residents, and they are recorded in the balance of payments accounts under *construction services* and not in FATS statistics. These related services transactions should be accounted for as mode 3.<sup>28</sup>

**[Shall we say more on other types of short-term arrangements which could be considered as commercial presence (e.g. consulting, maintenance, training, technical assistance, and health care, see appropriate paragraphs of BPM6 chapter 4)? But probably less of an issue for the simplified approach.]**

5.52. In turn, the balance of payments component *construction services* also includes transactions resulting from mode 4 - presence of natural persons. Whether or not these mode 4 transactions are minor relative to the mode 3 transactions in this category will depend on the characteristics of the compiling country. A further description of the mode 4 component is provided in paragraphs 5.xx-5.xx.

*Developing practices to separately identify modes of supply information within BPM6/EBOPS services components*

5.53. Balance of payments service transactions broadly correspond to mode 1, mode 2, and mode 4. Yet a given balance of payments service category generally includes transactions corresponding to several modes. Moreover, several modes of supply may be used for a single service transaction. There are cases where specific balance of payments service transactions involve several modes of supply, such as when an architect designs a construction project, delivers it through telecommunication and has to make some visits to the country of the consumer at the implementation phase. With a view to facilitating the analysis and compilation of service transactions between residents and non-residents by modes of supply, it is recommended that, if estimates cannot be provided for the subdivision of the transaction value by modes, the transaction be allocated to the most important mode in terms of time and resources associated with it.

5.54. In order to collect further information with respect to mode 4 (and as a consequence other modes) a clear list of questions needs to be developed to help survey respondents and/or compilers to identify whether the payment for a service contract or a single payment could be classified as mode 1/3 or mode 4 trade. A number of rules would probably need to be elaborated for compilers to know how to allocate transactions to modes. From a more general point of view, the possibility of estimating mode 4 flows within the balance of payments services account would certainly help to improve the estimations of trade in services by modes of supply which are needed by trade negotiators. It is important to note that the list of items identified above should probably not only be limited to these items. The list of items should be established depending on each country's interest.

5.55. Given the complexity of services contracts (i.e. a single service contract may be associated with several modes for supplying the service), the allocation should be made on a broad basis. In addition compilers should concentrate

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<sup>28</sup> Draft BPM6: "Some construction projects undertaken by a non-resident contractor may give rise to a branch. Construction may be carried out or managed by non-resident enterprises, without the creation of a local legal entity. For major projects (such as bridges, dams, power stations) that take a year or more to complete and that are managed through a local site office, the operations would usually satisfy the criteria given in paragraph 4.xx. In addition, if the constructor owns the land, a notional unit is identified in any case by following the principles in paragraphs 4.xx-xx. In other cases, the construction operations may not satisfy the conditions for recognition as a branch, for example, for a short-term project or one based from the home territory and without a local office. In those cases, the operations are classified as international trade in services (i.e., an import to the territory of operations) (see paragraphs 9.xx-xx). Services such as consulting, maintenance, training, technical assistance, and health care can also be delivered on-site with sufficient presence to amount to a branch. If there are operations substantial enough to satisfy the criteria given in paragraph 4.xx, a branch would be recognized. If the branch criteria are not satisfied, then there would be international trade in services, or the persons doing the work could be regarded as direct employees of the customer of the service, depending on how the operations were managed (see paragraphs 10.xx-xx)."

on services categories relevant in the context of their economy and not necessarily attempt to differentiate mode 4 from other modes for services where this mode of delivery is not believed to be an important component.

5.56. There are various possibilities which could help determine if a transaction should be allocated to mode 4 or not. A number of options are listed below:

(a) Indicate if the provision of the service mainly involved the presence of the service provider (or his employees). This option seems appropriate for collecting this information for the first time.

(b) Did the transaction related to the export (or import) of service involve the presence of the supplier of the service or his/her employee(s)?

If it did involve the presence of the supplier, how was most of the value of the service delivered (e.g. time and/or resources involved)? That is, if most of the work was sent by fax, email etc before and the person just went to supervise a final stage, mostly mode 1 (or 2), but if the embodied knowledge went with the person and its transmittal to the client was via presence then it is mostly mode 4.

(c) Another option could be to define in surveys the 4 modes of supply as defined in the GATS and ask respondents to allocate transactions to modes of supply. If it involves various modes of supply, the questionnaire could suggest to allocate the transaction to the most important mode in terms of time and resources associated with it. This option will be costly and very burdensome for respondents. However it could be used for specific service sectors for which countries have a high mode 4 interest.

(d) Another possibility could be to add a question related to the estimated share of the inputs for the services trade related to the presence of the service supplier or his/her employees.

**[UNCTAD comment to consider: The options offered appear complementary so perhaps they could be merged in some ways. Option (c) could be a good starting point but as mentioned this could be costly and burdensome. It would be helpful to gather representatives from national statistics office, company representatives, immigration officials (particularly those in charged with visa) for an exchange of information on how best to go about the process of collecting information: i.e., both substantive- and procedure-wise.]**

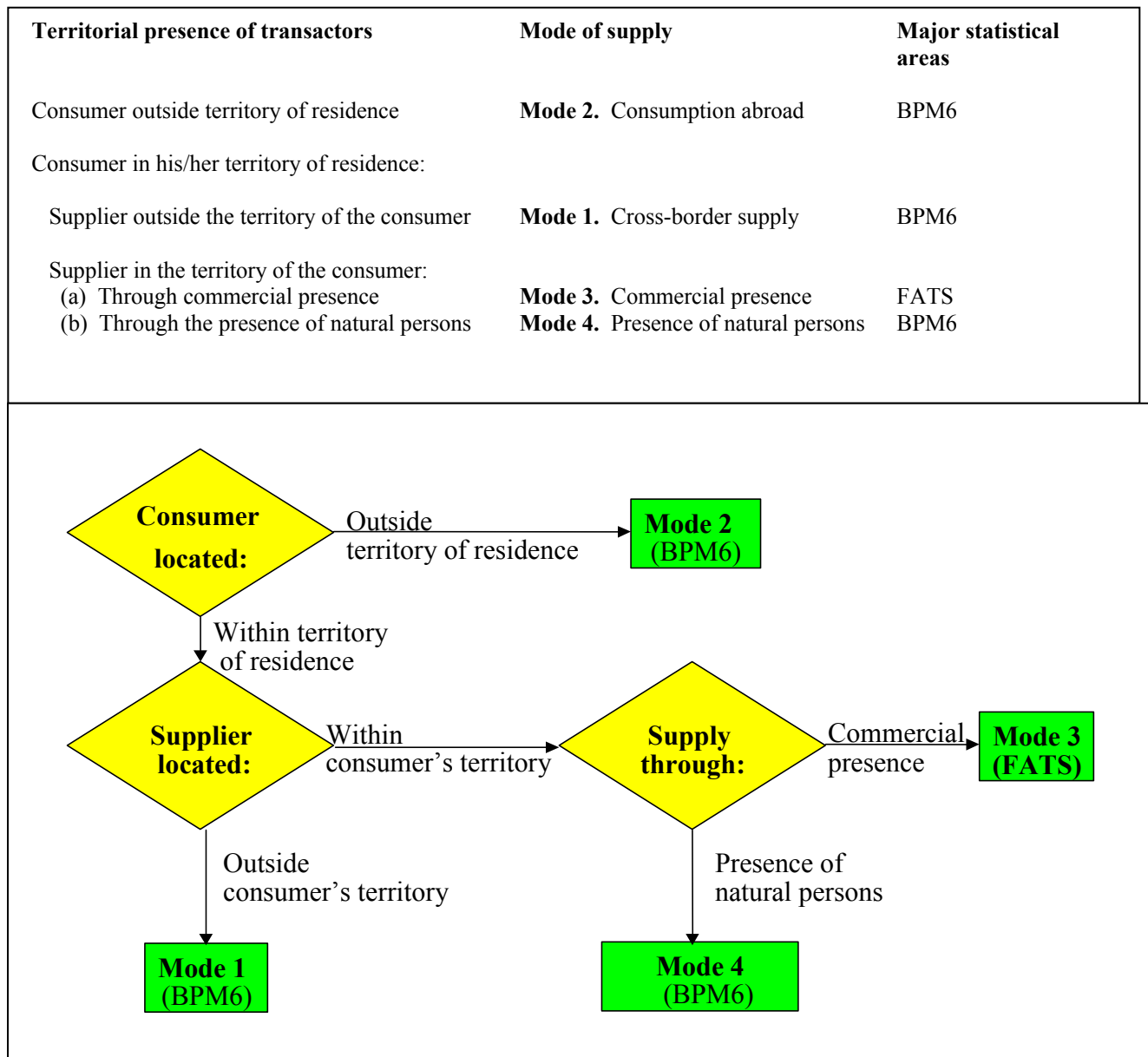
5.57. Compilers need to keep in mind that questions need to be formulated differently whether we are looking at exports or imports (the importer will have less information on the shares of different modes in the supply process and/or the breakdown of inputs in the service supply).

5.58. The simplifying assumptions for the allocation of trade by mode of supply set out in paragraphs 5.xx to 5.xx above should be regarded as a guide to first steps in the estimation process and be subjected to periodic review and empirical testing of their validity and appropriateness.

**Chart below will have to be revised according to the considerations relating to mode 2 consumption of affiliates? Delete "Other for mode 4".**



**Chart xx. The four modes of supply: statistical criteria**



*(c) GATS mode 3 and sales of foreign affiliates*

5.59. FATS statistics, as recommended in the Manual, differ from the coverage of the GATS in the following ways:

(a) GATS refers to control as well as majority ownership, whereas FATS statistics mainly use the latter as the criterion for inclusion;

(b) GATS covers services products, whereas FATS is primarily based on activities.

5.60. By including commercial presence as a mode of supply, GATS has created a need for information on foreign affiliates in host economies. Service suppliers may choose to set up foreign affiliates as a means to sell their services in foreign markets as an alternative or a complement to exports through mode 1. On the grounds that such sales may, to a certain extent, substitute for cross-border exports, the Manual views domestic sales of foreign affiliates as the primary statistical indicator of mode 3.

5.61. A generalized framework for statistics on affiliates' operations would provide information on domestic sales according to both an activity breakdown (ICFA categories) and a product breakdown (EBOPS components). When product breakdowns are not available, the ICFA activity breakdown is used. This has been aligned with EBOPS for the purpose of approximating products produced by various industrial activities. There is, however, no intention of establishing one-to-one correspondence between ISIC, Rev.4 and EBOPS for the estimation of services produced by foreign affiliates. Such a correspondence might overlook important areas of secondary production by industries (for further explanation, see annex xx). Only when compilers are able to classify the output of foreign affiliates on a product basis will it be possible to directly compare the values of specific types of services, delivered to foreign markets through trade between residents and non-residents, with sales by foreign affiliates.

5.62. However as FATS statistics are compiled by activity, this may cause particular problems when considering wholesale and retail trade activities as in general for this particular case most of the value of the sales will be accounted for by the value of the goods that are sold. Value added for these particular activities would probably be a more appropriate estimation of the wholesale/retail service provided to the consumer.

**[Should this section be further developed?, e.g. wholesale margins if estimated (see U.S: experience)]**

*(d) GATS mode 4 and remittances of self-employed service suppliers*

5.63. Preceding paragraphs have shown that some transactions in BPM6 service components correspond to mode 4. In addition, supplementary information on other mode 4 trade may be provided by the *personal transfers* component in BPM6.

5.64. This is the case for self-employed service suppliers. A self-employed person obtains a service contract with a consumer in another country. He/she moves abroad in order to supply that service. If the person intends to stay more than 12 months he will become a resident of the host country and the transaction corresponding to the service contract will no longer be an international transaction. The only transactions that may appear in the balance of payments for resident self-employed service suppliers will be the amount they remit to their home country (therefore recorded under personal transfers) and/or an increase in assets in the home economy (if the person is saving in the home economy).

5.65. In BPM6 *Personal transfers* consist of all current transfers in cash or in kind made, or received, by resident households to or from other non-resident households. *Personal transfers* thus include all current transfers from resident to non-resident households, independently of (a) the sources of income of the sender (be it wages and salaries, social benefits or any other type of transfers, including transfers from a person receiving no income and running down his/her assets); (b) relationship between the households (be it between related or unrelated persons); (c)



purpose for which the transfer is made (be it inheritance, alimony, lottery , etc.). In particular BPM6 recommends the recording of a supplementary item entitled remittances of resident employees (is the title of this item not questionable?...i.e. self employed?).

5.66. However it will most probably be difficult to separate out such information and at the time of writing this is not seen as a frequent case. Therefore this Manual does not recommend to separate out this information within the item personal transfers unless the self-employed persons category is believed as an important component to the compiling economy.

**[Should this section include some explanation on compensation of employees in the case of self-employed persons i.e. to determine if an employer-employee relationship exists? Should there be clearer and precise guidelines to define if an employee-employer relationship exists?]**

### *3. Indicators related to market access and analytical needs*

#### *(a) GATS modes of supply and FDI/FATS*

FDI flows and stocks, other FATS variables (for mode 4 number of employees and compensation, for mode 3 number of enterprises, etc.)

#### *FDI statistics and commercial presence*

5.67. Obtaining FDI data on stocks and flows broken down according to services activities and to country of origin and destination would be extremely useful. This would notably help assess the interest of foreign service suppliers in establishing affiliates in the host country. Could also provide useful information with respect to the income on investment returning to the home economy. Needs to be further developed.

#### *FATS statistics and presence of natural persons*

5.68. Non-permanent employment of foreign staff in foreign affiliates is particularly relevant to mode 4, as a subcategory of natural persons often referred to in countries' schedules of commitments. Quantitative information on foreign employment in foreign affiliates would be an indicator of the *income* dimension of mode 4. However as noted in chapter xx although data on foreign employment of foreign affiliates would not in general appear separately, such information when available could be used for as more in depth analysis of mode 4 commitments related to the supply of services through mode 3.

5.69. In addition, although the service is actually supplied through mode 3, the presence (and movement) of intra-corporate transferees is covered by mode 4 commitments, it may still be of analytical interest to have a sense of the contribution of these persons to the supply of services through mode 3. Actually the intra-corporate transferees and other foreign employees of the services foreign affiliate do not necessarily have to be directly involved in the provision of the service. For instance, in the case of a financial services company, the person which enters a host economy, as an ICT or as a foreign employee of the affiliate located in member A, may be sent as a financial or computer specialist to work for this company. But what is relevant is the financial service provided by the company (i.e. through mode 3) to the final consumer located in member A.

#### *(b) GATS mode 4 and UN Recommendations on Statistics of International Migration*

5.70. Information on flows and stocks of persons is necessary for all identified mode 4 categories of persons: contractual service suppliers as employees of the service supplier or self-employed, intra-corporate transferees and services sellers / persons responsible for setting up commercial presence (the priority being contractual service suppliers and intra-corporate transferees).

5.71. The Recommendations on Statistics of International Migration Revision 1 (RSIM) define two main groups of internationally mobile persons: non-migrants, and international migrants (of which short-term migrants and long-term

migrants).<sup>29</sup> RSIM also provides a framework for the compilation of statistics on inflows and outflows of these groups of persons. As shown below, a number of categories and subcategories within these groups and related frameworks could be relevant in the context of mode 4 measurement.

5.72. The appropriate framework would be the UN Recommendations on Statistics of International Migration. However in order to respond to all information needs a number of gaps need to be filled. As illustrated in the table below which is built upon information included in the RSIM there are a number of non migrants categories which are not accounted for within the RSIM:

- Contractual service suppliers as employees of a foreign service supplier staying more than one year in the country visited. This is a non migrant category, which would correspond to the extension of the length of stay of foreign business travelers (i.e. more than one year)
- Contractual service supplier as self-employed, which could be a category of non migrant.

5.73. In addition it would be good to extend the breakdowns available:

- Breakdown foreign business travelers into contractual service suppliers, intra-corporate transferees remunerated by their sending employer and services sellers / persons responsible for setting up commercial presence for establishment of commercial presence for sales negotiations;
- Identify separately contractual service supplier as self-employed and intra-corporate transferees within foreign migrant workers and contractual service supplier as self-employed within foreign non-migrant workers;

5.74. Then this information could be broken down according to industrial activity, occupation/skills, length of stay.

5.75. A number of statistical frameworks (such as SNA 1993 and migration statistics) and data sources (enterprise surveys, administrative sources such as visa records, and border or passenger surveys) are identified as being of interest. Additional sources were also identified in the context of more specific categories and/or services (FATS statistics for intra-corporate transferees and sectoral statistics for certain services industries).

**[Should we further this work and investigate how categories of interest to mode 4 could be added within this statistical framework, and how the gaps could be filled in?**

**What would be the best source(s) for collecting information on stocks and flows of persons in the context of GATS mode 4?**

**How can we advance the work for identifying possibilities within existing statistical frameworks and sources (UNWTO provided a proposal to add appropriate questions to the model border survey)?**

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<sup>29</sup> Short-term migrants refer to persons admitted in a country other than that of their usual residence for a period of at least 3 months and less than 12 months, except in cases where the movement to that country is for purposes of recreation, holiday, visits to friends and relatives, business, medical treatment or religious pilgrimage. Long-term migrants are persons who move to a country other than their usual residence for a period of at least a year, so that the country of destination becomes their country of usual residence.

Type of contract	GATS mode 4 category of natural persons	What category captures the number of mode 4 persons?		
		<3 months	> 3 months and < 1 year	> 1 year
I. Service contracts, delivered in the host country	Contractual service supplier as ➤ employees of foreign service supplier ➤ self-employed	foreign business travellers (non migrants)  ?	?	foreign migrant workers free establishment or movement, migrants for settlement (employment based, entrepreneurs/investors)? (migrants)
II. Employment contracts with foreign (service producing) firms which have commercial presence in the host country	Intra-corporate transferees			foreign trainees, foreign migrant workers, free establishment or movement, migrants for settlement (employment based, entrepreneurs/investors)? (migrants)  foreign business travellers (non migrants)
III. Self- employed or employed with foreign service producing firm but service is not actually supplied in host country	Services sellers / persons responsible for setting up commercial presence	foreign business travellers (non migrants)		

5.76. Box xx below shows possible sources for collection of statistics on the number of persons crossing borders in the context of GATS mode 4. It would be necessary of course to define the categories of persons relevant from a GATS perspective for inclusion in these potential sources. The UNWTO option of model border survey provides an excellent platform for overall totals. However, the collection of information should be more targeted and focused in terms of what is included in the questionnaires to ensure 'quality responses'. Priority areas could include: Purpose of travel, if for employment: who is the employer (foreigner or domestic?); is he going as an employee of a juridical person or ICoT or a self-employed?; what is the length of contract (if known); first time or returning employee/service provider; etc. Perhaps the best way to collect this information (and to ensure that respondents take time to fill in the form) is to make it part of the visa application process. This would require the cooperation of countries of destination.

**[However, the TSG agreed that data sources for these variables need to be further discussed. Input of appropriate experts is necessary to further advance this work.]**

### Box xx on data sources for mode 4 number of persons

- Border/passenger surveys: UNWTO model border survey proposal combines administrative data (Entry / Exit cards) and statistical data obtained from surveys (when travellers leave the country visited). This combination allows to focus on both instruments in order to design an integrated set of information on a specific topic. Obviously, to be operative the proposal would require a strategic alliance to be developed between National Tourism Administrations and Migration Authorities. . UNWTO proposal implies that both E/E card and survey data are stored in electronic files: that would allow to derive some characteristics of travellers (for instance, whether he /she qualifies or not as visitor, business traveller –if he would identify to “be employed by a local business”-, potential migrant- by combining country of birth, residence and nationality-, real length of stay - in the case that there would be a cross checking between entry and exit cards-, etc.). In principle, it would be possible to identify different subsets of travellers of interest for mode 4 by combining different type of info obtained in present proposals (or modifying / adding additional questions to the survey):
  - type of visa (E/E card)
  - main reason for this trip (E/E card)
  - expanding business / professional purpose of the visit categories, as well as activities carried on by visitors (survey)

It is important to highlight that the complementary nature of border surveys to Entry / Exit card data refers to the fact that only these data allows to measure flows of travellers as well as some basic characteristics of them. All other type of characteristics (both of the travellers and their activities and economic performances in the country visited) requires an ad hoc survey

- *Population registers* are accounts of residents within a country. They are typically maintained via the legal requirement that both nationals and foreigners residing in the country must register with the local authorities. Aggregation of these local accounts results in a record of population and population movement at the national level. As a result, the registers can provide data on all migrant flows (inflows and outflows of both nationals and foreigners) as well as data on stocks of foreigners and nationals. For this reason they tend to be widely used. However there are some drawbacks: individuals often fail to record their departures and therefore data on outflows can be less reliable. Also, there are differences in the type of migrants counted which must be taken into account in international comparisons.
- *Permit data*: Residence and work permit data commonly form the basis of flow statistics for countries which do not have population registers. The data are necessarily more limited in scope as they do not capture all flows and it can be difficult to use them to generate stock and outflow data as these require careful accounting of the number of permits both issued and expired.
- *Census and household survey data*: Census data enables comprehensive, albeit infrequent analysis of the stock of immigrants (censuses are generally conducted every 5 to 10 years). In addition, many labour force surveys now include questions about nationality and place of birth, thus providing a source of annual stock data. However, some care has to be taken with detailed breakdowns of the immigrant population from survey data as sample sizes can be very small. Inevitably, both census and survey data may under-represent migrants, especially where they tend not to be registered for census purposes, or where they do not live in private households (labour force surveys do not usually cover those living in institutions, such as reception centres and hostels for immigrants).
- *Visas*
- *Enterprise surveys* (links with data collected for BoP purposes?);
- *Other sources*: Valuable information on mode 4 trade can sometimes be found at the industry (or sectoral ministry) level. Some professions - such as accountancy, architecture, consultancy, engineering, law and nursing - have become increasingly good sources - at least in some countries - of data on mode 4 trade. Companies and/or Ministries in these sectors have often collected extensive data on the number of people moving in the sector, to which countries, for what purpose and for how long. Another useful source of information, especially at the sector-specific level, could be recruitment firms. In some sectors such firms are already being closely monitored in terms of recruitment of temporary workers.

Source: UNWTO, OECD and Background note on GATS mode 4 measurement. Needs to be further elaborated.

*(c) Other indicators*

production (sales, value added), employment data of services industry within economies, quantitative indicators, sectoral data (ITU, maritime, postal, etc.

**[How much should we provide in this section?...specific text on infrastructure services?]**

Within national accounts, compensation of employees and travel could also be possible sources which could provide useful additional information. However the compensation received by employees of the service supplier (and related travel expenditure) will not reflect the value of the service contract and if it were to be used this would result in double counting as they would implicitly be included within the value of the export of service. However there could be possibilities to use this information to extract a mode 4 estimate from appropriate balance of payments services items: while it cannot be tracked to specific deals this could probably be used as a reality check.

**[Should we add a box on What happens when several members are involved in the supply of a service? i.e. with an affiliate involved to illustrate that modes of supply may be asymmetrical depending on the point of view adopted? (see the background note)]**

#### **D. Summary of recommendations**

This section should contain a summary of the recommendations contained in the previous sections, which would result from discussions within the Task Force. Thus, at present, it is not a priority. However, to help the readers' understanding, a matrix could be developed which identifies, by individual mode of supply, and by the desired indicators (value of trade; other quantitative indicators) the possible sources of information (EBOPS, FATS, etc.).