

III. Services Transactions between Residents and Non-residents

A. Introduction

3.1. The principles adopted by this *Manual* to record services transactions between residents and non-residents are the same as those principles prescribed in the BPM6 and the 2008 SNA. This is to ensure that statistics on international trade in services between residents and non-residents are compiled on a basis consistent with that of other macroeconomic statistics and compilers use some of the same data sources used for compiling balance of payments statistics. The adoption of the same principles is important both to ensure consistency within each country's statistical system and for the international comparability of the statistics. The main principles for recording these transactions are described below but the BPM6 provides additional guidance on recording international transactions.

3.2. This chapter first sets out the principles underlying the recording of trade in services. It discusses the concept of residence and its practical application, the valuation of transactions, and the time of recording of transactions. It also touches on the relation between trade in services and other economic activities.

B. Concept and definition of residence

3.3. The residence of an institutional unit is the economic territory with which it has the strongest connection, expressed as its centre of predominant economic interest¹. Each institutional unit is a resident of one and only one economic territory determined by its centre of predominant economic interest. Specific criteria for determining residence are given ahead. The definitions given below are designed to apply the concept of centre of predominant economic interest. These definitions should be used in preference to a discretionary choice between different possible aspects of economic interest.

¹ Please refer to the BPM6 and the 2008 SNA for a full discussion of institutional units and sectors.

BPM6 Chapter 4, *Economic Territory, Units, Institutional Sectors, and Residence*

2008 SNA Chapter 4, *Institutional Units and Sectors*

3.4. An institutional unit is resident in an economic territory when there exists, within the economic territory, some location, dwelling, place of production, or other premises on which or from which the unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale. The location need not be fixed so long as it remains within the economic territory. Actual or intended location for one year or more is used as an operational definition; while the choice of one year as a specific period is somewhat arbitrary, it is adopted to avoid uncertainty and facilitate international consistency.

3.5. In overview, residence of selected entities is as follows:

3.6. (a) The residence of individual persons is determined by that of the household of which they are a part and not by their place of work. All members of the same household have the same residence as the household itself, even though they may cross borders to work, or otherwise spend time abroad. If they work and reside abroad so that they acquire a centre of predominant economic interest abroad, they cease to be members of their original households;

3.7. (b) Unincorporated enterprises that are not quasi-corporations are not separate institutional units from their owners and, therefore, have the same residence as their owners².

3.8. (c) Corporations and non-profit institutions may normally be expected to have a centre of economic interest in the economy in which they are legally constituted and registered. Corporations may be resident in economies different from their shareholders and subsidiaries may be resident in different economies from their parent corporations. When a corporation, or unincorporated enterprise, maintains a branch, office or production site in another territory in order to engage in a significant amount of production over a long period of time

² A quasi-corporation is an unincorporated entity that operates as if it were an entity separate from its owners. Thus, in the BPM6 and 2008 SNA it is treated as if it were a corporation.

(usually one year or more) but without creating a corporation for the purpose, the branch, office or site is considered to be a quasi-corporation (that is, a separate institutional unit) resident in the territory in which it is located;

3.9. (d) For entities such as many special purpose entities that have few, if any, attributes of location, the residence is determined by their place of incorporation.

3.10. (e) When a non-resident has ownership of land and buildings, and natural resources other than land, the assets are deemed to be owned by a notional resident institutional unit in the economy of location, even if they do not engage in other economic activities or transactions in the economy. All land, buildings, and natural resources other than land are therefore owned by residents.

Residence of households

3.11. While many people are clearly strongly connected to only one economy, others have substantial economic interests in two or more economic territories. Factors such as location of dwellings, employment, asset holdings, citizenship, migration status, income tax status, income received, expenditure, business interests, and location of dependent family members may point to different economies. To identify the economy of residence when there are connections to two or more economies, the following definition is used to identify the centre of predominant economic interest.

3.12. *A household is resident in the economic territory in which household members maintain or intend to maintain a dwelling or succession of dwellings treated and used by members of the household as their principal dwelling. Being present for **one year or more** in a territory or intending to do so is sufficient to qualify as having a principal dwelling there.* If there is uncertainty about which dwelling is the principal dwelling, it is identified from the length of time spent there, rather than other factors such as presence of other family members, cost, size, or length of tenure.

3.13. Individuals who belong to the same household must be residents of the same territory. If a member of an existing household ceases to reside in the territory where his or her household is

resident, the individual ceases to be a member of that household. Because of this definition, the use of households as the institutional unit is compatible with residence being determined on an individual basis.

3.14. Further to the general principles, some other factors are used to determine residence of particular categories. These categories are students, medical patients, ship's crew, as well as national diplomats, military personnel, staff of scientific stations, and other civil servants employed abroad in government enclaves. In these cases, some other connections are considered more important in determining residence. In the case of significant population movements between two particular territories, compilers in each territory should cooperate to ensure consistent definitions and measurement.

3.15. **Students** continue to be resident in the territory in which they were resident prior to undertaking a course of study abroad. This treatment is adopted even though their course of study may exceed a year. However, students change to being residents of the territory in which they are studying when they develop an intention to continue their presence in the territory of study after the completion of the studies.

3.16. **Patients** maintain their predominant centre of interest in the territory in which they were resident prior to the treatment, even in the rare cases where complex treatments take a year or more. As for students, the movement is considered to have a temporary motivation. The residence of accompanying dependents of patients is determined in the same manner as the persons they accompany.

3.17. **Crew of ships, aircraft, oilrigs, space stations, or other similar equipment** that operate outside a territory or across several territories are treated as being resident in their home base territory. The home base is determined from where they spend most time other than undertaking their duties. The home base is regarded as a stronger connection than the location of the mobile equipment or its operator, even though most of the time may be spent at the latter location.

3.18. **National diplomats, peacekeeping and other military personnel, and other civil servants** employed abroad in government enclaves, as well as members of their households are considered residents of the economic territory of the employing government. Those enclaves—military bases, embassies, and the like, as —form part of the economic territory of the employing government. They continue to be residents in their home economies even if they live in dwellings outside the enclaves. The expenditure of diplomats etc. in their host economies is included in government goods and services n.i.e. However, other employees, such as locally recruited staff are resident in the location of their principal dwelling.

3.19. **Staff of international organizations**, including those with diplomatic status and military personnel, are resident in the territory of their principal dwelling. The treatment of international organization staff is different from national diplomats and others discussed in the previous paragraph because the latter continue to be paid from and directed by their home government and tend to have shorter postings and rotate back to their economy of origin.

3.20. **Border workers, seasonal workers, and other short-term workers** cross borders for a short period to undertake a job. Therefore, no special treatment is adopted. Other short-term employment may occur for a particular task, such as a construction project, repairs, delivery of advice, and so forth. In each case, the residence of the persons concerned is based on the principal dwelling, rather than the territory of employment.

Residence of enterprises

3.21. As a general principle, an enterprise is resident in an economic territory when the enterprise is engaged in a significant amount of production of goods and/or services from a location in the territory. An enterprise is an institutional unit engaged in production, and may be a corporation or quasi-corporation, a nonprofit institution, or an unincorporated enterprise (part of household sector).

3.22. In contrast to individuals and households, which may have connections to two or more economies, enterprises are almost always connected to a single economy. Taxation and other legal

requirements tend to result in the use of a separate legal entity for operations in each legal jurisdiction. In addition, a separate institutional unit is identified for statistical purposes where a single legal entity has substantial operations in two or more territories (for example, for branches, land ownership, and multi-territory enterprises). As a result of splitting such legal entities, the residence of each of the subsequently identified enterprises is clear. The introduction of the terminology “centre of predominant economic interest” does not mean that entities with substantial operations in two or more territories no longer need to be split.

3.23. There is generally a requirement that production takes place or is planned to take place in the territory over a period of a year or more for a quasi-corporation to be identified. However, all enterprises must be resident somewhere, so if an actual institutional unit’s only activity is a production process that is undertaken over a shorter period, the unit is resident in the territory of location of the production.

3.24. A corporation with little or no physical presence is resident in the economic territory under whose laws the entity is incorporated or registered. If it is a resident artificial subsidiary, it is combined with a parent resident in the same economy to form an institutional unit or, for some purposes, combined into a local enterprise group. However, it must not be combined with entities resident in other economies. If it has substantial operations in another economy, a branch may be identified there. In some cases, a corporation has little or no physical presence, for example, its administration is entirely contracted out to other entities. Banking, insurance, investment funds (as distinct from their managers), securitization vehicles, and some special purpose entities often operate this way. Similarly, with virtual manufacturing, all the physical processes are outsourced to other units.

Residence of general government

3.25. General government includes operations outside the home territory, such as embassies, consulates, military bases, and other enclaves of foreign governments, including those providing training and other forms of assistance. Usually, these operations are not separate institutional units, but even if they were, they are residents of their

home territory, rather than the host territory in which they are physically located. This treatment is adopted because they usually have some degree of immunity from the host territory's laws and are deemed under international law to be extensions of the home government's territory. However, an entity created by a government under the laws of the host jurisdiction is an enterprise resident in the host economy and not part of the general government sector in either economy.

3.26. International organizations are resident in an economic territory of their own, and not of the economy in which they are physically located. This treatment applies to both international organizations located in only one territory and those located in two or more territories.

3.27. An international organization that operates peacekeeping and other military forces and/or acts as the interim administration in a territory remains as an international organization and is non-resident in that territory, even if it undertakes general government functions there. In cases where these organizations are significant, it may be desirable to identify them separately.

3.28. A separately constituted pension fund of an international organization is not treated as an international organization, but is regarded as a financial corporation. It is a resident of the territory in which it is located, and if it lacks a physical presence, of the economy where it is incorporated or registered.

Residence of nonprofit institutions serving households

3.29. A non-profit institution serving households (NPISH) has a centre of economic interest in the economy where the institution was legally created and is officially recognized and recorded as a legal or social entity. In practice, residence of the vast majority of NPISHs may be determined without ambiguity. However, when a NPISH is engaged in charity or relief work on an international scale, it may maintain substantial operations in individual territories that may amount to branches. Such a branch is usually financed largely or entirely by current or capital transfers from abroad. Non-profit institutions serving households are not international organizations (international organizations are limited to those created by governments).

Valuation of transactions

3.30. The market price is used as the basis for valuation of transactions in international trade in services. Market prices for transactions are defined as amounts of money that willing buyers pay to acquire something from willing sellers; the exchanges are made between independent parties and based on commercial considerations only—sometimes called “at arm's length.” Thus, transactions will generally be valued at the actual price agreed between the supplier and the consumer. The BPM6 identifies some of the more common circumstances under which it may not be possible to establish a market price and recommends that in such circumstances it may be appropriate to develop a proxy measure, by analogy with known market prices established under conditions that are considered essentially the same as those pertaining to the un-priced or mis-priced transaction.

3.31. Particular problems may arise in valuing international transactions between affiliated enterprises integrated under the same management but situated in different economies. Transactions may not be market transactions because there is a lack of independence among the parties to the exchange, and the prices used in portraying such transactions in the books of the enterprises (called *transfer prices*) may or may not be market prices. In some cases, transfer pricing may be motivated by income distribution or equity build-ups or withdrawals. The BPM6 notes that replacing book values (transfer prices) with market value equivalents is desirable in principle, where distortions between market and transfer prices are large and when availability of data (such as adjustments by customs or tax officials or from partner economies) makes it feasible to do so. Selection of the best market-value equivalents to replace book values is an exercise calling for cautious and informed judgment.³

3.32. Transactions may take place in a range of currencies, including the domestic currency of either the provider or the consumer of the services. To produce meaningful statistics, however, it is necessary for the compiler to convert all transaction values to a common unit of account. Most often, the common unit will be the national currency; this will

³ For further discussion on transfer pricing, see BPM6 chapters 3 and 11.

facilitate the use of such statistics in conjunction with other economic statistics relating to the domestic economy. However, if this currency is subject to significant depreciation relative to other currencies involved in the international transactions of the economy, growth in money terms in transactions over time may result from this depreciation. A similar effect may be observed if a country is experiencing hyperinflation. In such cases, it may be more analytically useful to express all transactions in another, more stable currency.

3.33. In principle, the most appropriate exchange rate to be used in converting transaction values from the currency of transaction to the currency of compilation is the market rate prevailing at the time that the transaction takes place. The use of a daily average exchange rate for daily transactions provides a very good approximation. If daily rates cannot be applied, average rates for the shortest period should be used. Some transactions, such as the accrual of interest, occur on a continuous basis over a period of time. For such flows, therefore, an average exchange rate for the period in which the flows occur should be used for currency conversion. The mid-point between buying and selling rates at the time of the transaction should be used so that any service charge (the spread between the mid-point and those rates) is excluded. This service charge is included as part of financial services (see para 3.xxx). However, because the actual mid-point rate at the time at which the transaction occurs may not be available to the compiler, an accepted practice is to take the average mid-point rate for the period for which the data are being compiled.

3.34. The BPM6 should be consulted for recommendations on conversion where there are multiple official exchange rates, or black or parallel market rates.⁴

Time of recording of transactions

3.35. The appropriate time to record transactions in services is when they are delivered or received. Some services, such as some transport or hotel services, are provided within a discrete period, in which cases, there is no problem in determining the time of recording. Other services are supplied or take place on a continuous basis. For example, construction, operating leasing, and insurance

services are recorded continuously as long as they are being provided. When construction takes place with a prior contract of sale, the ownership of the structure is effectively transferred progressively as the work proceeds. When services are provided over a period of time, there may be advance payments or settlements at later dates for such services (freight, insurance, construction, and so forth). The provision of services should be recorded on an accrual basis in each accounting period, i.e., they should be recorded as they are rendered not when the payment occurs. Transactions in services should be recorded on a gross basis—that is, transactions in imports and exports transactions should be separately compiled, rather than recorded net.

3.36. International transactions in services are in practice referred to as trade in services; a credit entry represents an export of services and a debit entry an import of services.

C. Scope of resident/non-resident trade in services

3.37. This chapter describes in detail, the measurement of international trade in services in the conventional balance of payments sense of transactions between residents and non-residents of an economy. The scope of these statistics is determined by the scope of the services components of BPM6, which are as follows:

1. *Manufacturing services on physical inputs owned by others*
2. *Maintenance and repair services n.i.e.*
3. *Transport*
4. *Travel*
5. *Construction*
6. *Insurance and pension services*
7. *Financial services*
8. *Charges for the use of intellectual property n.i.e.*
9. *Telecommunications, computer, and information services*
10. *Other business services*
11. *Personal, cultural, and recreational services*
12. *Government goods and services n.i.e.*

3.38. The service categories are described in the revised Extended Balance of Payments Services Classification (EBOPS 2010), which is completely

⁴ See BPM6, Chapter 3

consistent with BPM6, but provides for more detailed breakdowns in a number of areas. The EBOPS 2010 classification is described in detail in this chapter.

D. The Extended Balance of Payments Services Classification (EBOPS)

3.39. The revised version of this classification presented in this *Manual*, EBOPS 2010, updates that recommended in the previous MSITS. It provides for further breakdowns of the BPM6 classification to meet a number of user requirements, including the provision of information required in connection with GATS. A number of supplementary items are included in EBOPS 2010⁵. These supplementary items are not always confined to services transactions; they are included to provide additional information on the transactions that are to be recorded. In many countries, the information to be included in these supplementary items (e.g., for insurance) may be obtained as part of the process of data collection. These supplementary items provide useful additional information for analytical purposes, including data quality assessment. Often the data necessary for compiling the supplementary items are available as part of the data-collection process for the related EBOPS 2010 components. In such cases, the supplementary items should be compiled at the same time as the related EBOPS 2010 components. However, if the data are not available but are deemed important for the compiling economy, the compiler may choose to set up further data-collection systems to obtain appropriate data for the supplementary items.

3.40. The full EBOPS 2010 classification is given in Table 2 at the end of the chapter. The further detail recommended in EBOPS 2010 recognizes the detail necessary for trade negotiations, primarily those conducted under GATS, as well as the importance of services in studies of globalization. In the present *Manual*, it is recognized that not all countries have the same needs for data, and that compilers will make decisions on the data to be compiled based on

⁵ The list of supplementary items included in the EBOPS 2010 does not match the supplementary items in the BPM6 classification. Some of the items identified as supplementary in the BPM6 are standard items in EBOPS 2010, as the latter is a more detailed classification.

individual country needs. EBOPS 2010 is consistent with the BPM6 classification of services; Annex II shows the relationship between EBOPS 2010 and the BPM6 classification of services.

3.41. The classifications of services (BPM6 and EBOPS 2010) are primarily product-based classifications, and may be partially described in terms of the international classification of products, CPC Ver. 2. BPM6 describes the various services components in terms of CPC Ver.2. A similar, but more detailed, approach has been used in the present *Manual*, and annex III provides a detailed correspondence between EBOPS 2010 and CPC Ver.2. However, as in BPM6, there are a number of EBOPS 2010 components for which a correspondence with the CPC Ver. 2 cannot be established. In these areas, *travel, construction and government goods and services, n.i.e.*, a wide range of goods and services may be traded or consumed. These three areas of EBOPS 2010, which are discussed further below, emphasize the transactor and the mode of consumption of goods and services rather than the type of product consumed. Further, it should be noted that it is not possible to establish a one-to-one correspondence between EBOPS 2010 and CPC Ver.2 because in places CPC Ver.2 calls for more detail than is shown in EBOPS 2010, while in a few places, the reverse is true.

3.42. Included in GNS/W/120 are the *distribution services* of wholesale trade and retailing. In the 2008 SNA, wholesalers and retailers are entities that purchase and resell goods with no or only minimal processing (in the form of cleaning, packaging and so forth). They supply a service to producers and consumers of goods by storing, displaying and delivering a selection of goods in convenient locations, thus making them easy to buy. These services are not part of the international services transactions because the margins that represent those distribution services are included either in the free on board (f.o.b.) values of the goods to which they relate or are provided by the importer, so are transactions between residents. However, compilers may wish to provide estimates for these margins -- see chapter V, Box xx.

3.43. In the 2008 SNA, the *purchaser's price* is the amount paid by the purchaser, excluding any deductible value-added tax or similar deductible tax, in order to take delivery of a unit of good or service

at the time and place required by the purchaser. It includes any transport charges that are paid separately by the purchaser to take delivery at the required time and place (irrespective of who provides these services).

3.44. For services, the concept of market price in BPM6 is equivalent to the concept of purchaser's price in the 2008 SNA, because no wholesale, retail or transport distribution costs are involved.

3.45. However, for goods, BPM6 identifies the pricing level as FOB at the border of the exporting country. In general, the FOB price will not necessarily be the same as the purchaser's price because the FOB price may include separately invoiced distribution costs (wholesale and/or retail margins as well as transport costs to the border of the exporting country). Further, the purchaser's price will cover costs that take the goods to the purchaser's choice of location, which may be beyond the customs frontier. Therefore, those distribution costs, which are separately identified services in the 2008 SNA framework, are not separately identified in the balance of payments framework, but are of interest in a GATS analytical context.

3.46. It may not be possible for all countries to develop statistics at the detailed component level specified in EBOPS 2010. Therefore, as a first priority, compilers should develop the statistics on international trade in services at the level described in BPM6. Secondly, compilers should work towards disaggregation of these components to the level specified in EBOPS 2010, in an order that reflects the economic significance of the various services components to their economies. Thirdly, compilers should attempt to compile the supplementary items where the data are available as a by-product of the compilation of the related EBOPS 2010 components, or where their importance to users has been identified.

3.47. Although data that are of a higher frequency would be useful for a range of analytical purposes, the present *Manual* recommends that EBOPS-level data and the supplementary items be produced on an annual basis, consistent with and reconcilable to quarterly data at a more aggregated level.

E. Transactions between affiliated enterprises

3.48. Information on the value of all transactions between affiliated enterprises is helpful in understanding the degree to which globalization of services supply is taking place. This *Manual* therefore recommends that data on transactions in services separately identify transactions with related and unrelated enterprises. Although that breakdown would be most informative at the level of the detailed EBOPS 2010 classification, it is recognized that this could place an enormous burden on both suppliers and compilers of data and could raise issues of confidentiality. Therefore, the *Manual* recommends that such a breakdown be made only at the aggregate level for total services transactions. Countries willing to provide additional detail are encouraged to do so. This recommendation is accorded a lower priority than the compilation of the statistics at the level of detail described in EBOPS.

F. Statistics by trading partner

3.49. There is a need for detailed geographical allocations of the statistics on the various types of services supplied and consumed by each economy according to the country of residence of trading partners. Such statistics give a firm basis for multilateral and bilateral trade in services negotiations that are carried out under GATS; they reveal developments in patterns of trade by type of service and are important for a variety of analytical purposes. Bilateral comparisons of one country's data with those of a trading partner, using "mirror statistics", are an important tool for investigating and improving data quality. To the extent possible, an identical geographical basis should be used for all related sets of international services statistics (including FATS statistics).

3.50. Thus, in the present *Manual*, it is recommended that statistics on international trade in services be compiled on an individual trading partner basis, at least at the level of the 12 major components of the BPM6 classification of services, and where possible at the more detailed EBOPS 2010 level. The production of these statistics is one of the core elements recommended in the present *Manual*, and data collection by trading partner should be developed, if practicable, concurrently with the development of data collection at the EBOPS 2010 level. It is recognized that, depending

on the data collection methods used, it may be very resource-intensive and difficult for compilers to develop statistics by trading partner.

3.51. Given the obstacles, such as disclosure or incomplete information, to providing a complete detailed geographic breakdown of trade in services, the present *Manual* recommends that statistics be compiled at a detailed partner country level where compilers identify such statistics as being of most relevance in their economies. This means that countries should give priority to detailing their trade in services with their main trading partners.

G. Difference between service provision and provision of labour

3.52. Services provided by a consultant, independent contractor, or employment agency are distinguished from the provision of labour. Payments for the use of labour are measured as compensation of employees and included as part of primary income in the macroeconomic statistics framework. It may be difficult to determine whether an individual transaction is an employment payment or payment for a service provided as, in many cases, an enterprise might choose either to purchase a service from a self-employed worker or to hire an employee to perform the work. An employer-employee relationship exists when there is an agreement, which may be formal or informal, between an individual and an entity, whereby the individual works for the entity in return for remuneration in cash or in kind. If an individual is contracted to produce a given result, then it is assumed that a service contract relationship exists between the individual (who may be considered self-employed) and the entity. Thus, if an employer-employee relationship exists, then the payment constitutes compensation of employees⁶.

3.53. Self-employed individuals sell the services they produce, and may employ others. They generally control or direct what shall be done and how it shall be done, and are generally responsible for decisions on markets, scale of operations and finance, and are also likely to own, or rent, machinery or equipment on which they work. If the

individual is solely responsible for the payment of social contributions then that would suggest that the individual is a service provider. The BPM6 provides further guidelines on distinguishing between the provision of services and the provision of labour.

Outsourcing

3.54. Services that are “outsourced”—that is, where a company contracts another (specialist) company to provide services that were previously internal company functions, such as billing services or information “help” services—should be classified to the appropriate services item. Services supplied by “call centres” and similar types of operation should be classified according to the type of service provided. For example, call centres selling products are included in trade-related services, while call centres providing computer support are included in computing services. The supplementary aggregation of call centre services is discussed in paragraph 3.xxx below.

Electronic commerce

3.55. Electronic commerce or e-commerce, as it is more widely known, is a method of ordering and/or delivering products by electronic means, such as through the internet or other computer-mediated networks. In principle, charges for electronically delivered products are included in services, while goods supplied across the border are generally classified as goods (except that products obtained with a license to use, rather than through change of economic ownership, are included in services). Shipping charges associated with e-commerce are allocated in line with the FOB valuation principle.⁷ Financial services associated with e-commerce are included in financial services.

⁷ In the macroeconomic statistics system, goods are valued at *free on board* valuation. Freight and insurance services beyond the border of the exporting economy are the responsibility of the importer.

⁶ BPM6 Chapter 11 provides a comprehensive discussion of the factors that determine an employer-employee relationship. Also include a reference to chapter V.

Box 1

Reconciling Balance of Payments Trade in Goods and Services and International Merchandise Trade Statistics

Users may be interested in deriving statistics of international trade in goods and services by aggregating statistics on international trade in services from the balance of payments statistics and international trade in goods from the international merchandise trade statistics (IMTS). However, there are conceptual differences between these two sets of statistics that should be taken into account and if these differences are not considered, aggregation may lead to double counting or omissions. Detailed merchandise trade statistics are based on the IMTS, Rev.2 while trade in services between residents and non-residents is defined within the framework of the BPM6. Differences between the IMTS and general merchandise balance of payments are shown in the table hereafter. A few of those differences relate to transactions that may be recorded in the IMTS (as goods), but are classified in the balance of payments statistics under trade in services, as follows:

- CIF/FOB adjustments: The costs of freight and insurance relating to transporting the goods from the border of the exporting country to the border of the importing country are excluded from the value of general merchandise imports in the balance of payments of the compiling economy. They are classified as imports of services, if provided by a nonresident.
- Goods for processing without change of ownership: These are excluded from the recording of general merchandise in the balance of payments (both credits and debits). Instead, the value of the processing fee is recorded as a service under “*Manufacturing services on physical inputs owned by others*”.
- Goods imported for projects by nonresident construction enterprises: These goods are included in the gross value of construction.

	Exports	Imports
Merchandise trade statistics as provided in source data		
Adjustments, as relevant:		
+ <i>Goods procured in ports by carriers</i>		
+ <i>Fish catch, minerals from the seabed and salvage sold from resident-operated vessels</i>		
+ <i>Goods changing ownership entering/leaving territory illegally</i>		
+/- <i>Goods lost or destroyed in transit</i>		
+ <i>Goods acquired from other economies for processing abroad</i>		
+ <i>Goods sold abroad after processing in other economies</i>		
+/- <i>Goods changing ownership in customs warehouses or other zones</i>		
- <i>Migrants' personal effects</i>		
- <i>Goods imported for construction projects by nonresident enterprises</i>		
- <i>Goods for repair or storage without change of ownership</i>		
- <i>Goods sent abroad or returned after processing without change of ownership</i>		
- <i>Returned goods</i>		
+/- <i>High-value capital goods, if delivery differs from change of ownership</i>		
- <i>CIF/FOB adjustment</i>		
+ <i>Net exports of goods under merchanting</i>		
+ <i>Nonmonetary gold</i>		
= Total goods on a balance of payments basis		

This list is not exhaustive but is instead indicative of the common adjustments that could be made. Some of the adjustments listed may not be necessary because international merchandise trade statistics data for the economy may treat the item in the same way. For example, an adjustment for goods entering or leaving customs warehouses is not necessary if data are sourced from international merchandise trade on a general trade basis.

H. Definitions of the components of the Extended Balance of Payments Services classification

3.56. In the remainder of the present chapter, the definitions of the various components of EBOPS 2010 are discussed in detail. The classification, shown in Table 2, is primarily product-based, but is transactor-based for travel and government goods and services n.i.e. The classification is listed in annex II. Annex III provides a detailed correspondence table between EBOPS 2010, CPC Ver.2 and the GNS/W/120 services sector list that is generally used by trade negotiators; it may be used to assist the compiler in resolving classification problems and to link statistical classifications with the classifications used in GATS commitments.

1. Manufacturing services on physical inputs owned by others

3.57. *Manufacturing services on physical inputs owned by others* covers activities such as processing, assembly, labelling, packing, and so forth, undertaken by enterprises that do not own the goods.

3.58. The manufacturing is undertaken by an entity that does not own the goods and that is paid a fee by the owner. In these cases, the ownership of the goods does not change, so no general merchandise transaction is recorded between the processor and the owner.

3.59. Examples of processes that are often undertaken under arrangements for manufacturing services on physical inputs owned by others include oil refining, liquefaction of natural gas, assembly of clothing and electronics, assembly (excluding assembly of prefabricated construction, which is included in construction), labelling, and packing (excluding those incidental to transport, which are included in transport services).

3.60. *Manufacturing services on physical inputs owned by others* covers the transaction between the owner and processor, and only the fee charged by the processor is included under this item. This fee may include the cost of materials purchased by the processor. Manufacturing services on physical inputs owned by others refer to all work done on

goods by a resident of one economy for the owner of goods who is resident in another economy; the treatment of these services is not conditional on whether the goods were previously or subsequently in the physical possession of the owner or not.

Recording of related goods movements

3.61. The gross values of goods associated with processing services can be identified as supplementary items for the economies where they are significant. While the manufacturing service is consistent with what is recorded in business accounts and actual transactions, the gross values of the physical movements of goods without a change of ownership are useful for analysis of processing activities. Values of the following items may be identified:

3.62. (a) for customers of manufacturing services on goods processed abroad (with no change of ownership to the processor):

- goods supplied for processing (goods sent);
- goods dispatched after processing (goods returned);

(b) for providers of manufacturing services on goods processed in the compiling economy (with no change of ownership to the processor):

- goods received for processing (goods received);
- goods dispatched after processing (goods sent).

3.63. A market-equivalent valuation for goods supplied/received might be required. Gross values of the goods are shown after processing, and again a market-equivalent valuation might be required.

3.64. Transport costs may be incurred on movements on goods undergoing processing. How these transport services are recorded is determined from the following factors:

- (a) for goods included in general merchandise, general principles for FOB valuation apply, so that transport costs up to the customs frontier

treated as being payable by the exporter and transport costs after the frontier treated as payable by the importer; and

(b) for goods not included in general merchandise (such as materials delivered from the owner to the processor with no change of ownership), transport costs are shown as payable according to the arrangements of the parties, that is, the amount is payable by the party invoiced to pay the expense.

3.65. The value of manufacturing services on physical inputs owned by others is not necessarily the same as the difference between the value of goods sent for processing and the value of goods after processing. Possible causes include holding gains/losses, the inclusion of overheads (such as financing, marketing, and know-how included in the finished good price), and measurement errors associated with the valuation of goods movements where there is no sale.

3.66. For example, assume that a manufacturer in Economy X owns goods worth 1000. These goods are sent to Economy Y to be processed. There is no change of ownership of the goods. After processing these goods are worth 1300. The difference of 300 comprises the processing fee of 120 charged by the processor, holding gains of 80, and overheads of 100. Thus, manufacturing services on physical inputs owned by others is 120 and represents imports of services by Economy X and exports of services by Economy Y. If the costs of overheads and so forth are transactions between of Economy X and non-residents, then these transactions would be recorded under the relevant items.

3.67. Assume further, that these goods are not returned to Economy X but are instead sold to Economy Z. This does not affect the recording of the services between X and Y and the same transactions in manufacturing services on physical inputs owned by others are recorded.

3.68. If the processor acquires ownership of the goods, then the gross values of the sale and purchase of these goods are included in general merchandise. This is therefore considered manufacturing of goods on own account, in contrast to manufacturing services on physical inputs owned by others.

3.69. Manufacturing on own account and manufacturing services on physical inputs owned by others are different arrangements for manufacturing, and it is desirable to show them separately because the role of the manufacturer in designing, marketing, and financing the goods is quite different. With globalization and outsourcing, it is becoming more common to have parts of a production process conducted in different economies. Showing these transactions on a change of ownership basis assists in identifying actual transactions and correctly attributing value added due to the owner for designing, marketing, financing, etc, rather than to the party that undertakes physical processes.

2. Maintenance and repair services n.i.e.

3.70. ***Maintenance and repair services n.i.e*** covers maintenance and repair work by residents on goods that are owned by non-residents (and vice versa). The repairs may be performed at the site of the repairer or elsewhere. Maintenance and repairs on ships, aircraft, and other transport equipment are included in this item. Cleaning of transport equipment is included in transport services. Construction repairs and maintenance are excluded; they are included under construction. Maintenance and repairs of computers are included under computer services.

3.71. The value recorded for maintenance and repairs is the value of the repair work done—not the gross value of the goods before and after repairs. The value of maintenance and repairs includes any parts or materials supplied by the repairer and included in the price (parts and materials charged separately are excluded from services and included in general merchandise). Maintenance and repair services n.i.e. covers both minor repairs that maintain the item in working order and major repairs that extend the efficiency or capacity of the good or extend its life.

3. Transport

3.72. ***Transport*** covers the process of carriage of people and objects from one location to another as well as related supporting and auxiliary services, including rentals (charters) of carriers with crew. Also included are postal and courier services. Transport can be classified according to: (a) mode of transport; and (b) what is carried - passengers or freight.

3.73. The EBOPS 2010 follows the BPM6 in recommending a cross-classification of transport by mode of transport and by kind of service. While

3.75. *Air transport* covers all freight and passenger transport services provided by aircraft,

Box 2.

The recording of production delivered from a base and the activities of multiterritory enterprises

In some cases, an enterprise may have a location that is used as a base to deliver services to other locations. This mode is used for transport and many kinds of services, such as on-site repairs, short-term construction, and many types of business services. In such cases, the residence of the enterprise is determined from its base of operations, rather than the point of delivery of the service or location of mobile equipment, unless the activities at the point of delivery are sufficiently substantial to amount to a branch. For example, construction may be carried out by a non-resident enterprise, without the creation of a resident legal entity. In these cases, the work provided to the customers that are resident in the territory of the operations is classified as international trade in services (construction). However, for major projects (such as bridges, dams, power stations) that take a year or more to complete and that are managed through a site office, the operations would usually satisfy the criteria for identification of a of a branch and would not be classified as trade in services.

Multi-territory enterprises function as a seamless operation across more than one economic territory. Although the enterprise has substantial activity in more than one economic territory, it is run as an indivisible operation with no separate accounts or decisions, so that no separate branches can be identified. Such enterprises may have operations including shipping lines, airlines, hydroelectric schemes on rivers shared by more than one territory, pipelines, electricity transmission lines, bridges, tunnels, undersea cables. Some non-profit institutions serving households may also operate in this way.

Governments usually require separate entities or branches to be identified in each economic territory for more convenient regulation and taxation. Multi-territory enterprises may be exempted from such requirements, but there may be arrangements, such as a formula for payment of taxation to the respective authorities. In the case of a multi-territory enterprise, it is preferable that separate institutional units be identified for each economy. If that is not feasible because the operation is so seamless that separate accounts cannot be developed, it is necessary to prorate the total operations of the enterprise into the individual economic territories. The factor used for prorating should be based on available information that reflects the contributions to actual operations. For example, equity shares, equal splits, or splits based on operational factors such as tonnages or wages could

BPM6 recommends the identification of three modes of transport, EBOPS 2010 distinguishes nine modes of transport—sea, air, space, rail, road, internal waterway, pipeline, electricity transmission, and other supporting and auxiliary transport services—as well as postal and courier services. The EBOPS 2010 recommends the same classification of kind of service as BPM6—transport of passengers, transport of freight, other supporting and auxiliary services, and postal and courier services. A discussion of the modes of transport and kinds of service follows.

3.74. *Sea transport* covers all freight and passenger transport services undertaken by seagoing vessels. It does not include transport by underwater pipelines (included in pipeline transport).

including international passenger transport.

3.76. The remaining modes of transport are a disaggregation of the single BPM6 mode “other transport.”

3.77. *Space transport* includes satellite launches undertaken by commercial enterprises for the owners of the satellites (such as telecommunication enterprises) and other operations performed by operators of space equipment, such as transport of goods and people for scientific experiments. Also included are space passenger transport and the payments made by an economy in order to have its residents included on the space vehicles of another economy.

3.78. **Rail transport** covers transport by trains.

3.79. **Road transport** covers international freight transport by lorries and trucks and international passenger transport by buses and coaches.

3.80. **Inland waterway transport** relates to international transport on rivers, canals and lakes. Included are waterways that are internal to one country and those that are shared among two or more countries.

3.81. **Pipeline transport** covers international transport of goods in pipelines, such as the transport of petroleum and related products, water and gas. Excluded are distribution services for water, gas and other petroleum products (included in *other business services, other*).

3.82. **Electricity transmission** covers the movement or transfer of electric energy at high voltage over an interconnected group of lines and associated equipment between points of supply and the points at which it is transformed to low voltage for delivery to consumers or delivery to other electric systems. Transmission is considered to end when the electricity enters distribution facilities of an electric system that deliver electricity to end-users for consumption. (see Box 3.) This is to be distinguished from electricity distribution, which is the delivery of electricity from the substation to the consumer. The electricity itself is excluded, as is the service of distribution of electricity (included in *other business services, other*).

3.83. **Other supporting and auxiliary transport services** covers all other transport services that cannot be allocated to any of the components of transport services previously described.

3.84. EBOPS 2010 and BPM6 distinguish the same breakdown into kinds of transport service.

3.85. **Passenger services** covers the transport of people. It includes all services provided in the international transport of non-residents by resident carriers (export of services) and that of residents by non-resident carriers (import of services). Also included are passenger services performed within an economy by non-resident carriers. The valuation of passenger transport should include fees payable by the carriers to travel agencies and other providers of reservation services.

3.86. Passenger services include fares and other expenditure related to the carriage of passengers. Included are any taxes levied on passenger services, such as sales or value added taxes. Passenger services includes fares that are a part of package tours; charges for excess baggage, vehicles, or other personal accompanying effects; and food, drink, or other items purchased on board carriers. Also included in passenger services are rentals provided by residents to non-residents, and vice versa, of vessels, aircraft, coaches or other commercial vehicles with crews for limited periods (such as a single voyage) for the carriage of passengers.

3.87. Excluded are passenger services provided to non-residents by resident carriers within the resident economies (included in *travel*), cruise fares (included in *travel*), rentals of time charters without crew (included in *operating leasing services*), and rentals or charters that are financial leases (not included in EBOPS 2010),

3.88. **Freight services** covers the transport of objects. It may be divided into three categories. The first two are related to the fact that, in line with the recommendations of the BPM6, goods are valued FOB⁸ at the customs frontier of the exporting economy. Thus, freight charges beyond the customs frontier of the exporting country, are by convention, borne by the importing economy (whether or not these are directly charged to the importer or included in the import price).

3.89. The first category relates to international transport of the compiling economy's exports and imports of goods; included are transport services provided by (a) resident operators, beyond the customs frontier of the compiling economy, on the compiling economy's exports (exports of freight services), and (b) non-resident operators, beyond the customs frontier of the exporting economy, on the compiling economy's imports (imports of freight services).

3.90. The second category of *freight* transport is transport services provided by (a) resident operators of the compiling economy inside the customs frontier of the exporting economy, on the compiling economy's imports (exports of freight services), and (b) operators not resident in the compiling economy,

⁸ For a fuller discussion of valuation f.o.b., see BPM6, Chapter 10.

inside the customs frontier of the compiling economy, on the compiling economy's exports (imports of freight services).

3.91. The third category is concerned with *freight* transport supplied for goods where there is no change of ownership. These include the following:

- (a) transit trade through an economy;
- (b) transport of goods between third economies (cross-trade);
- (c) coastal transport or other transport of goods between points within an economy;
- (d) movements of goods to or from entities located outside territories where the entities are residents (such as government agencies) provided by non-resident carriers;
- (e) goods sent for storage or processing and migrants personal effects; and

3.92. ***Other supporting and auxiliary transport services*** include services that are auxiliary to transport and not directly provided for the movement of goods or people. Those services that are not covered above and that relate to one mode of transport only are recorded under the ***other*** category for the appropriate mode of transport (sea, air, rail, road and inland waterway transport). Included, for example, are: cargo handling (such as loading and unloading of containers) that is billed separately from freight; storage and warehousing; packing and repackaging; towing not included in freight services; pilotage and navigational aid for carriers; air traffic control; cleaning performed in ports and airports on transport equipment; salvage operations; and agents' fees associated with passenger and freight transport (including freight forwarding and brokerage services). Services that relate to more than one mode of transport and that cannot be allocated to individual modes of transport are recorded under ***other supporting and auxiliary transport services***.

Box 3. Electric Power Transmission and Distribution

Cross-border trade in electricity has become an important and growing aspect of international trade in goods and services. It is not feasible economically or practically to store large amounts of electricity; therefore, the electricity has to reach the consuming units as soon as it is produced. However, electricity generation may take place at plants that are distant from the population centers, such as hydro-electrical plants and nuclear plants. In addition, the generating plant may be located in areas to allow production to take advantage of the resources that may be too costly to transport over long distances.

An electrical power system comprises the electricity generating plants, the transmission network (or grid) and the distribution facilities. Electricity demand is variable; however, the high capital cost of generating plants suggests that it may be cheaper to purchase electricity to meet the high demand rather than increasing generating capacity to meet temporary fluctuations. Further, since demand variability tends to be correlated with geography, the increased demand is normally met from distant power plants. Thus, transmission networks may span several countries across vast areas of continents.

The transmission network comprises the transmission lines and substations. After generation, the electricity is transformed to a high voltage to facilitate transmission from the power generating plant to the substations located in the population concentrations. At the substations, the electricity voltage is stepped down for distribution to the consuming units. Thus, the transmission process plays the role of transporting the electricity from the production to the wholesalers and retailers, who are responsible for supplying the consumers.

There may only be a few enterprises engaged in electricity transmission and in many countries, it is a monopoly. The companies generally specialize in transmission and are not engaged in generation or distribution.

3.93. Some related items that are excluded from transport services are: freight insurance (included in *insurance services*); goods procured in ports by non-resident carriers (goods, not services); repairs and maintenance of transport equipment (included in *maintenance and repair services n.i.e.*); repairs of railway facilities, harbours, and airfield facilities (included in *construction*); and rentals or charters of carriers without crew (included in *operating leasing services*). Paragraph 3.xxx above discusses the issues relating to the attribution of residence of owners and operators of mobile equipment, including ships and aircraft.

3.94. **Postal and courier services** cover the pick-up, transport and delivery of letters, newspapers, periodicals, brochures, other printed matter, parcels

and packages, including post office counter and mailbox rental services.

3.95. It includes post office counter services, such as sales of stamps, poste restante services, telegram services etc. Postal services are often, but not exclusively, supplied by national postal administrations. Excluded are financial services rendered by postal administration entities, such as postal giro, banking and savings account services (recorded under *financial services*), mail preparation services (recorded under *other business services, other*), and administration services related to postal communication systems (included in *telecommunication services*). Postal services are subject to international agreements, and the service entries between operators of different economies

should be recorded on a gross basis. Postal services provided to travellers are included in *travel*.

3.96. Courier services include express and door-to-door delivery. Couriers may use self-owned, privately shared, or public transport to carry out these services. Courier services may encompass combinations of road, sea, air, and other methods of transport. Express delivery services might include, for example, on-demand pick-up or time-definite delivery. Excluded are the movement of mail carried by air transport enterprises (recorded under *transport, air, freight*), storage of goods (recorded under *transport, other, auxiliary and supporting services*), and mail preparation services (recorded under *other business services, other*).

3.97. The principles for recording postal and courier services on exports and imports of merchandise are the same as for other freight services, as discussed in para 3.XXX. This treatment is a consequence of the FOB valuation of the goods concerned in the BPM6 and the 2008 SNA. The principles for recording postal and courier services on other items, such as documents, personal effects, and goods for repair is that the service is payable by the party responsible for payment.

4. Travel

3.98. The *travel* component of the EBOPS 2010 differs from most internationally traded services in that it is a transactor-based component; it therefore covers an assortment of goods and services. Unlike most services in EBOPS, *travel* is not a specific product; rather it is a range of goods and services consumed by non-residents in the economy that they visit. Thus, the residence of the consumer of these goods and services gives *travel* its distinctive characterization.⁹ It is for this reason that *travel* is not identified with any corresponding categories of CPC Ver.2.

3.99. Travel includes goods and services acquired by persons undertaking study or medical care while outside the territory of residence. It also includes acquisitions of goods and services by seasonal,

⁹ These goods and services may be purchased before or after the physical movement occurs, as well as during the period of travel.

border and other short-term workers in the economy of the employment¹⁰.

3.100. The goods and services may be purchased by the persons concerned or by another party on their behalf. e.g., business travel may be paid or reimbursed by an employer, tuition and living costs of a student may be paid by a government, or health costs may be paid or reimbursed by a government or insurer. Goods and services supplied by the producer without charge are also included, e.g., tuition and board provided by a university.

3.101. The goods and services purchased by, or provided to the non-resident while on the trip that would otherwise be classified under another item, such as postal services, telecommunications, and transport, are included in travel. It includes transport within the economies being visited, where such transport is provided by carriers resident in the particular economy being visited, but excludes the *international* carriage of persons, which is covered in *passenger services* under *transport services*. Also excluded are goods purchased for resale in the resident's own economy or in any other economy. Further, the acquisition of valuables (such as jewellery and expensive art), consumer durable goods (such as cars and electronic goods), and other consumer purchases for own use, which are in excess of customs thresholds, are excluded. These goods are included in general merchandise.

3.102. Travel excludes the acquisition of goods and services by diplomats, consular staff, military personnel, etc. and their dependents in the territory in which they are posted.

3.103. *Travel*, as defined in the present *Manual*, is synonymous with the term *travel* used in BPM6. It is also related to the term *tourism* used in the *2008 International Recommendations for Tourism*

¹⁰ The 2008 International Recommendations for Tourism Statistics uses the concept of "usual environment", which varies from the concept of residence used in this Manual and the BPM6. The concept is designed to exclude from tourism, persons that travel regularly between their place of usual residence and places of work, study, or other places visited as part of the regular life routine, although these places may be in a different economic territory. Thus, tourism expenditure would exclude that of border, seasonal, and other short-term workers and of regular routine border crossers (for example, people who cross the border regularly to shop).

Statistics. However, there are some differences between the present *Manual* and BPM6, on the one hand, and the tourism guidelines on the other hand. Thus, the following are excluded from tourism but included in travel:

- imputed values such as accommodation that may be provided free of charge;
- the acquisitions of goods and services by border, seasonal and other short-term workers;

On the other hand, the following are excluded from travel, but included in tourism:

- purchases of valuables and consumer durables, irrespective of their unit value (whereas travel only includes valuables and consumer durables below a customs threshold);
- expenditure on international passenger transportation when representing a resident-nonresident transaction.

3.104. EBOPS 2010 recommends a breakdown of *travel* into *business* and *personal* travel with a further breakdown of each of these components.

3.105. ***Business travel*** covers the acquisition of goods and services by persons whose primary purpose of travel is for business. Examples include carrier crews stopping off or laying over; government employees on official travel; employees of international organizations on official business; employees travelling on behalf of their employing enterprise that is not resident in the economies visited; self-employed individuals travelling for business purposes; and seasonal, border, and other short-term workers who are not resident in the economy in which they are employed and whose employer is resident in that economy. The business activities may include production or installation work, sales campaigns, market exploration, commercial negotiations, missions, conferences, conventions, other meetings, or other business purposes on behalf of an enterprise resident in another economy. *Business travel* also includes the acquisition of goods and services for personal use by seasonal, border and other workers who are not

resident in the economy in which they are employed and whose employer is resident in that economy.

3.106. *Business travel* includes the goods and services acquired for their own personal use by persons whose main purpose of travel is for business (including the goods and services for which they are reimbursed by employers). It does not include the sales or purchases that they may undertake on behalf of the enterprises they represent.

3.107. The acquisition of goods and services for personal use by seasonal, border and other workers, who are not resident in the economy where they are employed, and whose employer is resident in that economy, is separately identified in the EBOPS 2010 subcomponent ***acquisition of goods and services by border, seasonal and other short-term workers***. All other *business travel* is included in the EBOPS 2010 subcomponent ***other*** business travel. The separate identification of these items would facilitate the reconciliation with tourism statistics.

3.108. ***Personal travel*** covers goods and services acquired by persons going abroad for purposes other than business, such as holidays, participation in recreational and cultural activities, visits with friends and relations, pilgrimage, and education- and health-related purposes. The present *Manual* recommends a breakdown of personal travel into three sub-components:

- ***health-related expenditure*** (that is, medical services, other healthcare, food, accommodation, local transport, and so on acquired by persons travelling for medical reasons);
- ***education-related expenditure*** (that is, tuition, food, accommodation, local transport, health services, and so on acquired by non-resident students); and
- ***other expenditure*** (this component includes expenditure by those not travelling for health or educational purposes). This category is usually the largest component of travel as it includes all persons going abroad for holidays, recreational and cultural activities, visits with friends and relations, and pilgrimages.

3.109. An alternative disaggregation of *travel services* is also recommended, according to the following categories:

- *goods*;
- *local transport services*;
- *accommodation services*
- *food-and beverage-serving services*, and
- *other travel-related services*.

3.110. A further breakout of *other travel-related services* into *health services* and *education services* is also suggested. This alternative disaggregation, included in the supplementary items to EBOPS, will allow the allocation of expenditure on services to *mode 2 supply of services*. It will also allow for closer links to tourism statistics and supply and use tables. The separate identification of expenditure on local transport, accommodation and food services will facilitate the analysis of travel expenditure.

3.111. The most common goods and services entered under *travel* are lodging, food, beverages, entertainment and transport within the economy visited (all of which are consumed in the supplying economy), and gifts, souvenirs and other articles purchased for own use and that may be taken out of the economies visited.

3.112. In line with the accrual principle, goods and services acquired during the visit but paid for earlier or later are included in travel. Goods and services may be acquired by being paid for by the person going abroad, paid for on his/her behalf, or provided without a quid pro quo (e.g., free room and board received, in such case there is also a corresponding transfer), or produced on own account (as in some cases of ownership of real estate and time-share accommodation).

3.113. Goods and services included in the travel component may be provided through a travel agent, tour operator, time-share exchange agent, or other provider. In some of these cases, the agent may pay the travel providers an amount that deducts a margin or commission. If the agent is a resident of the same economy as the customer, then the margin or commission is a resident-to-resident transaction, and the net amount payable to service providers resident

in other economies (after the margin or commission receivable by the agent is deducted) is included in travel. In other cases, the non-resident provider of the services may pay the resident agent's commission and the gross amount is payable to non-residents. Fares for cruises provided by operators resident in economies other than that of the passenger are included in travel (not passenger transport).

3.114. While the outright purchase of vacation or holiday homes has always been an alternative to using other types of short-term accommodation by non-residents, new forms of acquisition and leasehold of holiday homes have emerged.

3.115. The term "time-share" covers a wide range of these arrangements. The recording of the periodic flow of accommodation services is derived based on the following arrangements:

- (a) The acquisition of deeded ownership of property; i.e. the ownership of land and buildings. The accommodation services provided to the owner should be imputed based on market prices.
- (b) Payments for rights to use a property under a membership system. These payments are equivalent to pre-paying for accommodation services. After the initial acquisition, the prepayment is drawn down and the imputed accommodation services are recorded in travel¹¹.

5. Construction

3.116. **Construction** covers the creation, renovation, repair, or extension of fixed assets in the form of buildings, land improvements of an engineering nature, and other such engineering constructions as roads, bridges, and dams. It also includes related installation and assembly work. It includes site preparation and general construction as well as specialized services such as painting, plumbing, and demolition. It also includes

¹¹ The BPM6 distinguishes between a membership system with a transferable right to use and a membership system with a non-transferable right to use. However, this distinction is not important for international trade in services statistics as the periodic flows are the same.

management of construction projects. GATS is interested only in the service aspects.

3.117. Acquisition of goods and services by the enterprises undertaking that construction work from the economy of location of the construction work is also recorded under construction. Goods and services provided from the home economy are resident-to-resident transactions, and so should be excluded. Goods and services acquired from third economies (i.e., neither the residence of the enterprise, nor the location of the construction work) are recorded under the appropriate general merchandise or service item for the economy of the enterprise.

3.118. If the external operations of a construction enterprise are substantial enough, they may constitute a branch resident in the economy of operations (see para 3.XXX). As a result, a large-scale construction project contracted by a non-resident enterprise that takes a year or more to complete will usually give rise to a resident branch. Accordingly, there would be a direct investment relationship between the parent and the branch; there may also be goods and services supplied between the branch and the parent, such as for materials. Such cases are mode 3 activity, and are discussed in para 4.XXX. As a result of this treatment, the contracts covered in services will tend to be short-term and small-scale.

3.119. Construction can be disaggregated into *construction abroad* and *construction in the compiling economy*. This disaggregation allows for the recording on a gross basis of both the construction work undertaken and the goods and services acquired in the host economy by non-resident enterprises undertaking the construction. **Construction abroad** comprises: (a) construction work for non-residents by enterprises resident in the compiling economy (export of services); and (b) the goods and services acquired from the host economy

by these enterprises (import). **Construction in the compiling economy** comprises: (a) construction work for residents of the compiling economy by non-resident construction enterprises (import); and (b) the goods and services acquired in the compiling economy from resident entities by these non-resident enterprises (export). Both sub-components of *construction* cover the work performed on construction projects and installations by employees of an enterprise in locations outside the economic territory of the enterprise.

3.120. *Construction* is valued on a gross basis—that is, inclusive of all goods and services used as inputs to the work, all other costs of production and the operating surplus that accrues to the owners of the construction enterprise. This valuation principle is the same as that which applies in the valuation of all production (of both goods and services), as described in the 2008 SNA.

3.121. The transfer of ownership of construction under a contract may be deemed to occur in stages as value is put in place. In such cases, stage payments made by the owner can often be used to approximate the gross value of construction although stage payments may sometimes be made in advance or in arrears of the completion of the stage. Construction may also be undertaken in a similar way to *manufacturing services of physical inputs owned by others* where the customer provides goods and services to the contractor as inputs into the construction project. In this case, the inputs do not change ownership; therefore, only actual changes in ownership should be recorded and not physical movements.

3.122. Repairs on embassies, bases, etc. owned by the government that occupies them are included in *government goods and services n.i.e.*

Box 4. A numerical example of measurement of construction

Enterprise A, resident in country A, undertakes construction in country B valued at 10,260. To undertake the construction, enterprise A purchases inputs of materials and labour consisting of:

Materials (goods and services) and labour purchased in country A	units 1 200
Of which:	
Goods	645
Services	120
Labour	435
 Materials and labour purchased in country B	 6 655
Of which:	
Imported from country A	525
Imported from country C	1 730
Sourced in country B	2 290
Labour	2 110
Total cost of purchased inputs	7 855
 In addition, a gross operating surplus accrues to enterprise A of:	 2 405
 Giving a gross value of construction of:	 10 260

The total value of the construction services produced is the sum of the inputs into the production process and the gross operating surplus accruing to the producing enterprise. Thus, the value of construction is 10,260 units.

What would be measured under construction between residents and non-residents?

In country A*Construction abroad*

Credit 10 260 ^a
Debit 4 545 ^b

In country B*Construction in the compiling economy*

Credit 4 545 ^b
Debit 10 260 ^a

^a Gross value of construction.

^b Amount of goods and services purchased by enterprise A in economy B (the host economy), equal to 525+1730+2290 units

Labour (compensation of employees) is recorded as primary income in the macroeconomic statistics (see Section H and Chapter V Box XXX for an explanation of the difference between service provision and the provision of labour). The labour purchased in country B was provided by residents of country B.

3.123. Transactions in existing buildings are included in construction in the same way as new buildings. Most transactions involving acquisitions of existing buildings and land are treated as being between two resident units in the macroeconomic statistics. International transactions of construction can arise when a building for an embassy, consulate, military base, or international organization is sold to, or purchased from, a resident of the economy in which the building is physically located. Transactions in construction may also occur for buildings in an area that is exchanged between economies. The change in ownership of the land component is not included in *construction*; separate estimates should be made for the structure and land components.

3.124. *Expenditure on goods and services in the host economy* includes expenditure by the construction enterprise on locally supplied items as well as expenditure in the host economy by the construction enterprise on goods and services that have been imported to the host economy, where the goods and services are for use on the construction site. In the particular case where the construction enterprise purchases goods and services in its home economy, these still constitute part of the value of construction. However, because they have not been purchased in the host economy, they are excluded from *goods and services purchased in the host economy*.¹² Depending on the method of data collection used, it may not be possible to identify separately the goods purchased in the home economy and the host economy; for practical purposes, the compiler may need to estimate a breakdown or otherwise attribute all goods purchased to either the host or the home economy of the construction enterprise.

3.125. It may not always be possible to identify the purchase of goods and services separately from

¹² Compilers should note that in merchandise trade statistics, the value of goods imported into the host economy for use on the construction site will be included in merchandise imports under the general and special trade systems. Where goods are purchased by the construction enterprise in its home economy and shipped to the construction site, an adjustment must be made to the merchandise trade statistics to exclude the value of any such goods from the balance of payments goods component. If the goods are purchased in the host economy, no such adjustment is necessary.

labour costs; in this case, the compiler will need to estimate a breakdown or alternatively allocate all costs either as goods and services or as compensation of employees.

6. *Insurance and pension services*

3.126. *Insurance and pension services* covers the provision of various types of insurance to non-residents by resident insurance enterprises, and vice versa. Included are life insurance and annuities, nonlife insurance, reinsurance, freight insurance, pension schemes, auxiliary services to insurance, and standardized guarantees schemes.

3.127. This *Manual* recommends that *insurance and pension services* be disaggregated into five separate subcomponents—*direct insurance*; *reinsurance*; *auxiliary insurance*; *pensions*; and *standardised guarantees*.

3.128. Insurance provides individual units (governments, enterprises, and households) exposed to certain risks with financial protection against the consequences of the occurrence of specified events. In addition, insurers often act as financial intermediaries who invest funds collected from these units in financial or other assets to meet future claims.

3.129. Pension funds are established to provide benefits for retirement or invalidity of specific groups of employees. They are similar to insurance in that they act as intermediaries for investing the funds for their beneficiaries and redistribute some risks.

3.130. Insurance and pension fund operation have common features, but can be distinguished in that life insurance and pension funds include a large saving component, while the objective of nonlife insurance (including term life insurance) is largely undertaken to pool risk.

3.131. The transactions undertaken by insurers include charging premiums, paying claims, and investing funds. Similarly, pension fund transactions include receiving contributions, paying benefits and investing funds. To analyze the underlying economic nature of these operations, it is necessary to rearrange these processes to identify the service

element separately from the other elements (investment income, transfers and investment).

3.132. Cross-border insurance is particularly common in specialized areas such as reinsurance and high-value items such as insurance of ships and aircraft. For some small economies, the small size of their risk pool means that a wider range of items tends to be insured with non-residents. With international mobility of population, cross-border transactions in life insurance and pensions can also occur on a significant scale.

3.133. Direct insurance and reinsurance may take place for both life and nonlife policies. Direct insurance occurs between an insurance company and the public. Reinsurance is defined as insurance where both parties to the policy are providers of insurance services. That is, reinsurance allows insurance risk to be transferred from one insurer to another. Many insurers act as both direct insurers and reinsurers.

3.134. Nonlife insurance is distinguished from life insurance in that it pays benefits only if an insured event occurs, whereas for life insurance, there is always a payout. That is, nonlife insurance is designed primarily for pooling risk, rather than as an investment. In contrast to life insurance, term life insurance benefits are only payable on the death or incapacity of the insured, and so term life insurance is included in nonlife insurance. Types of nonlife insurance include accident and health; term life; marine, aviation and other transport; fire and other property damage; pecuniary loss; general liability; and credit insurance.

3.135. Reinsurance and direct insurance services are estimated or valued by the service charges included in total premiums rather than by the total value of the premiums. The estimation procedures recommended in the present *Manual* (as in BPM6) are summarised in Box 5.

3.136. Premiums for insurance policies are paid in advance, while claims are only paid after the insured events happen, sometimes much later. Insurance technical reserves therefore represent the amounts identified by insurance companies to account for these prepayments of premiums and claims incurred but not paid. Insurance companies hold assets to meet the liabilities represented by the reserves. The management of these financial and nonfinancial

assets is an integral part of the business of insurance. The income generated by these investments has a considerable influence on the level of premiums that insurance enterprises need to charge (indeed, in some cases, they have allowed claims to exceed premiums). Consequently, the income earned on the investment of the reserves is treated as being receivable by the policyholders who then pay it back to the insurance enterprises as premium supplements.

3.137. Thus, the value of insurance services can be expressed as follows:

Gross premiums earned

Plus: premiums supplements

Less: claims payable

Less: adjustments for claims volatility, if necessary

3.138. Major catastrophes that may require large payments of claims are expected to occur once in several years. When these occur, the payments of claims in that year could exceed the value of premiums. Therefore, if only the claims incurred in the accounting period are used in the formula, the value of insurance services could be erratic and, in some cases, could even be negative. Thus, an adjustment in claims due is required to reflect a more long-term view of claims behaviour, in line with the decision making process in the insurance industry. The adjustment for claims volatility shows the difference between the actual claims in the period and the normally expected value of claims, where the expected value of claims removes the effects of claims volatility. In periods when the large values of claims are incurred, the adjustment would be negative, while in other period the adjustment would be positive.

3.139. The formula can also be expressed as follows:

Gross premiums earned

Plus: premiums supplements

Less: expected claims

3.140. **Life insurance** involves a stream of payments by the policyholder in return for an agreed

minimum lump sum at the end of the policy, which may occur at maturity or death of the policyholder, if that occurs before maturity. Annuities are the reverse in that the insurer makes a stream of payments in return for a lump sum at the beginning of the policy. Thus, a claim is always paid for a life insurance policy. The sum may be fixed or may vary to reflect the income earned from the investment of the premiums. A policy in which the claim could vary depending on the income derived from the investment is referred to as a “with-profits” policy. Term life insurance is a type of direct insurance where benefits are paid in the case of death but in no other circumstances. Therefore, it is not considered life insurance.

3.141. *Freight insurance services* relate to insurance provided on goods that are in the process of being exported or imported. *Freight* insurance provides coverage against theft of, damage to, or complete loss of freight. Excluded from the coverage of *freight insurance* services is the insurance of the vehicles that are used to transport the goods.

3.142. Freight insurance premiums payable on internationally traded goods before they reach the customs frontier of the economy of the exporter are included in the FOB price of the goods. Freight insurance premiums payable subsequent to the goods leaving the customs frontier of the exporter’s economy are treated as payable by the importer. This means that freight insurance services should be included in the compiling economy’s balance of payments when they (a) relate to exports of goods beyond the customs frontier of the compiling economy and are supplied by resident insurers (credits) or (b) relate to imports of goods to the compiling economy, beyond the customs frontier of the exporting economy when they are provided by non-resident insurers (debits).¹³ In addition, *freight insurance services* includes services related to other transport of goods, where the insurance services are provided between a resident and a non-resident of the compiling economy.

3.143. *Other direct insurance* covers all other forms of casualty insurance. Included are term life insurance; accident and health insurance (unless these are provided as part of government social security schemes); marine, aviation and other transport insurance; fire and other property damage; pecuniary loss insurance; general liability insurance; and other insurance, such as travel insurance and insurance related to loans and credit cards.

¹³ Insurance costs up to the customs frontier of the exporting economy are included in the f.o.b. value of the goods exported. In this case, if the insurance services are provided by non-residents of the exporting economy, they should be included in *insurance services-debits* of the exporting economy and *insurance services-credits* of the economy that provides the services.

Box 5 Calculation of nonlife insurance services

(This example is applicable to types of insurance not subject to fluctuations in claims; for an example with an adjustment for claims volatility, see BPM6 Appendix 6c.)

Example 1. For resident insurers with separate data on policyholders abroad:

Premiums earned from abroad.....	100
(premiums received 105)	
Claims payable abroad.....	95
(claims paid 85)	
Technical reserves relating to insurance with non-residents.....	200
Income attributable to policyholders.....	20
(premium supplements)	

Insurance service charge is 25 (= 100 + 20 - 95)

Example 2. For resident insurers with separate data on policyholders abroad for premiums only:

Total insurance services (to residents and non-residents combined).....	50
Total	
premiums.....	200
Of which: Premiums from residents.....	120
Premiums from non-residents.....	80

Estimated insurance services provided to non-residents is 20 (= 80 / (200) * 50)

Example 3. For non-resident insurers with resident policyholders:

Premiums from residents.....	40
Ratio of service charge to premiums (average from data on insurers abroad)—25%	

Estimated insurance services from non-residents..... 10 (= 40 * 0.25)

insurer. The reinsurance may be either proportional or non-proportional. In proportional reinsurance, the reinsurer covers a fixed percentage of the value claims of the insurer in return for a fixed percentage of premiums. In non-proportional insurance, the reinsurance only kicks in if the insurer suffers losses that exceed a given value.

3.145. *Auxiliary services* comprises transactions that are closely related to insurance and pension fund operations. Included are agents' commissions, insurance brokering and agency services, insurance and pension consultancy services, evaluation and adjustment services, actuarial services, salvage administration services, and regulatory and monitoring services on indemnities and recovery services. Unlike other insurance and pension services, auxiliary services are charged through explicit charges.

3.146. *Pension schemes* are separate funds established to provide income on retirement, or in some cases, benefits for death or disability, for specific groups of employees. These funds may be organized by the employers or by the government. They may also be organized by insurance corporations on behalf of employees. In some cases, special units may be established to hold and manage the assets to be used to meet the pension fund obligations. Pension schemes are funded by contributions from the employer and/or the employees and by the investment income earned on fund assets. They may also engage in financial transactions on their own account. They do not include social security schemes organized for large sections of the community that are imposed, controlled or financed by general government. However, social security schemes may also have pension entitlement liabilities if they provide pensions to public sector employees. In the case of pension funds, the amounts paid by corporations and/or employees are termed "contributions", while the amounts accruing to the employees are generally described as "benefits."

3.147. *Standardized Guarantee schemes* represent a class of identical loan guarantees that are issued in large numbers, usually for small amounts. Guarantee schemes are arrangements where one party (the guarantor) undertakes to cover the losses of the lender in the event that the borrow defaults. In

3.144. *Reinsurance* is the process by which an insurance enterprise receives insurance coverage from specialized insurers to protect itself against the risk of extraordinarily large or unforeseen losses. Reinsurance allows the insurer to increase its capacity and to spread the liability when instances of major losses may strain the resources of the

the case of standardized guarantee schemes, the guarantors may be government units or financial corporations, usually insurance companies. A guarantor working on a commercial basis will charge fees, meet claims, and earn investment income in a way similar to nonlife insurance. Thus, the value of the service is calculated in the same way.

3.148. The EBOPS 2010 recommends that data on gross premiums receivable and gross claims payable be shown as supplementary items. These items are of analytical value and should be shown separately for life insurance, freight insurance and other insurance.

7. *Financial services*

3.149. *Financial services* covers financial intermediation and auxiliary services, except those of insurance enterprises and pension schemes. These services include those usually provided by banks and other financial intermediaries and auxiliaries.¹⁴ Included are services provided in connection with transactions in financial instruments, as well as other services related to financial activity, such as advisory, custody and asset management services, such as deposit taking and lending, letters of credit, credit card services, commissions and charges related to financial leasing, factoring, underwriting, and clearing of payments. Also included are financial advisory services, custody of financial assets or bullion, financial asset management, monitoring services, convenience services, liquidity provision services, risk assumption services other than insurance, merger and acquisition services, credit rating services, stock exchange services, and trust services.

3.150. *Financial services* may be charged for by: explicit charges; margins on buying and selling transactions; asset management costs deducted from property income receivable in the case of asset-holding entities; or margins between interest payable and the reference rate on loans and deposits

(called financial intermediation service charges indirectly measured, abbreviated as FISIM).

3.151. For financial intermediaries, the balance between explicit and implicit charges may vary over time and from institution to institution, so data on both are needed to get a complete picture of their supply of services.

3.152. Explicit charges are levied in the case of many financial services and require no special calculation or estimation. Some explicit charges associated with deposit and lending services include application and commitment fees, early/late repayment fees/penalties, and account charges. (However, an increase in interest rates because of late payment would not be classified as an explicit fee, but would be included with other interest and, so, taken into account as FISIM). EBOPS identifies FISIM separately from all other financial services.

3.153. Dealers or market-makers in financial instruments may charge, in full or part, for their services by having a spread between their buying and selling prices. A dealer or market-maker is distinguished from other traders by the existence of a buy-sell spread, which shows that they serve the market somewhat like a wholesaler by providing liquidity and inventory. Foreign exchange, shares, bonds, notes, financial derivatives, and other financial instruments are often bought and sold in this way. For example, the invoiced price of a security may include a charge for the brokerage service provided, as well as charges for the international transfer of foreign currency. Although such services are difficult to record, if possible estimates should be included in *financial services*.

3.154. In such cases, the difference between the reference price and the dealer's buying price at the time of purchase represents the service charge to the seller. Similarly, the difference between the reference price and the dealer's selling price at the time of sale represents the service to the buyer. The reference price is usually a mid-price between the buying and selling prices; however some dealers may have their own internal price for determining their buying and selling prices. In contrast to the reference price, the prices actually paid or received include the financial service component. By using the reference price at the time of purchase or sale, any holding gains or losses on the dealer's trading activity are excluded from services. The service can

¹⁴ Financial intermediaries collect funds from lenders and transform or repackage them (with respect to maturity, scale, risk and the like) in ways that suit the requirements of borrowers. A financial intermediary does not simply act as an agent for these other institutional units but places itself at risk by acquiring financial assets and incurring liabilities on its own account.

also be measured by applying the dealers' average margin as a percentage to the value of transactions through dealers.

3.155. Some entities have the sole or predominant function of holding financial assets on behalf of their owners. For example, some mutual funds, holding companies, and trusts serve this purpose. In the process of managing those assets, these enterprises incur administrative expenses, such as payments to fund managers, custodians, banks, accountants, lawyers, or their own staff. The expenses can be charged for explicitly as a fee, or implicitly by being paid out of investment income received or out of the assets of the enterprise. The expenses implicitly paid for should be recognized as a service to the owners. For example, a hedge fund may distribute a proportion of the net income of the fund to the entity that manages the fund, which should be recorded as a charge for services. Alternatively, implicit asset management service charges can be measured at cost.

3.156. Some financial intermediaries provide services for which they do not charge explicitly. FISIM is an estimate of the value of these services. Financial intermediaries do this by paying to lenders (those from whom they borrow funds in the form of deposits and/or loans) rates of interest lower than the rates that they charge to those to whom they lend through loans (and to different categories of these lenders and borrowers). The financial intermediaries use the resulting interest margins to defray their expenses and to provide an operating surplus. Interest margins are an alternative to charging customers explicitly for financial services. In addition to financial intermediation, where funds are taken in as deposits and loaned, lending of own funds can give rise to FISIM (in the cases of moneylenders and loans made from banks' own funds). By convention, FISIM only arises on loans and deposits, not other financial instruments. Financial corporations may generate FISIM even if they have only loans or only deposits, for instance a bank that raises funds by issuing debt securities can earn FISIM on its loans. Only loans and deposits by financial corporations give rise to FISIM; to illustrate, a loan by a parent that is not a financial intermediary to its direct investment enterprise does not generate FISIM.

3.157. Included in *financial services* are, for example:

(a) Commissions and fees associated with financial transactions, such as:

- (i) Letters of credit, bankers' acceptances, lines of credit and other similar instruments;
- (ii) Financial leasing;
- (iii) Factoring;
- (iv) Commodity futures;
- (v) Arrangement of financial derivative contracts;
- (vi) Underwriting, placement of issues, brokerage and redemption of securities, including commissions related to the income payments related to securities;
- (vii) Clearing of payments;

- (b) Financial advisory services;
- (c) Custody services for financial assets or bullion;
- (d) Financial asset management services;
- (e) Merger and acquisition services;
- (f) Corporate finance and venture capital services;
- (g) Credit card and other credit granting services;
- (h) Foreign exchange;
- (i) Regulation and administration of financial markets;
- (j) Credit rating;
- (k) Service charges on purchases of IMF resources; and

(l) Charges associated with undrawn balances under standby or extended arrangements with the IMF.

3.158. Excluded from *financial services* are:

(a) Interest earned on deposits, loans, financial leases and debt securities (this is investment income, not included in EBOPS);

(b) Dividends earned;

(c) Life insurance and pension intermediation services (included in *insurance and pension services*);

(d) Other insurance services;

(e) Non-financial advisory services provided by banks (such as management advisory services, which are included in *business and management consultancy and public relations services*); and

(f) Gains and losses made on purchase and sales of securities and financial derivatives on own account.

Box 6. Estimation of financial intermediation services indirectly measured (FISIM)

FISIM payable by each of lenders (or depositors) and borrowers is calculated using the concept of a “reference” rate of interest. The reference rate represents the pure cost of borrowing funds, so it should be a risk-free rate that has no service element in it. A single rate should be used for transactions in the local currency, whereas different rates should be applied for transactions in other currencies. The type of rate chosen as the reference rate may vary according to the circumstances, but the inter-bank lending rate or the central bank lending rate either the inter-bank lending rate or the central bank lending rate is usually used for loans and deposits involving the domestic currency. The reference rate will change over time with market conditions.

For those to whom financial intermediaries lend, FISIM is the difference between the interest actually charged on loans and the amount that would be charged if the reference rate were used. For those from whom intermediaries borrow in the form of deposits and/or loans, FISIM is the difference between the interest that would be earned if a reference rate were used and the interest actually earned.

For example:

For resident deposit-taking corporations; all loans and deposits in domestic currency.
Inter-bank interest rate 5% per annum.

Average value of loans during the year—1000
Actual interest receivable by the deposit-taking corporations—70
partitioned into:
 50 pure interest receivable (derived as 1000 at 5%)
 20 FISIM receivable (derived as 70 - 50)

Average value of deposits during the year—500
Actual interest payable by the deposit-taking corporations—10
partitioned into:
 25 pure interest payable (derived as 500 at 5%)
 15 FISIM receivable (derived as 25 - 10)

Total FISIM receivable by the deposit-taking corporations—35 (20+15)

Table 1. Treatment of Intellectual Property

	Use of intellectual property		Sale/purchase of ownership rights^{*3}
Franchises and trademarks	charges for the use of intellectual property n.i.e.		Balance of payments capital account
Outcomes of research and development	charges for the use of intellectual property n.i.e.		research and development services
Computer services; audiovisual and related services:	License to use excluding reproduction and distribution^{*1}	License to reproduce and/or distribute^{*2}	relevant service item ^{*4}
	(a) Customized all types	charges for the use of intellectual property n.i.e.	
	(b) Non-customized—downloaded or otherwise electronically delivered		
	(c) Non-customized—provided on physical media with periodic license fee		
(d) Non-customized —provided on physical media with right to perpetual use	Goods		

*¹ Covers the case where a specific product is supplied with the right to use the intellectual property embodied in it, but not to copy it for further distribution. The transactions should be classified under the appropriate goods and services items.

*² Covers the case where authority to reproduce and/or distribute the intellectual property is delegated by its owner.

*³ Covers the case where there is a change of economic ownership of the whole of the intellectual property right in question. The seller no longer has any rights or obligations associated with the intellectual property. This case also includes second or subsequent outright sales of intellectual property rights.

*⁴ The relevant service item is either computer services or audiovisual and related services, depending on the nature of the content provided.

For example, the sale/purchase of a copy of a software package that is mass-produced, and is obtained by an individual to load onto a single computer is covered by a license to use that excludes reproduction and distribution; this situation would be recorded in goods and services depending on the examples (see examples (b), (c), and (d) under software in Table 1). If a manufacturer pays for the right to include the software on computers that it produces, then the payment would be a license to reproduce and/or distribute (charges for the use of intellectual property provided by the owner of the original).

8. Charges for the use of intellectual property n.i.e

3.159. This section covers the intellectual property products that are not included elsewhere in the EBOPS 2010. Consistent with the recording in the BPM6, Table 1 provides a listing of intellectual property products and where all intellectual property products are classified.

3.160. *Charges for the use of intellectual property n.i.e.* include:

- charges for the use of proprietary rights (such as patents, trademarks, copyrights, industrial processes and designs including trade secrets, franchises). These rights can arise from research and development, as well as from marketing; and
- charges for licenses to reproduce and/or distribute intellectual property embodied in produced originals or prototypes such as copyrights on books and manuscripts, computer software, cinematographic works, and sound recordings and related rights (such as for live performances and television/ cable/ satellite broadcast).

3.161. The production of books, recordings, films, software, disks, etc. is a two-stage process of which the first stage is the production of the original and the second stage the production and use of copies of the original. The output of the first stage is the original itself over which legal or de facto ownership can be established by copyright, patent, or secrecy. The owner of the asset may use it directly to produce copies that give the purchaser a license to use. Alternatively, the owner may license other producers to reproduce and distribute the content. The payments made by the licensee may be described in various ways, such as fees, commissions, or royalties. The treatment of flows relating to intellectual property is summarised in Table 1. In contrast to temporary rights to use, outright sales of patents, copyrights relating to the results of research and development, and industrial processes and designs are included under research and development services. Likewise, temporary rights for computer software and audiovisual originals are treated differently to outright sales.

3.162. The time of recording of charges for the use of intellectual property follows the substance of the license agreement. If the rights to use the intellectual property are sold for a one-time fee under a noncancellable contract, and where the licensor has no remaining obligations to perform, then the whole sum is a sale. Otherwise, charges are allocated over the life of the agreement. In practice, it may be feasible only to record the payments when they are made.

3.163. Franchise fees, trademark revenue, payments for use of brand names, etc. include aspects of property income (i.e., putting a nonfinancial, nonproduced asset at the disposal of another unit) as well as aspects of services (such as the active processes of technical support, product research, marketing, and quality control). In principle, it would be desirable to separate the income and service elements. However, it may not be feasible to do so in practice, in which case, a convention is adopted that the entire values are to be classified as charges for the use of intellectual property. Such a convention would be taken as a starting point, but if additional information to make a split is available, the compiler should do so.

3.164. The EBOPS 2010 recommends an extended breakdown of charges for the use of intellectual property n.i.e. according to the type of product. This breakdown is as follows:

3.165. *Franchise and trademark licensing fees* covers all payments and charges for the use of trademarks and franchises;

3.166. *Licenses for the use of outcomes of research and development* covers fees and charges for the use of proprietary rights arising from research and development;

3.167. *Licenses to reproduce and or distribute software* covers the charges for the authorized reproduction and/or distribution (through licensing agreements) of produced software originals. Distribution in this sense is not defined as wholesale and retail sale. Thus, the sale of a copy of computer software package that is purchased by an individual or enterprise for individual use is not covered by a license to

distribute. The sale of the software for individual or personal use is recorded in *computer services*.

3.168. Licenses to reproduce and/or distribute audiovisual and related products is further broken down into two subcomponents:

3.169. Licenses to reproduce and/or distribute audiovisual products covers fees and charges for the authorized reproduction and/or distribution, through licensing agreements, of produced originals or prototypes of manuscripts, cinematographic works, and sound recordings.

3.170. Licenses to reproduce and/or distribute related products covers these products related to audiovisual services, such as live performances and television, cable, and satellite broadcasts.

9. Telecommunications, computer and information services

3.171. The present Manual recommends that the BPM6 component *telecommunications, computer and information services* be further disaggregated into three sub-components — telecommunications services, computer services, and information services.

3.172. *Telecommunications services* covers the broadcast or transmission of sound, images, data, or other information by telephone, telex, telegram, radio and television cable transmission, radio and television satellite, electronic mail, facsimile, etc., including business network services, teleconferencing, and support services. They do not include the value of the information transported. Also included are mobile telecommunications services, internet backbone services and online access services, including the provision of access to the internet. Excluded are installation services for telephone networks equipment (included in *construction*), and database services (included in *information services*).

3.173. *Computer services* consists of hardware and software-related services and data-processing services. Table 1 shows the classification of various arrangements for software products and related charges for the use of intellectual property. The EBOPS 2010 recommends the breakdown of this item into *computer software* and *other*

computer services. *Computer software* includes the following:

- sales of customized software (however delivered) and related licenses to use;
- the development, production, supply, and documentation of customized software, including operating systems, made to order for specific users;
- noncustomized (mass-produced) software downloaded or otherwise electronically delivered, whether with a periodic license fee or a single payment;
- licenses to use noncustomized (mass-produced) software provided on a storage device such as a disk or CD-ROM with a periodic license fee. (Noncustomized software on storage devices with licenses that convey perpetual use are excluded from services and included in general merchandise); and
- sales and purchases of originals and ownership rights for software systems and applications.

3.174. It would be useful to separately identify computer software originals as the information on these products would be of use to national accounts compilers and analysts.

Other computer services comprises the following:

- hardware and software consultancy and implementation services, including the management of subcontracted computer services;
- hardware and software installation, including installation of mainframes and central computing units;
- maintenance and repairs of computers and peripheral equipment;
- data recovery services, provision of advice and assistance on matters related to the management of computer resources;

- analysis, design and programming of systems ready to use (including web page development and design), and technical consultancy related to software;
- systems maintenance and other support services, such as training provided as part of consultancy;
- data-processing and hosting services, such as data entry, tabulation and processing on a time-sharing basis;
- web page hosting services (i.e., the provision of server space on the internet to host clients' web pages); and
- provision of applications, hosting clients' applications, and computer facilities management.

3.175. Excluded from *computer services* are computer-training courses not designed for a specific user (included in *other personal, cultural, and recreational services*). Also excluded are charges for licenses to reproduce and/or distribute software, which are included in *charges for the use of intellectual property*.

3.176. *Computer services* and *telecommunications services* are defined in terms of the nature of the service, not the method of delivery. To illustrate, provision of business services, such as accounting services, is included under the appropriate subcomponent of *other business services*, even if these services are entirely delivered by computers or the internet. Only amounts payable for transmission should be included under *telecommunications services*.

3.177. **Information services** is divided into *news agency services* and *other information services*. *News agency services* include the provision of news, photographs, and feature articles to the media. *Other information services* includes database services—database conception, data storage, and the dissemination of data and databases (including directories and mailing lists), both online and through magnetic, optical or printed media; and web search portals (search engine services that find internet addresses for clients who input keyword queries). Also included

are: direct nonbulk subscriptions to newspapers and periodicals, whether by mail, electronic transmission, or other means; other on-line content provision services; and library and archive services. (Bulk newspapers and periodicals are included under general merchandise.) Downloaded content that is not software or audio and video is included in *information services*. Downloaded content that is software is included in *computer services*; downloaded audio and video content, books and educational material are included in *audiovisual and related services*.

Other business services

3.178. The coverage of **other business services** is identical to the coverage of the BPM6 component; however, the disaggregation proposed is more detailed than that of BPM6, although it corresponds broadly to the BPM6 supplementary breakdown. EBOPS identifies three subcomponents: *research and development services*, *professional and management consulting services*, and *technical, trade-related and other business services*. Within these three subcomponents, a number of further breakdowns are suggested.

3.179. **Research and development services** covers those services that are associated with basic research, applied research, and experimental development of new products and processes. In principle, such activities in the physical sciences, social sciences and humanities are covered, including the development of operating systems that represent technological advances. This category also includes commercial research related to electronics, pharmaceuticals and biotechnology.

3.180. The definition of research and development services used here and in the CPC Ver. 2 is wider than the Frascati definition (which is used to define the scope of capital formation in the 2008 SNA). The definition used in this manual includes other product development that may give rise to patents.

3.181. The EBOPS 2010 recommends a further breakdown of *research and development services* into two sub groupings, *work undertaken on a systematic basis to increase the stock of knowledge* and *other*. The purpose of these sub-

groupings is to distinguish the research and development services as defined in the Frascati definition (and used in the 2008 SNA) from other research and development as defined in this broader EBOPS 2010 grouping.

3.182. ***Work undertaken on a systematic basis to increase the stock of knowledge*** is further broken down into two parts: *provision of customized and noncustomized research and development services* and *sales of proprietary rights arising from research and development*.

3.183. *Sales of proprietary rights arising from research and development* covers as the following: represented in patents, copyrights, and sale of industrial processes and designs. These items should be identified separately. The amounts payable for use of proprietary rights arising from research and development are included under charges for the use of intellectual property (see para. 3.xx). Excluded are technical studies and consultancy work; both are included in professional and management consulting services.

3.184. ***Professional and management consulting services*** is broken down into two parts: *legal, accounting, management consulting, and public relations*, and *advertising, market research, and public opinion polling*.

3.185. Services for the general management of a branch, subsidiary, or associate provided by a parent enterprise or other affiliated enterprise are included in other business services, often under professional and management consulting services. However, reimbursements of ancillary services supplied by affiliated enterprises, such as transport, purchasing, sales and marketing, or computing, should be shown under the relevant specific heading. Management fees are included in other business services; however, disproportionately large values of services between affiliated enterprises should be examined for signs that they are disguised dividends, for example, indicated by large fluctuations that do not reflect actual changes in the services provided.

3.186. ***Legal services*** covers legal advisory and representation services in any legal, judicial and statutory procedures; drafting services of legal

documentation and instruments; certification consultancy; and escrow and settlement services.

3.187. ***Accounting, auditing, bookkeeping and tax consulting services*** covers the recording of commercial transactions for businesses and others; examination services of accounting records and financial statements; business tax planning and consulting; and preparation of tax documents.

3.188. ***Business and management consulting and public relations services*** covers advisory, guidance and operational assistance services provided to businesses for business policy and strategy and the overall planning, structuring and control of an organization. Included are management auditing, market management, human resources, production management and project management consulting; and advisory, guidance and operational services related to improving the image of the clients and their relations with the public and other institutions.

3.189. ***Advertising, market research and public opinion polling*** services transacted between residents and non-residents covers the design, creation and marketing of advertisements by advertising agencies; media placement, including the purchase and sale of advertising space; exhibition services provided by trade fairs; the promotion of products abroad; market research; telemarketing; and public opinion polling on various issues.

3.190. It may be desirable, if there are substantial resident-non-resident transactions, to show separately the value of the transactions in ***convention, trade-fair and exhibition organisation services*** that are included in *advertising, market research, and public opinion polling*. This particular item, which corresponds to subclass 8596 of CPC Ver.2, consists of organization of economic events (trade shows or exhibitions, at regular or irregular intervals); organization of scientific or cultural meetings and congresses; and supply and setting-up of exhibition equipment associated with the organization of exhibitions.

3.191. ***Technical, trade-related and other business services*** is broken down into five subcomponents: *architectural, engineering,*

scientific and other technical services; waste treatment and de-pollution, agricultural and mining services; operating leasing services; trade-related services; and other business services n.i.e.

3.192. **Architectural, engineering, scientific and other technical services** covers transactions between residents and non-residents related to architectural design of urban and other development projects; planning and project design and supervision of dams, bridges, airports, turnkey projects etc.; surveying; cartography; product testing and certification; and technical inspection services. Mining engineering is excluded and included in *mining services*.

3.193. **Waste treatment and de-pollution, agricultural and mining services** is broken down into three parts: *waste treatment and de-pollution services; services incidental to agriculture, forestry and fishing* and *services incidental to mining, oil and gas extraction*.

3.194. **Waste treatment and de-pollution services** includes the treatment of radioactive and other waste; stripping of contaminated soil; cleaning up of pollution including oil spills; restoration of mining sites; and decontamination and sanitation services. Also included are all other services that relate to the cleaning or restoring of the environment.

3.195. **Services incidental to agriculture, forestry and fishing** comprises services that are incidental to agriculture, such as the provision of agricultural machinery with crew, harvesting, treatment of crops, pest control, animal boarding, animal care, and breeding services. Services in hunting, trapping, forestry and logging, and fishing are also included here.

3.196. **Services incidental to mining, oil and gas extraction** comprises mining services provided at oil and gas fields, including drilling, derrick building, repair and dismantling services, and oil and gas well casing cementing. Services incidental to mineral prospecting and exploration, as well as mining engineering and geological surveying, are also included here.

3.197. **Operating leasing** is the activity of renting out a produced asset under an arrangement that provides use of the asset to the lessee, but

does not involve the bulk transfer of risks and benefits of ownership to the lessee. The services cover resident/non-resident leasing (rental) and charters, without crew, of ships, aircraft and transport equipment, such as railway cars, containers and rigs. Also included are the operational lease payments relating to other types of equipment.

3.198. Operating leasing may be distinguished by the following characteristics:

- The lessor normally maintains a stock of assets that users can hire or rent on demand, or at short notice;
- The assets may be rented out for varying periods and the lessee may renew the rental when the period expires.
- The lessor is frequently responsible for maintenance and repair of the asset as part of the service that is provided to the lessee.

3.199. Operating leasing of dwellings and other buildings are included in this item. If there exists no objective basis on which to split the payment between rent on land and rental on the buildings, then the whole amount should be treated as rental when it is believed that the value of the building exceeds the value of the land. If the value of the land exceeds the value of the building then the whole amount should be treated as rent and excluded from operating leasing. Likewise, rent of land alone and rent of other natural resources are excluded from services. Excluded is the rental of buildings by international organizations, embassies, etc. (included in *government goods and services n.i.e.*). The leasing of telecommunications lines or capacity is included in *telecommunications services*. The rental of ships and aircraft with crew is included in *transport services*. Rental of dwellings (accommodation) and vehicles to non-residents during their stays in economies other than their economies of residence is included in *travel*.

3.200. Operating leasing should be distinguished from financial leasing. In a financial lease, the lessee undertakes most or all of the risks and benefits of ownership; thus, there is a change in economic ownership although the legal title remains with the owner. Although the forms may

be similar, a financial lease is seen as a loan and therefore the transactions are excluded from services.

3.201. *Trade-related services n.i.e.* covers commissions on goods and service transactions payable to merchants, commodity brokers, dealers, auctioneers, and commission agents. For example, these services include the auctioneer's fee or agent's commission on sales of ships, aircraft, and other goods. If the trader owns the goods being sold, the trader's margin is generally included indistinguishably in the value of the goods. However, any margins not included in the FOB price of the goods are included in *trade-related services*. Excluded from *trade-related services* are franchising fees (included in *charges for the use of intellectual property*); brokerage on financial instruments (included in financial services), and transport-related charges, such as agency commissions (included in transport services).

3.202. *Other business services n.i.e.* includes distribution services for water, steam, gas and other petroleum products, where these are identifiable separately from transmission services; air conditioning supply; the placement of personnel (the services provided by these personnel are recorded under the relevant services item); security and investigative services; translation and interpretation; photographic services; building cleaning; real estate services to businesses; and any other business services that cannot be classified to any of the business services listed above.

3.203. Business and other services, such as transport, construction, computing may be subcontracted. This arrangement may also be called outsourcing." For example, a specialist service arranger may be paid to provide back-office functions for a customer, which the service arranger subcontracts to another contractor. Thus, subcontracting is similar in some ways to merchandising of goods, as the services are purchased and resold. However, for services, the degree of transformation involved may be harder to assess than for goods, for example, in the case of bundling and managing the services of different contractors. "Service merchandising" of this kind is

an important activity in some economies¹⁵. The value of services exported and imported in the economy of the service arranger is recorded on a gross basis. (This treatment is applicable because the arranger buys and sells the services; if the arranger acted as an agent on a commission basis, then only the commission would be recorded as the service provided by the arranger.) These services are classified to the appropriate specific service classification, for example, transport, construction, computing, or other business services.

10. *Personal, cultural and recreational services*

3.204. This comprises two subcomponents, audiovisual and related services and other personal, cultural and recreational services.

3.205. *Audiovisual and related services* is further broken down into *audiovisual services* and *related services*. This grouping is broader than the group *audiovisual and related services* in the CPC Ver. 2; therefore, the classification of the items in the sub-groupings will not correspond with the CPC Ver 2.

3.206. *Audiovisual services* comprises services and associated fees related to the production of motion pictures (on film, videotape, disk, or transmitted electronically), radio and television programmes (live or on tape) and musical recordings. Table 1 summarises the treatment of intellectual property associated with audiovisual and related services, as well as other types of intellectual property.

3.207. Included are amounts receivable or payable for rentals of audiovisual and related products; and charges for access to encrypted television channels (such as cable and satellite services).

3.208. *Related services* includes the services of performing artists, authors, composers, sculptors, and others such as set designers, costume

¹⁵ A distinction should be made between "service merchandising" discussed above, and merchandising services discussed in the 2002 MSITS. The latter is no longer within the scope of services transactions as the gross values of the goods acquired and sold in that process are now included in goods. These goods are recorded as negative exports when acquired by the merchant and as exports when sold.

designers, and lighting designers, (unless they are employees of the entity making payments, in which case the transactions are classified as compensation of employees). Also included are presentation and promotion services for performing arts and other live entertainment events.

3.209. Mass-produced recordings and manuscripts that are purchased or sold outright or for perpetual use are included under audiovisual and related services if downloaded (i.e., delivered electronically). However, those on CD-ROM, disk, paper, etc., are outside the scope of the EBOPS 2010 standard categories. Similar products obtained through a license to use (other than when conveying perpetual use) are included in audiovisual and related services, as is the use of other on-line content related to audio and visual media.

3.210. Charges or licenses to reproduce and/or distribute radio, television, film, music, etc. are excluded from audiovisual and related services and included in charges for the use of intellectual property.

3.211. Also included are purchases and sales of ownership rights, entertainment, literary or artistic originals, such as books, manuscripts, radio and television broadcast originals, sound recordings, motion picture, videotape, television and radio programme originals, etc. over which legal or de facto ownership can be established by copyright.

3.212. *Other personal, cultural and recreational services* is divided into three parts: *education services*, *health services* and *other personal, cultural and recreational services*.

3.213. *Education services* comprises services relating to all levels of education, delivered through correspondence courses, via television, satellite, or the internet, as well as by teachers, and so forth who supply services directly in host economies. Excluded are education services provided to non-residents who are present in the territory of the service provider (included in *travel*.)

3.214. *Health services* comprises general and specialized human health services provided by hospitals, doctors, nurses and paramedical and similar personnel, as

well as laboratory and similar services, whether rendered remotely (through telemedicine or teleradiology) or on-site. Included are diagnostic-imaging services, pharmaceutical, radiology, and rehabilitation services. Excluded are health services provided to non-residents who are present in the territory of the service provider (included in *travel*) and veterinary services (included in *technical, trade-related, and other business services*.)

3.215. *Heritage and recreational services* covers services associated with museums and other cultural, sporting, gambling and recreational activities, except those acquired by persons outside their country of residence (included in *travel*). Membership dues of business associations are included in this item.

3.216. *Heritage services* covers the activities associated with the conservation and preservation of museums, historical buildings and sites, monuments and buildings and artifacts. It also includes display services of collections of art and history. Natural heritage services are also covered here and refer to activities associated with national parks, nature parks and reserves.

3.217. *Recreational services* includes the activities associated with the operation of sports facilities, amusement parks, and gambling.

3.218. The amounts paid for lottery tickets or placed in bets consist of two elements:

- (a) a service charge receivable by the unit organizing the lottery or gambling. (This charge may also have to cover taxes on gambling); and
- (b) a transfer to cover the amounts payable to the winners and, in some cases, amounts payable to charities.

3.219. The value of the lottery and other gambling and betting services supplied by or to nonresidents is estimated as the amount wagered by nonresidents multiplied by the overall ratio of services to the total amount wagered for that gambling operator or type of gambling. This method for separately identifying the service component is similar to the method used for insurance services.

3.220. *Other personal services* covers

11. Government goods and services, not included elsewhere

3.184 Government goods and services n.i.e. covers:

(a) goods and services supplied by and to enclaves, such as embassies, military bases, and international organizations;

(b) goods and services acquired from the host economy by diplomats, consular staff, and military personnel located abroad and their dependents; and

(c) services supplied by and to governments and not included in other categories of services.

Goods and services supplied by and to government and international organization enclaves

3.221. As government and international organization enclaves are not residents of the territory in which they are physically located their transactions with residents of the territory of location are international transactions. For the same reason, transactions of embassies, military bases, etc. with their home economies are resident-to-resident and outside the scope of the EBOPS.

3.222. Exports of government goods and services n.i.e. include the supply of goods and services to embassies, consulates, military units, defense agencies, and other official entities (such as aid missions; government tourism, information, and trade promotion offices) of foreign governments located in the compiling economy.

3.223. Imports of government goods and services n.i.e. include acquisition of goods and services by embassies, etc. of the government of the compiling economy in other territories. Charges for visas and other services provided by embassies and consulates are also included in government goods and services n.i.e. The supply and purchase of goods and services by international organizations are also included in government goods and services n.i.e. The acquisition of goods and services for joint military arrangements, peacekeeping forces, and other services, such as those provided by the United Nations, are also included in government goods and services n.i.e.

3.224. All types of goods and services, such as office supplies, vehicles, repairs, electricity and rental of premises, for embassies, military bases, international organizations, etc. purchased from the host economy or economies other than the home economy are included under government goods and services n.i.e. However, international transactions relating to the construction of new and transactions relating to existing structures are included under *construction*.

Goods and services acquired by staff employed in enclaves and their dependents

3.225. All expenditure on goods and services by diplomats, consular staff, and military personnel located abroad in the economies in which they are located is also included in government goods and services n.i.e. The expenditure of dependent members of the same household is also included. However, the expenditure of locally engaged staff of embassies, military bases, and so forth, and international organization staff is not included in government goods and services n.i.e. (and is usually a resident-to-resident transaction). The supply of goods and services to foreign diplomats etc. located in the compiling economy is shown as credits, while the expenditure of the compiling economy's diplomats etc. in the economy of their posting is shown as debits. (Goods disposed of by diplomats etc. are similarly recorded with the signs reversed, for example, a car sold at the end of a posting is shown as a debit to the local economy.)

Other services supplied by and to governments

3.226. Services supplied by and to governments should be classified to specific services (business services, health, etc.), if possible. For instance, acquisitions of new and existing buildings for an embassy, consulate, etc. are classified as construction, rather than government goods and services n.i.e. However, some services are related to government functions that are not able to be classified to another specific service category, so are classified as government services n.i.e. For example, technical assistance on public administration is included in government services. Also, payments for police-type services (such as keeping order), such as those supplied with mutual agreement by a foreign government or

international organization, are included in government services n.i.e. Also, government supply of licenses and permits that are classified as services are also government services n.i.e.

(g) The EBOPS 2010 recommends that government goods and services n.i.e. be classified according to the following breakdown:

- (a) embassies and consulates;
- (b) military units and agencies;
- (c) other.

This further breakdown is based on the transactor—the government unit undertaking the transaction—rather than the type of transaction.

I. Complementary aggregations of service and non-service transactions

3.227. For various analytical purposes, compilers may wish to aggregate service and non-service transactions to provide information on areas of particular interest or concern to users, such as all transactions relating to health care, environmental issues or audiovisual activities. As with the components described above, for comparison purposes, it is useful if compilers in different economies follow the same guidelines for producing these complementary aggregations. The following complementary groupings are discussed:

- Tourism-related services in travel and passenger transport
- Audiovisual transactions
- Computer software transactions
- Call center services
- Transactions between related enterprises
- Trade related transactions
- Environmental transactions
- Health services
- Education services
- Cultural transactions

These complementary groupings are listed at the end of the EBOPS classification in Table 2.

1. Tourism-related services in travel and passenger transport

3.228. The travel component of this EBOPS 2010 covers most of the transactions relating to tourism as defined in the 2008 IRTS and most of the remaining transactions are covered in passenger transport. Annex VII provides an overview of the relationship between the travel component of the EBOPS 2010 (and the BPM6) and the concept of tourism outlined in the 2008 IRTS.

3.229. However, *travel* includes some items that are not included in the coverage of tourism as outlined by the 2008 IRTS. Therefore, to estimate tourism-related services, the following items should be excluded from *travel*:

- (a) The acquisition of goods and services by border, seasonal, and other short term workers in their economy of employment;
- (b) Students undertaking courses of study away from their country of residence for a period of one year or more;
- (c) Patients undergoing medical care in a country other than their country of residence for a period of one year or more.

3.230. Likewise, passenger transport services purchased by border and seasonal workers should be included.

2. Audiovisual transactions

3.231. *Audiovisual transactions* has been included as a complementary aggregation to address one of the stated needs of analysts for information on a range of transactions relating to audiovisual activities. In addition, it is sometimes difficult to isolate *audiovisual* services from other audiovisual transactions, not only because of the technical nature of these transactions but also because these transactions are often conducted between related enterprises. In audiovisual business networks, integration of production/distribution enterprises and co-

production activities are more often the rule than the exception.

3.232. This complementary grouping should be used to show the total value of such resident/non-resident transactions. It covers transactions included in *charges for intellectual property, n.i.e., telecommunications, computer and information services*, and *other business services*. It also includes transactions in *goods*, such as mass-produced recordings and other entertainment, literary or artistic products on CD-ROM, disk, or paper that are purchased or sold outright or for perpetual use. Thus, it is a reorganization of a range of resident/non-resident transactions, including transactions that are outside the range of services covered in BPM6 and EBOPS 2010, and it is recommended for its analytical usefulness.

3.233. Included are, for example:

- Distributive rights for film and television programmes;
- Television retransmission rights for sport events;
- Distributive rights and fees of video games that are downloaded through television channels);
- Sale of rights for video editions of films and television programmes, based either on the number of video cassettes or disks produced or on distribution in a particular territory ;
- Music composers' rights that are linked to the sale of records paid through collecting societies;
- Performing rights related to live musical or theatrical performance;
- Rights for theatrical releases abroad by drama companies;
- Musical shows produced abroad;
- The leasing of telecommunications lines or capacity;

- Sale of ownership rights for original films and television programmes, for cinema release or for broadcasting;
- Subscription services provided for encrypted television channels, such as cable and over-the-air, or free-to-air, broadcasting;
- Professional and management consulting services related to the audiovisual activity;
- Outright sale of franchises and trademarks related to audiovisual activity;

3.234. It should be noted that fees and rights may be paid on a number of different bases, including pay-per-view, number of video cassettes or disks produced, time period, territory or size of the audience reached.

3.235. For musical works and television and radio programmes, the management and collection of these fees is often carried out by "performing rights societies" or "collecting societies." The enterprises carrying out these transactions are mainly (a) producers of audiovisual services and goods that receive distributive rights (for example, when there is a television or radio transmission), author/composers' rights (for example, when records are sold), and performing rights (for example, when a theatrical company or an opera company is producing and performing abroad); (b) television and radio channels that pay rights for retransmission and encrypted television channels receive income (both receipts and payments should be recorded as audiovisual transactions); or (c) performing rights societies, such as the Société des auteurs compositeurs éditeurs de musique or the Association for the Collective Management of Audio-visual Works, which act as intermediaries between producers and the media.

3. Computer software transactions

3.236. *Computer software transactions* covers transactions relating to computer software goods and computer software services. It therefore includes transactions covered in *computer services, charges for the use of intellectual property n.i.e.*, and *general merchandise*. Included are the following:

- a. sales of customized software (however delivered) and related licenses to use;
- b. the development, production, supply, and documentation of customized software, including operating systems, made to order for specific users;
- c. noncustomized (mass-produced) software downloaded or otherwise electronically delivered, whether with a periodic license fee or a single payment;
- d. noncustomized (mass-produced) software provided on physical media with a periodic license fee;
- e. sales and purchases of originals and ownership rights for software systems and applications;
- f. charges for licenses to reproduce and/or distribute intellectual property embodied in produced computer software.
- g. Software installation; and
- h. Noncustomized software provided on physical media with right to perpetual use.

4. Call centre services

3.237. *Call centre services* is not identified as a separate category in the BPM6. Call centres provide information or support to customers on behalf of clients primarily through telephone communications. Improvements in telecommunications and information technology, has seen the expansion of cross-border call centre services. The services of call centres span a range of activities including computer technical support, debt collection, and marketing services.

5. Transactions between related enterprises

3.238. This item provides information on the value of the various types of service and nonservice transactions between related parties. It includes payments from branches, subsidiaries and associates to their parent enterprise or other related enterprises that represent contributions to the general management costs of the branches, subsidiaries and associates (for planning,

organizing and controlling) and also reimbursements of expenses settled directly by parent enterprises. Also included are transactions between parent enterprises and their branches.

6. Trade-related transactions

3.239. *Trade related transactions* covers all transactions relating to the distribution of goods and services. It includes the commissions on goods and services transactions payable to merchants, commodity brokers, dealers, etc. who do not own the goods that they buy and sell. It also includes the traders' margins on the goods being sold by the trader. These margins may be generally included indistinguishably in the value of the general merchandise or the value of the goods under merchanting and are not recorded separately in the balance of payments statistics.¹⁶

7. Environmental transactions

3.240. This grouping is an aggregation of all transactions that relate to environmental activities. It therefore covers transactions relating to the measurement, prevention, correction, or limiting of environmental damage caused by the polluting of water, air, soil, as well as problems relating to waste disposal, noise and ecosystems. The appendix to the EBOPS 2010 presents a listing of the transactions that could be included in this complementary grouping.

8. Health Services

3.241. This item combines international transactions relating to the provision of health services. It therefore covers generalized and specialized human health services provided remotely or onsite as well as the health services provided to persons whilst visiting the country of the health service provider.

9. Education Services

3.242. This item combines international transactions relating to the provision of education services. It therefore covers the provision of all levels of education through distance teaching as well as by teachers who provide the services directly in the host economies. Also included are

¹⁶ Please see Chapter V para XXX and the Box XX on the US experience in estimating distribution services.

the education services provided to non-residents who are present in the territory of the service provider.

10. Cultural transactions

3.243. *Cultural transactions* have been included as an alternative aggregation to address the needs of analysts and policy makers for information on a range of transactions relating to cultural activities.

3.244. This complementary grouping covers transactions included in *charges for intellectual property, n.i.e., computer and information services, other business services and heritage and recreational services*. It therefore includes audiovisual transactions and other cultural transactions in *goods*, such as mass-produced recordings and other entertainment, literary or artistic products on CD-ROM, disk, or paper that are purchased or sold outright or for perpetual use. It includes both goods and services.

3.245. Included services are, for example:

- Audiovisual transactions, (see list above)
 - Performing rights related to live musical or theatrical performances;
 - Rights for theatrical releases abroad by drama companies;
 - Musical shows produced abroad;
 - Music composers' rights that not linked to the sale of records paid through collecting societies;
 - Performing fees related to live musical or theatrical performance;
 - Fees for theatrical releases abroad by drama companies;
 - Heritage and preservation services and goods (e.g. fees collected from exchanges of artefacts between museums from different countries) ;
 - Provision of news, photographs, and feature articles to the media abroad;

- Processing and research fees for reproductions from prints (books, manuscripts and photographs collections in libraries and archives abroad)

3.246. The list of cultural goods and services based on the CPC and the Harmonised Commodity Description and Coding System (HS) is provided in the 2009 UNESCO Framework for Cultural Statistics.

J. Data collection

3.247. Methods of collection can be described in terms of the following main types of sources—IMTS; international transactions reporting systems (ITRS); surveys of enterprises; surveys of households, administrative data; and information obtained from partner countries and international organizations. Appropriate data may be obtained directly through one or more of these methods, or it may be that some type of modeling is used in order to obtain estimates of the balance of payments components.

3.248. It may be possible to obtain data from the IMTS on the movement of goods shown as supplementary items under the component *manufacturing services on physical inputs owned by others*.

3.249. An ITRS records transactions that take place between residents and non-residents. Such a system may be a product of present or past exchange controls, or it may exist separately from these. In many countries, commercial banks record all of the transactions that take place through their systems and report these (either individual transactions or in aggregate form) to the balance of payments compiler. Where residents are able to conduct transactions outside of the domestic banking system, the relevant segment is included in the ITRS. Typically, this segment would comprise data on transactions through bank accounts held abroad by residents. Supplementary data must be collected for transactions where no money changes hands (such as in barter trade or when trade credits are extended).

3.250. Surveys of enterprises collect information in aggregate form on the transactions of resident

enterprises with non-residents. Such surveys may have full coverage or conducted on a sample basis. Surveys of enterprises may be conducted to collect information from enterprises engaged in specific activities. For example, airlines that are engaged primarily in carriage of passengers and freight, legal firms that supply only a small range of services, or hotels and restaurants that cater primarily to overseas visitors. Alternatively, surveys may be applied to a wide range of enterprises to collect information on all of their services transactions, or even on all of their balance of payments transactions. To be successful, such surveys require the use of an up-to-date register of enterprises and good survey techniques (such as appropriate follow-up, and verification and imputation techniques).

3.251. There are few household surveys conducted specifically for balance of payments purposes; the most usual such surveys are the periodic or ongoing surveys that are conducted to collect information on travel expenditure. It is common, however, to make use of existing household surveys to collect extra information for balance of payments purposes. Such sources include migration statistics and household income and expenditure surveys.

3.252. Official sector (government and monetary authorities) data include data available from the detailed accounting records of the monetary authorities and all levels of government. These may supplement other data sources or be used to validate data obtained from other sources.

3.253. Data on balance of payments services transactions may also be obtained as a by-product of administrative functions of the government. For services statistics, the most common of these are applications that may be needed for residents to export or import services and the records that may be kept relating to education and health services provided to or by non-residents.

3.254. Information obtained from partner countries is useful to provide data where it is not possible to collect these directly within a country as well as to validate other data collections and estimation methods. Data from international organizations are particularly useful for aid-recipient countries to compile data on technical assistance services.

3.255. Compilers must consider many things when choosing a method or methods for estimating the various services components, including the legislation that permits data collection, the data that are already available, the available resources, the needs of users and the appropriateness for the particular country of the various methods of data collection that might be used.

3.256. Information on some types of transactions may be obtained from more than one data source. If information can be collected from more than one source, data can be usefully crosschecked.

K. Summary of recommendations

3.257. The main recommendations of the present chapter for compiling statistics on transactions between residents and non-residents of an economy can be summarized as follows:

1. The BPM6 recommendations on the principles of recording (residence, valuation, time of recording, currency of recording and conversion) should be followed.
2. Data on services transactions between residents and non-residents of an economy should be compiled according to EBOPS 2010. Of highest priority is the compilation of data at the level of BPM6; this should be followed by the introduction of the EBOPS 2010 level of detail, but taking into account the data requirements in individual compiling economies. Of less immediate priority is the compilation of data on EBOPS supplementary items.
3. Data should be compiled on an individual trading partner basis, at least at the level of the 12 major components of BPM6.
4. Data for at least total services transactions should be compiled separately for transactions with related and with unrelated parties.
5. Each EBOPS component should be allocated either to one dominant mode or, where there is no single dominant mode, to the most significant modes of supply. This is accorded a low priority.

2010 Extended Balance of Payments Services Classification (Draft)

1 Manufacturing services on physical inputs owned by others

2 Maintenance and repair services n.i.e.

3 Transport

Alternative 1: Mode of transport

3.1 Sea transport

3.1.1 Passenger

Of which: Payable by border, seasonal, and other short-term workers

3.1.2 Freight

3.1.3 Other

3.2 Air transport

3.2.1 Passenger

Of which: Payable by border, seasonal, and other short-term workers

3.2.2 Freight

3.2.3 Other

3.3 Other modes of transport

3.3.1 Passenger

Of which: Payable by border, seasonal, and other short-term workers

3.3.2 Freight

3.3.3 Other

3.4 Post and courier services

Extended classification of other modes of transport

3.5 Space transport

3.6 Rail transport

3.6.1 Passenger

3.6.2 Freight

3.6.3 Other

3.7 Road transport

3.7.1 Passenger

3.7.2 Freight

3.7.3 Other

3.8 Inland waterway transport

3.8.1 Passenger

3.8.2 Freight

3.8.3 Other

3.9 Pipeline transport

3.10 Electricity transmission

3.11 Other supporting and auxiliary services

For all modes of transport

Alternative 2: What is carried

3a.1 Passenger

Of which: Payable by border, seasonal, and other short-term workers

3a.2 Freight

3a.3 Other

3a.31 Post and
courier

3a.32 Other

- 4 Travel
 - 4.1 Business
 - 4.1.1 Acquisition of goods and services by border and seasonal workers
 - 4.1.2 Other
 - 4.2 Personal
 - 4.2.1 Health-related
 - 4.2.2 Education-related
 - 4.2.3 Other

For both business and personal travel

Alternative presentation for Travel

- 4a.1 Goods
- 4a.2 Local transport services
- 4a.3 Accommodation services
- 4a.4 Food-serving services
- 4a.5 Other services
 - Of which:
 - Health services
 - Education services
- 5 Construction
 - 5.1 Construction abroad
 - 5.2 Construction in the reporting economy
- 6 Insurance and pension services
 - 6.1 Direct insurance
 - 6.1.1 Life insurance
 - 6.1.2 Freight insurance
 - 6.1.3 Other insurance
 - 6.2 Reinsurance
 - 6.3 Auxiliary insurance services
 - 6.4 Pension services
 - 6.5 Standardized guarantee services
- 7 Financial services
 - 7.1 Explicitly charged and other financial services
 - 7.2 Financial intermediation service charges indirectly measured (FISIM)
- 8 Charges for the use of intellectual property, n.i.e.
 - 8.1 Franchises and trademarks licensing fees
 - 8.2 Licenses for the use of outcomes of research and development
 - 8.3 Licenses to reproduce and/or distribute computer software
 - 8.4 Licenses to reproduce and/or distribute audiovisual and related products
 - 8.4.1 Licenses to reproduce and or distribute audiovisual products
 - 8.4.2 Licenses to reproduce and/or distribute related products
- 9 Telecommunications, computer, and information services
 - 9.1 Telecommunications services
 - 9.2 Computer services
 - 9.2.1 Computer software
 - (of which originals)
 - 9.2.2 Other computer services
 - 9.3 Information services
 - 9.3.1 News agency services
 - 9.3.2 Other information services
- 10 Other business services

- 10.1 Research and development services
 - 10.1.1 Work undertaken on a systematic basis to increase the stock of knowledge
 - 10.1.1.1 Provision of customized and noncustomized R&D services
 - 10.1.1.2 Sale of proprietary rights arising from R&D
 - 10.1.1.2.1 Patents
 - 10.1.1.2.2 Copyrights arising from R&D
 - 10.1.1.2.3 Industrial processes and designs (including trade secrets)
 - 10.1.1.2.4 Other
 - 10.1.2 Other (testing and other product/process development activities)
- 10.2 Professional and management consulting services
 - 10.2.1 Legal, accounting, management consulting, and public relations
 - 10.2.1.1 Legal services
 - 10.2.1.2 Accounting, auditing, bookkeeping, and tax consulting services
 - 10.2.1.3 Business and management consulting and public relations services
 - 10.2.2 Advertising, market research, and public opinion polling
of which: Convention, trade-fair and exhibition organisation services CPC Ver.2 8596
- 10.3 Technical, trade-related and other business services
 - 10.3.1 Architectural, engineering, scientific and other technical services
 - 10.3.1.1 Architectural services CPC ver. 2
832
 - 10.3.1.2 Engineering services CPC ver. 2
833
 - 10.3.1.3 Scientific and other technical services CPC ver. 2
834
 - 10.3.2 Waste treatment and de-pollution, agricultural and mining services
 - 10.3.2.1 Waste treatment and de-pollution
 - 10.3.2.2 Services incidental to agriculture, forestry and fishing CPC Ver.2 861
 - 10.3.2.3 Services incidental to mining, and oil and gas extraction CPC Ver.2 862
 - 10.3.3 Operating leasing services
 - 10.3.4 Trade-related services
 - 10.3.5 Other business services n.i.e.
Of which: Employment services i.e. search, placement and supply services of personnel (CPC Ver.2 851)

- 11 Personal, cultural, and recreational services
 - 11.1 Audiovisual and related services
 - 11.1.1 Audiovisual services
 - of which: originals
 - 11.1.2 Related services
 - 11.2 Other personal, cultural, and recreational services
 - 11.2.1 Health services
 - 11.2.2 Education services
 - 11.2.3 Heritage and recreational services
 - 11.2.4 Other personal services

- 12 Government goods and services n.i.e.
 - 12.1 Embassies and consulates
 - 12.2 Military units and agencies
 - 12.3 Other government services

Supplementary Groupings

Manufacturing services on physical inputs owned by others

1.1 Goods for processing in reporting economy

1.1 a Goods returned

1.1 b Goods received

1.2 Goods for processing abroad

1.2 a Goods sent

1.2 b Goods returned

Life insurance

6.1.1 a Gross insurance premiums receivable

6.1.1 b Gross insurance claims payable

Freight insurance

6.1.2 a Gross insurance premiums receivable

6.1.2 b Gross insurance claims payable

Other insurance

6.1.3 a Gross insurance premiums receivable

6.1.3 b Gross insurance claims payable

Complementary Groupings

	Complementary Groupings	2010 EBOPS and Goods items
1.	Tourism-related services in travel and passenger transport	Payable by border, seasonal, and other short-term workers (3.1.1, 3.2.1, 3.3.1) Travel (4)
2.	Audiovisual transactions	Charges for the use of intellectual property n.i.e. (8.4); Audiovisual and related transactions (11.1); <i>Goods (CPC ver. 2 476)</i>
2.1	<i>of which:</i> Licenses to use audiovisual products	License to use audiovisual products relating to Table 1: items a,b,c and d
3.	Computer software transactions	Charges for the use of intellectual property n.i.e. (8.3); Computer services (9.2); <i>Goods (CPC ver. 2 478)</i>
3.1	<i>of which:</i> Licenses to use computer software products	License to use software products relating to Table 1: items a,b,c and d
4.	Call-centre services	<i>Country specific</i>
5.	Services transactions between related enterprises	Related enterprises as defined by BPM6 and BD4.
6.	Trade related transactions	Other business services (trade-related services; 10.3.4); <i>Goods (Merchanting - BPM6 1.A.a.2.1, 1.A.a.2.2); Distribution services.</i>
7.	Environmental transactions	<i>Please see Appendix I</i>
8.	Health services	Travel-Health related (4.2.1); Other personal, cultural, and recreational services, Health services (11.2.1)
9.	Education services	Travel-Education related (4.2.2); Other personal, cultural, and recreational services, Education services (11.2.2)
10.	Cultural transactions	Refer to paragraphs 3.243 to 3.246

Appendix I

Environmental Transactions (recast in CPC, Ver. 2/WTO)

i) Environmental services (this sub-item is closely related to the BPM6 item Waste treatment and depollution)

Solid and hazardous waste management and recycling activities (CPC Prov. 9402 Refuse disposal services; CPC v1.1 942 Refuse disposal services)

942 Waste collection services

943 Waste treatment and disposal services

Wastewater collection, treatment and purification services (CPC Prov. 9401 Sewage services; CPC v1.1 941 Sewage services)

941 Sewerage, sewage treatment and septic tank cleaning services

Cleaning services for public facilities, sites and roads (CPC Prov. 9403 Sanitation and similar services; CPC v1.1 943 Sanitation and similar services)

945 Sanitation and similar services

Protection of ambient air and climate (CPC Prov. 9404 Cleaning services of exhaust gases; CPC v1.1 949 Other environmental protection services n.e.c.)

Remediation and cleanup of soil and water (CPC Prov. 9409 Other environmental protection services n.e.c.; CPC v1.1 949 Other environmental protection services n.e.c.)

Noise and vibration abatement (CPC Prov. 9405 Noise abatement services; CPC v1.1 949 Other environmental protection services n.e.c.)

Protection of biodiversity and landscape (CPC Prov. 9406 Nature and landscape protection services; CPC v1.1 949 Other environmental protection services n.e.c.)

Other environmental and ancillary services n.i.e. (CPC Prov. 9409 Other environmental protection services n.e.c.; CPC v1.1 949 Other environmental protection services n.e.c.)

944 Remediation services

949 Other environmental protection services n.e.c.

ii) Environmental research and development services (CPC Prov. 85300 Interdisciplinary research and experimental development services; CPC v1.1 81300 Interdisciplinary research and experimental development services)

813 Interdisciplinary research and experimental development services*

iii) Environmental consulting services (CPC Prov. 86721, Advisory and consultative engineering services; CPC v1.1 83131, Advisory and consultative engineering services)

83931 Environmental consulting services

iv) Environmental impact assessment services (CPC Prov. 86721 Advisory and consultative engineering services; CPC v1.1 8333 Engineering advisory and pre-design services)

83326 Engineering services for waste management projects (hazardous and non-hazardous)

83327 Engineering services for water, sewerage and drainage projects

83329 Engineering services for other projects

v) Charges for the use of intellectual property relating to environment

6.