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National Accounts and Economic Statistics - Services

REVISED DRAFT BOPS CLASSIFICATION

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This document has been prepared by Mr William Cave, OECD, for information and discussion under point a. of item 15 of the draft agenda item : Classification of services in the balance of payments.

IMF BOPCOM comments on the document will be circulated separately. Delegates are invited to comments on the progress, unresolved issues, and proposed next steps.

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**BALANCE OF PAYMENTS CLASSIFICATION OF SERVICES
PROGRESS AND UNRESOLVED ISSUES
NOTE BY OECD STATISTICS DIRECTORATE**

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Introduction

1. This note sets out current progress in developing a Balance of Payments Services Classification (BOPS) for the revised BPM5. It considers developments at the BOPTEG¹ June 2004, BOPCOM October 2004, at the SNA AEG, and at the UN TSG on Classifications and identifies unresolved issues related to these. It incorporates the outcome of classification discussions at the February 2005 meeting of the Interagency Task Force on Statistics of International Trade in Services (ITFSITS), and identifies some other issues. Finally it proposes some next steps.

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

3. The AO raised the question (paragraph 9.6) of whether separate balances for goods and services are supported. Behind this question may be the concern that it is difficult to divide products into goods and services. The two concepts, as defined in SNA 1993², are neither unambiguously mutually exclusive nor exhaustive of the universe of products in the SNA production boundary. Those who wish to divide products into goods and services may come to different conclusions depending on their purpose. A single product may have aspects of both goods and services. A wholesaler produces a service and charges for the service as a margin in the price of the goods he sells. In such a case national accountants may focus on the production of the service, while if the wholesaler's sale enters the balance of payments, the focus will normally be on trade in goods. The interest to split products into goods and services appears greater amongst trade analysts than among national accountants, partly because of different tax and access treatment under GATT and GATS. Even though the borderline between goods and services is blurred and often controversial, it is agreed that standard aggregations for trade in goods and trade in services would be of analytical interest.

4. The October 2004 BOPCOM agreed with BOPTEG's proposals that (i) *goods for repair* should be changed from goods to a service; (ii) additional detail on *travel* be included on a supplementary basis; (iii) *communication* and *computing services* be combined, provided that *postal and courier services* be classified separately ; (iv) *construction services* be shown with an additional split, to identify construction services abroad separately from construction services in the compiling economy; (v) the treatment of *financial services* be harmonized, in line with developments at the OECD and the AEG, to the extent

¹ BOPTEG Issue and Outcome paper 17

² See 1993 SNA paragraphs 6.7 to 6.13

possible; (vi) international passengers services should remain in *transportation services*; and (vii) a residual category for transactions between related entities not be included in BOPS classification.

Table 1 Overview of Goods and Services Account in AO

(Based on AO table 9.1)

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

Classification issues that are linked to other discussions (as yet unresolved) in the SNA update, BPM5 revision and CPC revision

5. Is the item “goods for processing” to be treated consistently net or gross in SNA/BPM, or whether the current treatment is to be maintained. Should this be categorised as trade in goods or a trade in services? Depending on the final SNA/BPM decisions this may be linked to other on-site processing of goods as a service currently classified in “agricultural, mining, and other on-site processing services”

6. Should merchanting services be recorded gross or net and categorised as trade in goods or trade in services?

7. Franchise fees and payments for the use of similar rights? There is a question of name and coverage. The borderline with income needs to be elaborated. The definition of "rent" (AO 10.28) may affect the coverage of services.
8. The implications for balance of payments trade statistics of SNA AEG decisions on the treatment of originals and copies and extended licenses to reproduce is not yet clear. Will software license fees for reproduction be included and if not where will they go?
9. CPC revision: The UN Technical Sub-group on Classifications (TSG) will issue in June 2005 a first draft of a revised CPC (version 2.0). This will be out for worldwide consultation until the autumn. There will be no fundamental change in the CPC structure and the revised CPC is planned to be finalized around the end of 2005. Changes to HS 2007 and developments in ICT and information products will be important drivers of change to CPC. The aim is to seek to maintain and where possible to improve the links between BOPS and CPC.

Classification discussions at the ITFSITS

10. BOPCOM 2004 agreed that "post and courier services" should be classified separately from telecommunication services. ITFSITS agrees that "post and courier services" should be included as a category of Transport services, as suggested in the AO. This is in line with the proposed groupings in the revised ISIC, and CPC. ITFSITS proposes that it should be at the same level as "sea transport", "air transport", etc. The proposal may require some minor renaming or reordering of categories. The smallest change might be a more explicit naming of other transport – perhaps along the lines of. "Other modes of transport".
11. A new grouping including telecommunications, computer and information services is agreed. The AO name "Information technology services" was questioned as not fully describing the contents. The name "Telecommunication and information technology services" is suggested as more descriptive. The precise content was questioned. Borderline issues with "audiovisual and related services" were raised and these should be considered further particularly in the light of CPC changes.
12. "Insurance", measured according to a revised SNA definition, is proposed to be split in BOPS into "direct insurance" and "reinsurance" as optional sub-items.
13. Regarding *financial services*, a split between explicitly charged financial services and implicitly charged financial services (which may not necessarily be identical to FISIM) was proposed. But before that the final decisions from the SNA AEG regarding that item are awaited. It was acknowledged that some difficulties for calculating FISIM were expected by countries, together with difficulty to do a geographical breakdown.
14. Concerning "goods for processing" the majority of ITFSITS opposed the BOPTEG proposal for change to BPM5 and SNA 1993 and preferred to keep the treatment as trade in goods.
15. Finally for "merchanting", even though there is a change of ownership, the majority of ITFSITS took the view that this was a service, with no goods production involved, and expressed its opposition to the BOPTEG proposal to treat this as trade in goods.

Other issues

16. There is a general question of the classification of trade in a variety of digital or information products, for which copies can be traded in physical form, sold as on-line products, broadcast, licenses to reproduce and originals? These may include film, TV programmes, videos, video games, books, music, software.

17. Software is a single commodity, of special interest to national accounts, but is classified in many places and not separately identified.

18. Goods v services – There are grey areas products which sit uneasily in both categories. What about goods which are not in HS and not in BOPS classification? For example standard software sold and delivered on-line might be classified as a good, but if so where as it is not covered in merchandise trade.

19. How to treat trade in produced assets that are not classified as goods in HS? For example software originals, and presumably patents resulting from R&D if SNA is changed, would be regarded as produced assets. If tangible produced assets (ships, aircraft) are traded they are counted in trade in goods. Less tangible produced assets can be traded, how should they be treated in trade statistics? The analytical interest is high.

20. Questions on classification of travel raised by the Technical Sub-Group of the Interagency Coordination Group on Tourism Statistics (TSG), and questions on travel agents and tour operators (raised by World Tourism Organization).

21. Does DITEG work on construction services have any implications for measurement of construction services?

22. Government services n.i.e.: Is it appropriate to leave this item to be a residual? It is not a group of products. At the least the definition should be more clearly and, if possible, more narrowly described in the revised BPM5.

Proposed next steps timing and process

- i) An exercise to examine links between BOPS and CPC is planned by October 2005, or before CPC is finalized within an amended UNSD CPC timetable. This will also be important for the subsequent revision of EBOPS.
- ii) Revised draft proposals on BOPS to be submitted to the ITFSITS by end 2005.
- iii) Final draft proposals to BOPCOM by April 2006.

Comments from the OECD-Eurostat Experts on Trade-in-services statistics are invited on the progress, unresolved issues, and proposed next steps.

Table 2 Draft Proposed Revised BOP Services Classification

(Based on AO Table 9.3)

Proposed Revised BOP Services Classification	BPM5 Services Classification
1. Repairs on goods	(included in goods)
2. Transport (*proposed inclusion of post and courier services*)	1. Transportation
3.1 Sea transport	1.1 Sea transport
3.1.1 Passenger	1.1.1 Passenger
3.1.2 Freight	1.1.2 Freight
3.1.3 Other	1.1.3 Other
3.2 Air transport	1.2 Air transport
3.2.1 Passenger	1.2.1 Passenger
3.2.2 Freight	1.2.2 Freight
3.2.3 Other	1.2.3 Other
3.3 Other modes of transport (* need for name change – in AO other transport*)	1.3 Other transport
3.3.1 Passenger	1.3.1 Passenger
3.3.2 Freight	1.3.2 Freight
3.3.3 Other	1.3.3 Other
3.4 Post and Courier Services (* proposed new position *)	
4. Travel	2. Travel
4.1 Business	2.1 Business
4.1.1 Expenditure by seasonal and border workers+	
4.1.2 Other+	
4.2 Personal	2.2 Personal
4.2.1 Health-related+	2.2.1 Health-related*
4.2.2 Education-related+	2.2.2 Education-related*
4.2.3 Other+	2.2.3 Other*
5. Telecommunications, computer and information Services (*need for name change - AO Information technology services*)	3. Communications services
5.1 Telecommunications services	7. Computer and Information Services
5.2 Computer services	
5.3 Other information provision services	
6. Construction services	4. Construction services
6.1 Construction abroad	
6.2 Construction in the compiling economy	
7. Insurance services (new definition)	5. Insurance services
7.1 Insurance +?	Gross premiums **
7.2 Reinsurance +?	Gross claims **

8. Financial services (to include FISIM)	6. Financial services
8.1 <i>Explicitly charged financial services?</i>	
8.2 <i>FISIM?</i>	
9. Franchise fees and payments for the use of similar rights?	8. Royalties and license fees
10. Other business services	9. Other business services
10.1 (<i>Merchanting and other</i>) trade-related services?	9.1 Merchanting and other trade-related services
10.2 Operational leasing services	9.2 Operational leasing services
10.3 Miscellaneous business, professional, and technical services	9.3 Miscellaneous business, professional, and technical services
10.3.1 Legal, accounting, management consulting, and public relations+	Legal, accounting, management consulting, and public relations*
10.3.2 Advertising, market research, and public opinion polling+	Advertising, market research, and public opinion polling*
10.3.3 Research and development+	Research and development*
10.3.4 Architectural, engineering and other technical services+?	Architectural, engineering and other technical services*
10.3.5 Agricultural, mining and on-site processing services+ ?	Agricultural, mining and on-site processing services*
10.3.6 Other business services+	Other*
11. Personal, cultural, and recreational services	10. Personal, cultural, and recreational services
11.1 Audiovisual and related services ?	10.1 Audiovisual and related services
11.2 Other personal, cultural and recreational services	10.2 Other personal, cultural and recreational services
11.2.1 Health services+	
11.2.2 Education services+	
11.2.3 Other+	
12. Government services, n.i.e.	11. Government services, n.i.e.
<i>Alternative breakdown for travel (*as in AO*)</i>	
Expenditure on goods+	
Expenditure on transport services+ (<i>* Is this name sufficiently clear? cf item 2 of main classification*</i>)	
Expenditure on accommodation services+	
Expenditure on food and beverage serving services +	
Other services +	

Note: + indicates supplementary information

Note: * indicates supplementary information

** indicates memorandum items