

**REPORT OF THE TWENTY-FIFTH MEETING OF THE INTERAGENCY TASK
FORCE ON STATISTICS OF INTERNATIONAL TRADE IN SERVICES**



20-21 September 2007

OECD, Annex Monaco, Rue de Conseiller Collignon, 75016, Paris

Minutes of the meeting

1. The Interagency Task Force on Statistics of International Trade in Services (TF) met at the OECD in Paris from 20-21 September 2007. The list of participants is at Annex 1. The agenda is at Annex 2.

Opening

2. Mr Joaquim Oliveira Martins, Head of PASS Division in OECD Statistics Directorate, opened the meeting and welcomed the TF. He emphasised the growing attention given to globalisation in policy analysis at OECD and consequently it was important that new Statistics Working Party on Trade in Goods and Trade in Services be clearly positioned under the globalisation umbrella. He encouraged the TF to give consideration to strengthening the links between different datasets in order to facilitate analytical work. He reminded the TF of the tight timetable to complete the revision of the Manual on Statistics of International Trade in Services (MSITS) by end 2008 and to publish it in 2009. He also drew attention to a proposal for a joint meeting with the Task Force on International Merchandise Trade Statistics.

Outcome of the OECD-Eurostat Trade-in-services meeting

3. The Chair of the OECD-Eurostat Expert meeting reported on the discussions related to the Services Trade Restrictiveness Index and the proposals for the revision of the MSITS. While the meeting had been very well attended there was some disappointment about the amount of country input. There had been a useful discussion on proposals on EBOPS, FATS and modes of supply, now to be followed by a one month written procedure for further comments. There was also a clear interest in sectors, in links to CPC and to industry data. The participation of trade negotiators was important, but it was relevant to note that statistics produced for the balance of payments may not always correspond to what trade policy analysts need and this could be given more attention.

4. OECD considered that the meeting had been generally very useful and successful. A suggestion was noted that the use of a pre-meeting questionnaire to countries might be considered to increase participation as is done for the merchandise trade meeting.

Revision of Balance of Payments Manual Chapter 10 – Goods and services account

5. IMF presented the latest draft of the BPM6 Chapter 10 focussing on the proposed treatment of intellectual property transactions, which had not yet been finalised. The ISWGNA had made decisions in this area but the interpretation of these decisions in the revised SNA text was not yet quite final. The TF discussed and agreed the following recommendations: about royalties and license fees (new name required):

- downloaded products were to be allocated to the appropriate service
- products obtained with a license to use (whether single payment or multiple payments) were to be allocated to the appropriate service [even if the product has an embodied good such as a DVD or CD-ROM]
- sales and purchases of originals were to be allocated to the appropriate service
- included in royalties and license fees:
 - franchising fees;
 - fees for the use of registered trademarks;
 - amounts payable and receivable for the authorized use of proprietary rights arising from research and development (such as patents, trade secrets, copyrights, and industrial processes and designs); and
 - amounts payable and receivable for the authorized use, through licensing agreements, of produced originals or prototypes (such as copyrights on manuscripts, computer software, cinematographic works and sound recordings, as well as live performances and television/cable/satellite broadcast etc), for subsequent production and/or distribution.

6. There should be further discussion of a possible secondary regrouping of all of the above bullet points combined and a reclassification by type of product - software, cinematographic, audio, entertainment etc., in MSITS but not for BPM6.

7. A reservation was noted on the recommendation on the second bullet on products obtained with a license to use that are physically embodied, as it may be too late in the revision processes to move physically embodied software for example out of trade in goods, even though it would seem to be in line with the revised SNA.

8. There were a number of drafting points raised on the draft Chapter 10. On e-commerce OECD and UNCTAD offered to provide additional text to IMF. The relevance of paragraph 10.130 on local area networks was questioned for possible deletion. There was a suggestion of a need for a definition of goods and services in the chapter. SNA provides text that could be referenced and notes the declining interest in the distinction.

9. The item *Repairs and maintenance on movable goods* was discussed. The rationale for this category was not clear, nor was the use of the term “movable goods”. The TF suggested that consideration be given to including with this “repairs and maintenance in ports and airports”. However the issue was felt to be a low priority.

10. UNWTO questioned the descriptions of travel for the purposes of education and health and offered to provide alternative text direct to IMF.

11. Other comments noted were the definition of “general merchandise” (in paragraph 10.10), which was seen as too negative, some inconsistencies in the text on non-monetary gold (10.47-52); a question on whether there was a need to discuss c.i.f. valuation for post and courier services, and a European issue regarding the customs threshold treatment of travel expenditure on durable and valuable goods, when there was no customs threshold, for example within the EU. On changes of ownership of existing buildings (10.103) the sentence on notional units should come first. In paragraph 10.144 the reference to *merchanting* should be removed.

12. IMF planned to redraft the chapter by end of September for discussion at the Balance of Payments Committee at the end of October 2007.

Chapter 3 and the revision of EBOPS

13. The TF discussed the proposals for the revision of EBOPS presented by the OECD in paper TFSITS (07) 21.

14. The content and name of the proposed item *other manufacturing services* was discussed. For the item *electricity transmission*, the term “transmission” was questioned. This should be checked. For the category of traveller *border and seasonal workers*, an alternative name “border, seasonal and other short-term workers” was suggested.

15. The need for the split in *information services* was questioned. The Secretariat would check the degree of importance of the split from reported data. For *Insurance and pension fund services*, the sub-items should be given a hierarchy to align them with BPM6.

16. A split of agriculture and mining services in the main EBOPS was suggested, but questions were raised about the names, which should be reviewed, and the content, which should be clarified, of 10.3.2 and all the sub-items.

17. Similarly for the proposed memorandum items in 11.2.3 *Other personal, cultural and recreational services* there was a need to review the names and clarify the content.

18. A suggestion that the reporting of exports could be more detailed than reporting of imports was discussed but not supported on the grounds that this could convey the impression that imports were in some sense less important than exports.

19. For transport services there was a difference between what is measured and what trade negotiators might wish to know. This was partly addressed in the EBOPS 2002 memorandum items on freight transportation on merchandise valued on a transaction basis, however these items had been rarely reported. In a similar context, regarding construction services there was a question whether the service element could be conceptually isolated.

20. Regarding the list of alternative regroupings proposed, the TF agreed to add *intellectual property payments*, and to consider a breakdown by type of transaction – see paragraph 6 above. The Secretariat was asked to investigate the content of *ICT services* to see if it was significantly different from the BPM6 standard item *Telecommunications*,

computer and information services. Other alternative regroupings proposed were *environmental services*, which WTO would further specify, and *distribution services*, where US BEA would advise on its recent work.

Chapter 4 Foreign Affiliates Statistics and the International Supply of Services

21. OECD presented the progress on Chapter 4, explaining that the text as set out in TFSITS (07) 22 had been aligned with the latest draft of BD4 Chapter 8 on FDI and Globalisation, which in turn was closely coherent with the OECD HEGI and the original MSITS Chapter 4 text. US BEA had provided the BD4 Chapter 8 draft. Text specific to the trade in services interest had been kept in the MSITS chapter. A number of questions had been identified for discussion.

22. On the title of the Chapter, the Task Force supported the proposed title “Foreign affiliates statistics and the international supply of services”. The acronym FATS was to be kept with an explanation of the link to statistics on the activity of multinational enterprises (AMNEs). The TF supported the general strategy of maintaining consistency with the OECD Handbook and BD4, subject to particular interests of measuring the international supply of services and GATS.

23. The issue of using “majority ownership” as the target criterion for FATS was discussed. UNCTAD proposed that for developing countries it would in many cases be easier to use the 10% FDI rule and immediate owner rather than ultimate investing country (UIC) and that this should be acknowledged in the text. This view was not supported by the TF. The Eurostat Foreign Affiliates Regulation used the concept of “control”, where a controlled affiliate was majority owned. Control was transmitted along the chain of ownership provided that at each step (i.e. for each intermediate affiliate) there existed majority ownership. This inconsistency in the criterion of majority ownership would be drawn to the attention of the WIIS. A graphical representation of control should be included in the examples.

24. Majority ownership was defined as the majority ownership of *voting power* and this was in line with the OECD Handbook and BD4 Chapter 8. Whether this was also in line with FDI statistics as defined in BD4 needed to be checked.

25. The TF supported the proposed additions to the text of paragraph 26 to emphasise the need for international aggregation without double counting of outward FATS.

26. The TF supported the inclusion of the variable “purchases of goods and services”. In paragraph 78h “ideally” should be replaced by “for economic analysis”.

27. The variables “exports and imports” were the subject of a number of comments. This was intended to be based on balance of payments concepts and some clarification was needed. Was this also the case for the Eurostat Regulation? The TF supported

inclusion of some text and explanation on intra-group trade and on the interest in monitoring the processing of goods that was done intra-group.

28. Regarding the ISIC categories for foreign affiliates (ICFA), Eurostat had not yet finalised the use of the NACE rev. 2 in the reporting of foreign affiliates statistics.

29. The measure of employment was discussed regarding the merits of using number of persons employed or full-time equivalents. It was agreed that consistency with other related frameworks was the important factor. There was a suggestion to include a gender breakdown of employment.

30. There was a need for more guidance on which variables were covered in inward FATS and outward FATS. Some examples of how to determine which is the ultimate investing country and the intermediate investing countries should be included in the chapter.

Chapter 5 Measuring modes of supply

31. WTO presented paper TFSITS (07) 23 which was a revised and still incomplete draft of the proposed Chapter 5 Measuring modes of supply.

32. A general remark was made that it was not clear who the Chapter was aimed at and that the structure could be simplified. In paragraph 5.8 it would be helpful to include also a low-skilled example to emphasise that all skill levels are covered. At the end of paragraph 5.9, add a sentence “The GATS mode 4 covers service suppliers at all skill levels.” In paragraph 5.11 in the third bullet the last sentence should be “This is considered the supply of a service through mode 3”; and in the fourth bullet delete “initially” as well as clarify the sentence. The last two sentences of paragraph 5.13 should be deleted. Paragraphs 5.41 and 5.46 on distributive services should be merged. In paragraph 5.68 replace “value added” with “gross output” and include text on the special cases of insurance and financial services. Footnote 17 on page 3 regarding “natural persons” needs to be clarified.

33. A request was made for a general table allocating EBOPS items and FATS statistics by mode of supply, if possible with an illustration. An analytical example could be included in the analytical annex.

Globalisation of services

34. Isabelle Bensidoun and Deniz Unal-Kesenci of CEPII presented a research paper TFSITS (07) 24 entitled “Globalisation of services”, which had sought to estimate the relative importance of different modes of supply of services in four countries, both inward and outward, and demonstrated the sensitivity of the estimates to different treatments of distribution services. The method they favoured used an estimate of gross output of distribution as the best estimate of the service content.

35. The discussion raised some problems with comparing FATS sales and international trade in services data. There was confirmation that there were little or no reliable data on mode 4 at present. The problem of classification of activity in France’s outward FATS data was noted. By all methods examined, mode 3 sales represented the

most important mode of supply. Estimates would be more precise if FATS sales in the local market were known, as is available from US data. The TF concluded that the research was relevant and could have some application in the revision of MSITS for example in the analytical annex.

The Analytical Annex

36. OECD presented a revised draft of proposals for an analytical annex set out in paper TFSITS (07) 25. There was a proposal to consider an index combining FATS sales and trade data. One challenge for such an index would be to avoid double counting. Additional material would be included related to linking FATS and balance of payments trade in services data. Other suggestions included use of Eurostat asymmetry analyses, OECD material related to the Services Trade Restrictiveness Index, global outsourcing and merchanting examples. The TF supported this further development work.

Next steps in the revision of MSITS

37. The TF agreed the following actions and timing in the revision process:
- TF comments on the draft chapters (2, 4 and 5), EBOPS, and analytical annex to be provided by end October 2007;
 - OECD Trade and Agriculture Directorate was requested by the TF to provide more details on what information was ideally needed.
 - OECD would redraft EBOPS proposals by December 2007;
 - Chapters 2,3,4 and 5 together with the TSA and analytical annexes to be redrafted by authors by end February 2008;
 - ICFA proposals in ISIC rev 4 to be developed with Eurostat by end February 2008;
 - Following a spring 2008 TF meeting, a worldwide consultation on proposals would be commenced in May 2008 to last three months;
 - TF review comments and final draft preparation autumn 2008;
 - Take opportunities for presentation to and discussion of MSITS proposals with expert groups/seminars throughout 2008 by agencies;
 - Preparation of final draft MSITS including annexes and submission to UNSC December 2008;
 - Prepare publication 2009.

How can we deal with cross-cutting issues between trade in goods and trade in services?

38. WTO presented a discussion document TFSITS (07) 31 on the work of the Interagency Taskforce on International Merchandise Trade Statistics (TFIMTS), that had been prepared with OECD and UNSD. There are a number of trade-related measurement issues which either cross-cut trade in goods and trade in services or do not fall clearly in the competence of either group. The boundary between goods and services is increasingly

blurred and while it has a particular interest for trade negotiations it is less important for many other analytical purposes, where it may make more sense to look at trade in goods and services together. The discussion document in particular set out a proposal for a joint meeting with the TFIMTS in April 2008 at UNIDO in Vienna.

39. It was felt that both trade Task Forces worked well but that it would be useful to have a joint meeting or meetings to discuss particular common issues which should lead to new outputs. A proliferation of meetings should be avoided.

40. The TF agreed the following statement:

“The TF affirmed its priority to revise the Manual on Statistics of International Trade in Services according to the timetable set. The TF decided that a March 2008 TFSITS meeting of 2-3 days was necessary and practical to keep to the revision timetable. (Eurostat had BOP meetings arranged for 3-4 April and 28 April). It was thought that end April would be too late to permit a worldwide consultation process over the summer of 2008.

The TFSITS agreed in principle the proposal for a joint meeting, which would be a forum to discuss specific cross-cutting issues. There was a strong view that the joint meeting (or meetings - if it were decided that there should be more than one) should be issue driven and the question of what should be the output of the joint meeting(s) was important. There was not felt to be a need for a new organisational structure. On the issue of goods for processing/manufacturing services, the Task Force agreed that work to develop compilation guidance was important.”

TFSITS website and electronic discussion group

41. UNSD reported that the TF web pages had been updated, TF papers posted and an electronic discussion group created for drafts of the MSITS. A TF newsletter was planned for the end of the year.

42. The TF thanked the UNSD for this useful development, but requested that working drafts for discussion among the TF should not be posted on the public web pages. If any were there they should be removed.

Date of next meeting

43. To be arranged - possible dates for the next meeting are either in the week after Easter (25-28 March 2008) or 7-11 April 2008. The meeting could be in parallel with TFIMTS followed by a one-day joint meeting or back-to-back with a joint day in between. The most likely venue is UNIDO in Vienna (to be confirmed).