

Department of Economic and Social Affairs  
Statistics Division

# Manual on Statistics of International Trade in Services 2010 (MSITS 2010)

(White cover)



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## DESA

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# Foreword

The revision and publication of the *Manual on Statistics of International Trade in Services* were undertaken by our seven organizations and managed through the mechanism of the inter-agency Task Force on Statistics of International Trade in Services. The *Manual* was published following its adoption, on 26 February 2010, by the United Nations Statistical Commission at its forty-first session, held in New York from 23 to 26 February 2010.\*

The *Manual on Statistics of International Trade in Services 2010* (MSITS 2010) sets out an internationally agreed framework for the compilation and reporting of statistics of international trade in services in a broad sense, which addresses the needs, including those of international trade negotiations and agreements, for more detailed, more comparable and more comprehensive statistics on this type of trade in its various forms. The recommendations presented, which are promoted by our seven organizations, will enable countries to progressively expand and structure the information they compile in an internationally comparable way. *MSITS 2010* conforms with and explicitly relates to the *System of National Accounts 2008* and the sixth edition of the *Balance of Payments and International Investment Position Manual*.

The preparation of *MSITS 2010* has benefited from strong cooperation among the international organizations, the advice of specialist consultants, the invaluable input of a large number of member countries' experts and the many comments received during the successive worldwide reviews, in 2006, 2008 and 2009, conducted under the auspices of the Task Force. It is intended for use by national and international organizations, and we commend it to countries for their progressive implementation, taking into account their national information needs, priorities and resources.

The electronic version of *MSITS 2010* is available on the Internet.\*\* The annexes, including the correspondence tables, should be viewed as living documents which may be modified over time as the impacts of the new classifications become better understood.

\* See Official Records of the Economic and Social Council, 2010, Supplement No. 4 (E/2010/24), chap. I.B, decision 41/104, para. (b).

\*\* See <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010.htm>; and <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010/annexes.htm>.

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# Acknowledgements

The *Manual on Statistics of International Trade in Services*, the first edition of which was issued in 2002, has been jointly revised by the participants in the Interagency Task Force on Statistics of International Trade in Services mandated by the United Nations Statistical Commission. Convened by the Organisation for Economic Co-operation and Development (OECD), this Task Force includes representatives from the World Trade Organization (WTO), the United Nations Statistics Division (UNSD), the International Monetary Fund (IMF), the Statistical Office of the European Union (Eurostat), the United Nations Conference on Trade and Development (UNCTAD) and the World Tourism Organization, as well as leading experts from Germany, Italy, Japan and the United States of America.<sup>1</sup>

This revision was carried out between 2006 and 2010. The contents of the new edition of the *Manual (MSITS 2010)* were aligned to the revisions of well-established revised international statistical standards, in particular the sixth edition of the *Balance of Payments and International Investment Position Manual*, the *System of National Accounts 2008*, and the revised *OECD Benchmark Definition of Foreign Direct Investment* (4th ed., 2008) as well as the system of tourism statistics. *MSITS 2010* also includes a new chapter discussing the measurement of services “modes of supply” to respond, inter alia, to information needs related to the General Agreement on Trade in Services.

The successive drafts of *MSITS 2010* were subject to three rounds of worldwide consultations of expert groups, national statistical agencies, national central banks, international organizations, trade negotiators and other users. The consultations were coordinated by IMF, UNSD and the World Trade Organization. Reviews of the revision process of *MSITS 2010* were also undertaken during meetings of the IMF Committee on Balance of Payments Statistics, of the group of OECD-Eurostat Experts in Trade in Services Statistics and, afterwards, of the OECD Working Party on International Trade in Goods and Trade in Services, and the OECD Workshop on International Investment Statistics; and at regional workshops for national statisticians conducted by the United Nations Statistics Division, in cooperation with the regional commissions and national agencies, and at seminars of IMF, Asia-Pacific Economic Cooperation (APEC) and the World Trade Organization, among others. The Task Force benefited immensely from the advice received at those various meetings and seminars, and also from comments received from the more than 100 economies that provided feedback during the three consultations. *MSITS 2010* also reflects the work of the UNSD Technical Subgroup on the Movement of Persons — Mode 4 which had been established by the Task Force in 2004. The work of this group was terminated in 2006.

Between 2002 and 2010, the Task Force was chaired, through 2008, by William Cave (OECD), followed by Bettina Wistrom (OECD). In revising *MSITS 2010*, participants of the Task Force shared the work by assigning responsibilities for individual chapters and annexes, as follows: Ronald Jansen and Karoly Kovacs, UNSD (chap. I, and EBOPS 2010-CPC, Version 2.0 online correspondence table); Joscelyn

<sup>1</sup> Other experts were involved, both national and from other organizations such as the World Health Organization (WHO), the Economic Commission for Latin America and the Caribbean (ECLAC) and the Secretariat of the Common Market for Eastern and Southern Africa (COMESA).

Magdeleine and Andreas Maurer, World Trade Organization (chaps. II and V, and W/120-EBOPS 2010 online correspondence table); Thomas Alexander and Margaret Fitzgibbon, IMF (chap. III); William Cave and Bettina Wistrom, OECD (chap. IV and annexes I and II and online annex on *MSITS 2010* and the System of Health Accounts); Antonio Massieu and Marion Libreros, World Tourism Organization (annex V); Mush-taq Hussain, Daniela Comini, Franca Faes-Cannito and Szymon Bielecki, Eurostat (annex II and EBOPS 2010-ICFA, Rev. 1, online correspondence table); and Robert Hamwey, Michael Hanni and Astrit Sulstarova, UNCTAD (glossary).

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In late 2009, Mark Pollard, a consultant financed by OECD and the WTO, was entrusted with the task of carrying out a thorough review of *MSITS 2010*, so as to ensure cross-chapter consistency. Secretarial and administrative support, particularly by Fabiana Cerasa, was contributed by OECD. Editorial support was financed by UNSD.

The present *Manual* was submitted to, and adopted by, the Statistical Commission at its forty-first session, held in February 2010.

## List of acronyms

AMNE	activities of multinational enterprises
BD4	Fourth edition of the <i>OECD Benchmark Definition of Foreign Direct Investment</i>
BPM6	Sixth edition of the <i>Balance of Payments and International Investment Position Manual</i>
c.i.f.	cost, insurance, freight (also CIF)
CPC	Central Product Classification
EBOPS	Extended Balance of Payments Services Classification
Eurostat	Statistical Office of the European Union
FATS	foreign affiliates statistics (as used in this <i>Manual</i> )
FDI	foreign direct investment
FDIR	Framework for Direct Investment Relationships
FISIM	financial intermediation services indirectly measured
f.o.b.	free on board (also FOB)
FTE	full-time equivalent
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
HS	Harmonized Commodity Description and Coding System
ICFA	ISIC, Rev.4 Categories for Foreign Affiliates in services
ICSE	International Classification of Status in Employment (International Labour Organization)
ILO	International Labour Organization
IMF	International Monetary Fund
IMTS	International Merchandise Trade Statistics
IRTS	International Recommendations for Tourism Statistics
ISCO	International Standard Classification of Occupations (International Labour Organization)
ISIC	International Standard Industrial Classification of All Economic Activities
ITRS	International Transactions Reporting Systems
MFN	most-favoured-nation (treatment)
MNE	multinational enterprise
NPISH	non-profit institution serving households
NPO	non-profit organization
OECD	Organisation for Economic Co-operation and Development
RSIM	recommendations on statistics of international migration
SNA	System of National Accounts
SPEs	special-purpose entities
TFSITS	Task Force on Statistics of International Trade in Services
TRIPS	Agreement on Trade-related Aspects of Intellectual Property Rights

<b>TSA</b>	tourism satellite account
<b>UCI</b>	ultimate controlling institutional unit (used in respect of foreign affiliates)
<b>UN</b>	United Nations
<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>W/120</b>	Services Sectoral Classification List (see World Trade Organization document MTN.GNS/W/120)



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## Chapter I

# General introduction and foundations of the *Manual*

### A. Introduction

1.1. The *Manual on Statistics of International Trade in Services (MSITS)* addresses the needs of a variety of producers and users of such statistics. While the *Manual* is primarily a guide for statistical compilers, it is also a useful tool for Governments and international organizations that use statistical information in connection with international negotiations on trade in services. Furthermore, it can aid enterprises and other entities that need to monitor developments in international services markets.

1.2. The first version of *MSITS*,<sup>1</sup> which was approved by the United Nations Statistical Commission at its thirty-second session in March 2001 and published officially in 2002,<sup>2</sup> represented an important advance in respect of providing a clearer, more detailed and more comprehensive system for the measurement of services trade.

1.3. The present version, known as *MSITS 2010*, is now particularly important for trade agreements, since they often cover services in addition to goods. Statistics are consequently needed both to guide negotiations and to support implementation of those agreements, the most well-known and wide-reaching agreement encompassing services being the General Agreement on Trade in Services (GATS),<sup>3</sup> which became effective in 1995. The need for such statistics has fuelled the demand for the development of a more comprehensive and better-integrated approach to statistical issues entailing trade in services.

1.4. The term *international trade in services* is construed broadly in *MSITS 2010*. It covers trade in services in the conventional sense of transactions (exports and imports) between residents and non-residents. In addition, it covers services delivered through enterprises that are locally established but foreign-controlled. The latter type of transactions are covered by *foreign affiliates statistics (FATS)*.<sup>4</sup> Also discussed are cases where individuals are temporarily present abroad for the purpose of supplying a service.

1.5. Although *MSITS 2010* extends the concept of *trade in services*, it does not extend the concept of *services*, and it conforms almost entirely with existing international statistical standards. Discussion of the usage of the terms *services* and *international trade in services* is provided in boxes I.1 and I.2, respectively, which can be found at the end of the present chapter.

1.6. Underlying the conceptual framework of *MSITS 2010* are not only the requirements arising from GATS-related negotiations, but also the concepts defined in the System of National Accounts (SNA) and the Balance of Payments Manual (BPM) and those related to FATS. *MSITS 2010* has been prepared within the context provided by those three pillars, as reflected in the context of chapters II through V. Since the publication of the first version of *MSITS*, the SNA and the BPM have been significantly revised, as have

1 *Manual on Statistics of International Trade in Services*, Statistical Papers, Series M, No. 86 (United Nations publication, Sales No. E.02.XVII.11).

2 See *Official Records of the Economic and Social Council, 2001, Supplement No. 4 (E/2001/24)*, chap. III, sect. C, para. 25 (a).

3 See *Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, done at Marrakesh on 15 April 1994* (GATT secretariat publication, Sales No. GATT/1994-4), annex I.B.

4 The term "foreign affiliates trade in services statistics" has been superseded by the more general term "foreign affiliates statistics". For historical consistency, the acronym (FATS) has been retained.

related classifications such as the Central Product Classification (CPC) and the International Standard Industrial Classification of all Economic Activities (ISIC). To keep its concepts and definitions consistent, *MSITS* has been updated accordingly.

## B. Overview of changes to the *Manual*

1.7. An opportunity was offered not only to incorporate updates to the *MSITS* in response to changes in related conceptual frameworks and classifications but also to undertake an overall review. A questionnaire was sent by the Interagency Task Force on Statistics of International Trade in Services (TFSITS) to all national, regional and international institutes that either compile or use trade in services statistics. Respondents were given the opportunity to comment on specific questions and to contribute other observations if so desired. The upshot of this worldwide consultation was that generally only minor updates were recommended, like the inclusion of a breakdown by partner country to the second, third and fourth of the priority list recommendations (see sect. D below).

1.8. Chapter III reflects the updates in the recently released sixth edition of the *Balance of Payments and International Investment Position Manual* (BPM6).<sup>5</sup> Chapter IV separates more clearly than before, inward and outward FATS, and is aligned with updates provided in BPM6, the *OECD Benchmark Definition of Foreign Direct Investment*, 4th ed. (BD4),<sup>6</sup> and *Measuring Globalisation: OECD Handbook on Economic Globalisation Indicators 2005*.<sup>7</sup> A more in-depth discussion of modes of supply is given in a new chapter (chap. V). Pursuant to the fact that BPM6 differs from its previous version on a number of issues, including some concerning the Goods and Services Account and following the recommendation of the *System of National Accounts*<sup>8</sup> for a stricter application of the change-of-economic ownership principle, certain economically important items were reviewed and rearranged in the classification of goods and services, for example, *goods for processing* (without change of ownership of the goods), *repairs on goods*, and *merchandising*.

1.9. The Extended Balance of Payments Services Classification (EBOPS) is an extension of the main services components of the Balance of Payments classification. It was significantly changed through the introduction of *Manufacturing services on physical inputs owned by others* and *Maintenance and repair services, n.i.e.* as two new components and the removal of *Merchandising* from *Other business services*. For the correspondence between the updated EBOPS 2010 and the revised Central Product Classification (CPC, version 2), and between the EBOPS 2010 and the ISIC Categories for Foreign Affiliates in services, Revision 1 (ICFA, Rev.1), as well as between the EBOPS 2010 and the General Agreement on Tariffs and Trade (GATT) Services Sectoral Classification List (W/120),<sup>9</sup> see <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010/annexes.htm>.

1.10. With respect to FATS, the main difference introduced into more recent guidelines is the utilization of the concept of control (that is, majority ownership of voting power) of foreign affiliates instead of the concept of majority ownership of ordinary shares or of voting power. In addition, the concept of the ultimate controlling institutional unit (UCI) replaces that of the ultimate beneficial owner (UBO). Chapter IV provides further clarifications on inward and outward FATS, and also describes the links between FATS and the international supply of services. Finally, the ISIC Categories for Foreign Affiliates in services was revised to take into account the revisions introduced into the new version of the International Standard Industrial Classification of All Economic Activities (ISIC, Rev.4).<sup>10</sup>

<sup>5</sup> International Monetary Fund, *Balance of Payments and International Investment Position Manual*, 6th ed. (BPM6) (Washington, D.C., 2009).

<sup>6</sup> Paris, Organisation for Economic Co-operation and Development, 2008.

<sup>7</sup> Paris, 1 June 2005.

<sup>8</sup> European Commission, International Monetary Fund, Organisation for Economic Co-operation and Development, United Nations and World Bank (United Nations publication, Sales No. E.08.XVII.29).

<sup>9</sup> The GATT Services Sectoral Classification List, known as W/120, is a classification system that has been used to structure commitments of members of the World Trade Organization. It is reproduced in full in annex IV of the present publication.

<sup>10</sup> *International Standard Industrial Classification of All Economic Activities (ISIC)*, Rev. 4, Statistical Papers, Series M, No. 4, Rev.4 (United Nations publication, Sales No. E.08.XVII.25).



1.11. Annex I entitled “Presence of natural persons supplying services under GATS” of *MSITS 2002* has been elaborated and is now included in chapter V entitled “Statistics on the international supply of services by mode” of the present Manual. Annex V of *MSITS 2010* on the relationship between *MSITS 2010* and international recommendations for tourism statistics has been updated.

## C. Foundations of the *Manual*

### 1. Modes of supply identified by the General Agreement on Trade in Services

1.12. An important feature of *MSITS 2010* is a description of the modalities through which services may be supplied, of which the GATS identifies four: *cross-border*; *consumption abroad*; *commercial presence* and *presence of natural persons*. Distinctions among these modes are based on whether the service supplier and the consumer are present in the same country or in different countries when the transaction is effected.

1.13. *MSITS 2010* draws on work conducted by the Organisation for Economic Co-operation and Development (OECD) and the Statistical Office of the European Union (Eurostat), as well as on the experience of a number of countries in collecting data on services supplied through subsidiaries and branches abroad. *MSITS 2010* reflects an emerging international consensus on the need for statistics on *commercial presence* of enterprises over which a foreign investor has control. These enterprises are classified, as a first priority, on an activity basis (in other words, by industry of the producer) rather than by type of service produced.

1.14. Industry groupings drawn from ISIC, Rev.4, are provided for use in reporting these statistics to international organizations. These groupings, known as the ISIC Categories for Foreign Affiliates in services, Revision 1 (ICFA, Rev.1), allow the activities of services enterprises to be viewed in the context of the activities of all enterprises. Although detail by product for foreign-owned enterprises is encouraged so as to enable comparability between FATS and trade between residents and non-residents, compilation on a product basis will remain only a longer-term goal for most countries because of current limitations on data collection.

1.15. The most pertinent information on the activities of affiliates may be considered to be data on their sales or output. Services delivered through transactions between residents and non-residents are mainly measured in terms of sales, and a comparable measure must be available for affiliates in order for services delivered through foreign affiliates to be measured on a parallel basis. However, additional information is generally required for an adequate assessment of the economic effects of affiliate operations and of measures to liberalize the supply of services through the *commercial presence* mode. Accordingly, *MSITS 2010* recommends multiple indicators and variables for FATS, rather than sales only.

1.16. Since the publication of the first version of *MSITS*, significant improvements have been made in developing concepts and definitions for statistics on the supply of services, in particular for the supply through the *presence of natural persons*. The newly developed framework for establishing statistics on the supply of services by mode is included in chapter V.

## 2. International standards for economic statistics

1.17. The approach of *MSITS 2010* is to build on internationally agreed standards for compilation. First and foremost among these standards is the already mentioned BPM6, which contains recommendations for the definition, valuation, classification and recording of resident/non-resident trade in services. Also important is the 2008 SNA, whose concepts and definitions underpin many of the recommendations of *MSITS 2010* about data on services delivered through foreign affiliates.

1.18. *MSITS 2010* provides descriptions of the major services involved in international trade as well as the nomenclature and provisions of the GATS.

1.19. *MSITS 2010* does not offer more than summary practical guidance to national compilers. For trade in services between residents and non-residents, practical guidance will be provided by the IMF *Balance of Payments Compilation Guide*.<sup>11</sup> With respect to the compilation of FATS, some practical guidance is provided in the Eurostat *Foreign Affiliates Statistics (FATS) Recommendations Manual*.<sup>12</sup> It is recognized, however, that the successful implementation of the recommendations in *MSITS 2010* will be greatly aided by further guidance and technical support from international agencies in supplementing existing provisions. The Interagency Task Force on Statistics of International Trade in Services has therefore committed itself to providing compilation guidance to help the producers of the statistics in actually implementing the recommendations of *MSITS 2010*.

1.20. The treatment in *MSITS 2010* of both balance of payments statistics on trade in services and FATS represents, even within the constraints of current statistical frameworks, a significant step towards building links between these two bases. This linkage poses a challenge to statisticians who may be obliged to draw on expertise and information spread among central banks, national statistical offices, Government ministries and other relevant bodies. As statistics are developed, more cooperation will be required among the institutions involved.

1.21. Measurement of trade in services is inherently more difficult than measurement of trade in goods, inasmuch as services are more difficult to define. Some services are defined through the use of abstract concepts rather than by pinpointing any specific physical attribute or physical function. In the case of trade in services, unlike that of trade in goods, there is no package crossing the customs frontier with: an internationally recognized commodity code; a description of the contents; information on quantity, origin and destination; and an invoice. Nor is there an administrative system associated with customs duty collection that is practised at assembling these data. Obtaining the required information on services trade, once defined, is dependent on the reaching of a common understanding of concepts with data providers. Measurement of trade services relies on information that may be reported either from business accounting and record-keeping systems or by individuals, and on a variety of data sources, including administrative sources and surveys, and estimation techniques.

1.22. National agencies need to weigh the demand of users for more detailed information about services trade against the cost of collection, the burden of extra information provision imposed on enterprises and the need for certain minimum quality thresholds. As with other types of statistical data collection, there is a requirement in most countries that the confidentiality of data of individual enterprises be protected. These constraints and considerations limit, in a very real sense, the degree of detail of the information on international trade in services that it is practical to provide. The level of detail set out in *MSITS 2010* represents, accordingly, a compromise between the need of trade negotiators,

<sup>11</sup> Washington, D.C., 1995. The IMF *Compilation Guide* for the sixth edition of the *Balance of Payments and International Investment Position Manual* was not available at the time the present publication was being prepared.

<sup>12</sup> Eurostat, European Commission, *Foreign Affiliates Statistics (FATS) Recommendations Manual*, 2009 ed., *Eurostat Methodologies and Working Papers* (Luxembourg, Office for Official Publications of the European Communities, 2009), at the time of writing, these recommendations were being reviewed.

analysts and policymakers for information, and the difficulties in data collection that may be encountered by national agencies.

## D. Set of recommended elements for phased implementation

1.23. *MSITS 2010* recommends a complete set of elements, for implementation by compilers, that build on internationally agreed standards so as to enable them to progressively achieve comparability of published statistics on the international supply of services. The full implementation of these elements would result in a considerable increase in the degree of detail of the information available. It is recognized that many countries will view the full implementation of the recommendations as a long-term goal and that active cooperation among data-compiling institutes at the national level is necessary in order to integrate the various elements of trade in services from balance of payments, foreign direct investment (FDI) and foreign affiliates into one framework. The list below of the main elements provides a summary of the recommendations.

1.24. The first four are proposed as *core* elements to be tackled first. It is suggested that these core elements should be given particular priority and that the other elements be implemented incrementally thereafter. The four core elements would, when implemented, provide a basis for a common internationally comparable basic data set. All countries, including those that are beginning to develop such statistics, can follow this phased approach as they begin to structure available information in accordance with the new international standard framework. By putting the elements that are easier to implement at the beginning of the suggested sequence, *MSITS 2010* thereby takes into account the difficulty that many compilers may encounter in the implementation process. However, the order is intended to be quite flexible so as to enable countries to meet the priority needs of their own institutions.

1.25. *MSITS 2010* recommends the inclusion of a breakdown by partner economy for services transactions between residents and non-residents, the aim being to report partner detail, first, at the level of services trade as a whole and, second, for each of the main types of services in BPM6 and (as a longer-term goal) for the more detailed EBOPS items. In the case of FATS and FDI, the aim is to report partner detail both in the aggregate and for the major industry categories within ICFA, Rev.1. In both cases, it is recommended that countries give a higher priority to providing data with respect to their most important trading partners.

### 1. Recommended core elements

#### BPM6

1.26. Implement the BPM6 recommendations, including the definition, valuation, classification and recording of services transactions between residents and non-residents.<sup>13</sup>

<sup>13</sup> See chapter III.

#### EBOPS 2010: first part — disaggregation

1.27. Compile balance of payments data according to EBOPS 2010,<sup>14</sup> which involves disaggregating the BPM6 standard components for services into EBOPS 2010 sub-components. Where the compilation of the main EBOPS classification is developed and carried out in stages, compilers should commence by separately identifying those EBOPS

<sup>14</sup> See paras. 3.44-3.51 and annex I.

sub-components that are of major economic importance to their own economies. Where data for related supplementary items are available, these supplementary items should also be compiled as part of this process. As indicated in paragraph 1.25, the aim would be to report partner country detail, first, at the level of services trade as a whole and then for each of the main types of services in BPM6 and EBOPS 2010.

### FDI statistics

1.28. Collect complete statistics on FDI (that is, the flows, income and period-end positions) classified by ISIC, Rev.4, activities as complements to FATS. For those countries that must delay the implementation of FATS, FDI statistics provide useful complementary information on *commercial presence*.<sup>15</sup> It is further recommended that partner country detail be reported both in the aggregate and for the major activity categories.

<sup>15</sup> See paras. 4.15-4.21 and box IV.1.

### FATS: basic variables

1.29. Record certain basic FATS-related variables, such as sales (turnover) and/or output, employment, value added, exports and imports of goods and services and number of enterprises.<sup>16</sup> To achieve comparability, these are classified by specified activity categories based on ISIC, Rev.4. When reporting to international organizations ICFA, Rev.1 could be used to improve comparability with the data recorded according to the first and second recommendations.<sup>17</sup> Again, it is recommended that partner country detail be reported both in the aggregate and for the major industry categories within ICFA, Rev.1.

<sup>16</sup> See paras. 4.44-4.63.

<sup>17</sup> See paras. 4.35-4.41 and annex II.

## 2. Other recommended elements

### EBOPS 2010: second part — completion

1.30. Complete the implementation of EBOPS 2010<sup>18</sup> to the extent relevant to the compiling economy, including the supplementary items. As noted above, supplementary items should be compiled where the data are available as part of the data-collection process for the related EBOPS components. Other supplementary items and complementary groupings should be compiled where there is a demand for these data in the compiling economy.

<sup>18</sup> See paras. 3.44-3.51 and annex I.

### FATS: further details

1.31. Augment the basic FATS variables by compiling data on additional aspects of the operations of foreign affiliates, such as assets, compensation of employees, net worth, net operating surplus, gross fixed capital formation, taxes on income, research and development expenditures, and purchases of goods and services.<sup>19</sup>

<sup>19</sup> See paras. 4.64-4.65.

1.32. Detail of sales by product is desirable, not least because of the potential comparability between FATS data and trade between residents and non-residents. While compilation on this basis may well have to remain a long-term goal for most countries, as a first step towards a product basis, countries may wish to disaggregate sales in each industry between services and goods. In addition, countries that are building their statistical systems for FATS on existing data systems that already include product detail may wish to use this detail from the outset because it could help them monitor commitments under GATS that are specified in terms of services products. Similarly, countries that are building their FATS data systems from the ground up should consider, from the outset, the feasibility of providing for a product dimension.<sup>20</sup>

<sup>20</sup> See paras. 4.42-4.43.

### Trade between related and unrelated parties<sup>21</sup>

1.33. Within the statistics on trade in services between residents and non-residents, separately identify the trade with related parties from that with unrelated parties.<sup>22</sup>

21 Trade with related enterprises is defined so as to include trade with all enterprises with which there is a direct investment relationship.

22 See para. 3.56.

### Value of the supply of services by GATS modes

1.34. Allocate the services transactions between residents and non-residents and FATS sales (or output) of services over the GATS modes of supply. The simplified procedure set out in chapter V (table V.2) may be used as a starting point in compiling this allocation.

### Presence of natural persons

1.35. Collect statistics on the number of natural persons under the GATS framework, both those from the compiling economy present abroad and foreign natural persons present in the compiling economy (flows and stocks of persons). The statistics would be collected in the context of the supply of services, taking into account the needs, resources and special circumstances of the compiling economy. In this process, the framework and definitions set out in chapter V should be followed.

## 3. Metadata requirement

1.36. In general, as countries implement the recommendations of *MSITS 2010*, it is expected that they will provide explanatory notes along with published data in order to enhance the transparency of their methodologies and users' ability to compare data internationally. These notes should include information about data coverage and definitions, particularly where these deviate from *MSITS 2010* recommendations. Metadata on how data are collected or estimated, where coverage is deficient or where data deviate from internationally agreed standards (as described in *MSITS 2010*), provide users with important background information. The provision of such explanatory notes along with the actual data should be a practice followed by countries for a broad range of statistics.

## E. Organization of the *Manual*

1.37. Chapter II of *MSITS 2010* discusses user needs and describes links with existing international frameworks. It sets out the approach of *MSITS 2010*, which encompasses a statistical framework for measurement of international trade in services, and introduces the GATS and the modes of supplying services.

1.38. Chapter III addresses the subject of the services trade between residents and non-residents, describes EBOPS 2010 in detail and explains how the components of the services trade should be measured.

1.39. Chapter IV describes the domain of FATS, the criteria used to define the coverage of FATS, the classifications used and the variables recommended for compilation.

1.40. Chapter V provides a more in-depth explanation of the GATS modes of supply and how data on services trade between residents and non-residents and FATS data on sales or output of services should be further developed to measure the international supply of services by mode, including the supply of services through the presence of natural persons.

1.41. Supplementary information is provided in the annexes:

- Annex I presents the EBOPS 2010 classification
- Annex II presents the classification to be used in reporting FATS variables, namely, the ISIC, Rev.4 Categories for Foreign Affiliates in services (ICFA, Rev.1)

- Annex III provides a relevant extract from the GATS defining trade in services
- Annex IV presents the sectoral list of services; which is generally used by GATS trade negotiators
- Annex V examines the links and differences among *MSITS 2010*, the *International Recommendations for Tourism Statistics 2008* and the *Tourism Satellite Account: Recommended Methodological Framework* (2008)
- Other annexes, which are available only online, cover the correspondence between EBOPS 2010 and CPC, version 2, EBOPS 2010 and W/120, and EBOPS 2010 and ICFA, Rev.1.<sup>23</sup>

<sup>23</sup> All annexes are available at <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010/annexes.htm>.

1.42. The *Manual* includes a glossary and a bibliography.

#### Box I.1

##### Definition of “services”

The term *services* covers a heterogeneous range of intangible products and activities that are difficult to encapsulate within a simple definition. Services are also often difficult to separate from the goods with which they may be associated in varying degrees.

In general, *MSITS 2010* respects the 2008 SNA use of the term *services*, which is defined as follows (2008 SNA, para. 6.17):

**Services are the result of a production activity that changes the conditions of the consuming units, or facilitates the exchange of products or financial assets.** These types of service may be described as change-effecting services and margin services, respectively. Change-effecting services are outputs produced to order and typically consist of changes in the conditions of the consuming units realized by the activities of producers at the demand of the consumers. They can also be referred to as “transformation services”. Change-effecting services are not separate entities over which ownership rights can be established. They cannot be traded separately from their production. By the time their production is completed, they must have been provided to the consumers.

The 2008 SNA (paras. 6.18 and 6.19) goes on to qualify transformation services as follows:

The changes that consumers of services engage the producers to bring about can take a variety of different forms as follows:

- (a) Changes in the condition of the consumer’s goods: the producer works directly on goods owned by the consumer by transporting, cleaning, repairing or otherwise transforming them;
- (b) Changes in the physical condition of persons: the producer transports the persons, provides them with accommodation, provides them with medical or surgical treatments, improves their appearance, etc.;
- (c) Changes in the mental condition of persons: the producer provides education, information, advice, entertainment or similar services in a face-to-face manner.

The changes may be temporary or permanent. For example, medical or education services may result in permanent changes in the condition of the consumers from which benefits may be derived over many years. On the other hand, attending a football match is a short-lived experience. In general, the changes may be presumed to be improvements, as services are produced at the demand of the consumers. The improvements usually become embodied in the persons of the consumers or the goods they own and are not separate entities that belong to the producer. Such improvements cannot be held in inventories by the producer or traded separately from their production.

The 2008 SNA (para. 6.21) defines *margin services* as follows:

Margin services result when one institutional unit facilitates the change of ownership of goods, knowledge-capturing products, some services or financial assets between two other institutional units. Margin services are provided by wholesalers and retailers and by many types of financial institutions. Margin services resemble change-effecting services in that they are not separate entities over which ownership rights can be established. They cannot be traded separately from their production. By the time their production is completed, they must have been provided to the consumers.

The 2008 SNA recommends the use of CPC, Version 2, for the classification of products or outputs (where services products are classified approximately in sects. 5 through 9 thereof) and of ISIC, Rev.4, for the classification of activity. In practice, services activities are mainly taken to be those listed in sections G through S of ISIC, Rev.4,<sup>a</sup> with some exceptions appearing in other sections. In BPM6, the concept of services is essentially identical to that of the 2008 SNA, even though the BOP services components *travel, construction* and *government goods and services n.i.e.* include some goods. On the other hand, under certain circumstances, international trade in goods may include, indistinguishably, such service charges as distribution, insurance, maintenance contracts, transport charges, intellectual property payments and packaging.

<sup>a</sup> Electricity, gas, steam and air conditioning supply (ISIC, Rev.4, sect. D); water supply; sewerage, waste management and remediation activities (ISIC, Rev.4, sect. E); and construction (ISIC, Rev.4, sect. F) are not covered, since the main production is generally regarded as being related more to goods.

## Box I.2

### International trade in services in MSITS 2010

Before the publication of *MSITS 2010*, the conventional statistical meaning of *international trade in services* was that described in BPM6, which defines international trade in services as trade between residents and non-residents of an economy. This corresponds very closely to the concept of trade in services in the “rest of the world” account of the 2008 SNA. Such trade is described in chapter III of *MSITS 2010*.

This concept of international trade in services is combined with the concept of international trade in goods to create that of international trade in the BPM6 goods and services account. However, as described in box I.1, it is not always possible to clearly separate the value of trade in goods from the value of trade in services.

Services differ from goods in a number of ways, most commonly in respect of the immediacy of the relationship between supplier and consumer. Many services are non-transportable, that is, they often require the physical proximity of supplier and customer: for example, the supply of a hotel service requires the hotel to be where the customer wishes to stay, a cleaning service for a business must be provided at the site of the business, and haircutting requires both hairstylist and client to be present.

For international trade in such non-transportable services to take place, either the consumer must go to the supplier or the supplier must go to the consumer. Suppliers may prefer to provide their services while being present in the country of the consumer rather than cross-border. International trade accords, concerning services, in particular those encompassed by the GATS, make provision for agreement on the subject of suppliers having a presence in the country of the consumer or vice versa.

Accordingly, *MSITS 2010* extends the scope of *international trade in services* to cover the supply of services through foreign affiliates established abroad. Such supply of services and its related statistics, described here as *Foreign Affiliates Statistics* (FATS), are explained in chapter IV. *MSITS 2010* also covers the supply of services through the presence of foreign individuals, either as foreign service suppliers themselves or as employees of a foreign service supplier. The foreign service supplier may be affiliated (through a control relationship) with other firms outside its country of residence, in which case the individual may be an employee of the service supplier itself or his affiliated firms. However, consideration of foreign persons

## Box I.2

**International trade in services in MSITS 2010** (*continued*)

who are employees of host country enterprises that are not affiliated with the service supplier is outside the scope of *MSITS 2010*. Most services supplied through the presence of natural persons are covered by BPM6 (under the services account) and FATS frameworks. An in-depth discussion of this is provided in chapter V.

In *MSITS 2010*, the component covered by the extended scope of international trade in services is also referred to as international supply of services.

*Note:* Although *MSITS 2010* extends the general scope of the term “international trade in services” to accommodate the GATS provisions, it does not suggest that provision and acquisition of services by foreign affiliates established abroad should be referred to as exports and imports of services. This term, in an international statistical context, is reserved for trade in services between residents and non-residents of different economies.



## Chapter II

# Conceptual framework for the development of statistics on international trade in services

## A. Introduction

2.1. The present chapter identifies the need for a framework within which to compile statistics on international trade in services, as broadly defined in the GATS, and describes relevant aspects of existing statistical systems and standards. It sets out the approach and framework adopted in *MSITS 2010*, taking into account the extension of the concept of trade in services as described in chapter I.

2.2. This chapter:

- Discusses users' statistical requirements. It considers both general requirements and the detailed information needs of the *General Agreement on Trade in Services* (GATS) with regard to classification detail, information by origin and destination, and information by modes of supply (paras. 2.4-2.25).
- Reviews standard statistical systems and classifications related to trade in services, and describes relevant aspects of existing statistical standards with regard to which *MSITS 2010* seeks consistency (paras. 2.26-2.51).
- Describes the approach of *MSITS 2010* and its main framework, as constructed based on the 2008 SNA and BPM6 statistical systems, and identifies areas where it goes beyond these systems (paras. 2.51-2.89).

2.3. The *MSITS 2010* international trade in services framework has four major components:

- BPM6 concepts and classification related to international trade in services (transactions between residents and non-residents)
- BPM6 extensions, providing more detailed information on transactions by product category and partner country
- Foreign affiliates statistics (FATS) which complement BPM6 by dealing with aspects of international supply of services, as defined in the GATS, that are beyond the scope of BPM6 (for example, transactions between residents)
- A statistical approach to the treatment of modes of supply with a particular focus on measuring the presence of natural persons

## B. A statistical framework on international trade in services

### 1. Globalization and multilateral services trade negotiations

2.4. Rapid technological advances in the past few decades in transport, computing and telecommunications, including the development of the Internet and electronic commerce, have resulted in enterprises availing themselves of resources for production at more distant locations and have enabled them to serve ever wider markets. This trend towards globalization, reinforced by liberalization policies and the removal of regulatory obstacles to economic activities, has fuelled the steady growth of multinational enterprises, international investment and trade in goods and services. Better communication and transport have also facilitated the movement of people for the purposes of tourism, migration, employment and trade.

2.5. Service industries are the largest recipients of international investment flows, having accounted for approximately 60 per cent of global outflows for the period 2005-2007.<sup>1</sup> Services constitute about one fifth of worldwide trade in balance of payments terms. There are currently few reliable international comparisons of FATS; but according to information available for OECD economies,<sup>2</sup> it is estimated that the value of services delivered to markets through foreign affiliates is at least as high as the value of exports (or imports) of services recorded in the balance of payments.

2.6. For the United States of America in particular, in 2007 services delivered to foreign markets by majority-owned foreign affiliates of United States companies, and to United States markets by majority-owned affiliates of foreign companies, well exceeded (were approximately twice) the respective values of the exports and imports of services recorded in the United States balance of payments.<sup>3</sup>

2.7. The development of statistics on international service supply has lagged behind the changing reality of the marketplace. *MSITS 2010* is designed to encourage Governments to implement statistical concepts that provide a better overview for economic analysis, development, policymaking and trade negotiations.

2.8. An important response of the international community to the rapid expansion of trade was the creation, on 1 January 1995, of the World Trade Organization as a result of the Uruguay Round of multilateral trade negotiations. The World Trade Organization provides a common framework for the conduct of trade relations among its members. Its main functions are to facilitate the implementation, administration and operation of the multilateral trade agreements; to provide a forum for further negotiations; to review national trade policies; and to secure solutions to trade disputes. The three principal World Trade Organization agreements are the General Agreement on Tariffs and Trade (GATT) of 1994, the General Agreement on Trade in Services (GATS)<sup>4</sup> and the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS)<sup>4</sup>. The GATS constitutes the first set of legally enforceable disciplines and rules at the multilateral level established to cover international trade in services.

2.9. Governments require statistics to support the negotiation of specific commitments and to monitor, thereafter, developments in the areas concerned. Statistics can aid in the evaluation of market access opportunities, help in the preparation of decisions on negotiating priorities and strategies, facilitate the assessment of the extent of liberalization achieved in specific service markets, and provide a statistical background for the settling of disputes. The private business sector also needs information to identify potential opportu-

1 See United Nations Conference on Trade and Development, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (United Nations publication, Sales No. E.09.II.D.15).

2 OECD, *Measuring Globalisation: Activities of Multinationals*, vol. II, *Services* (Paris, 2008).

3 United States Bureau of Economic Analysis, "U.S. international services: cross-border trade in 2008 and services supplied through affiliates in 2007", *Survey of Current Business* (Washington, D.C.), vol. 89, No. 10 (October 2009).

4 See *Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations*, done at Marrakesh on 15 April 1994 (GATT secretariat publication, Sales No. GATT/1994-4), annexes 1B and 1C.

nities. The analysis of market developments requires the linking of trade data with output data, whether in terms of activities or of products.

2.10. *MSITS 2010* acknowledges the tight constraints under which statistical compilers operate, whether in national statistics offices, central banks or other institutions. These include the need not to burden private enterprises unduly, while still providing a clear ultimate goal for a conceptually complete framework.

## 2. General Agreement on Trade in Services

### Structure and guiding principles

2.11. The GATS is a multilaterally agreed legal framework for trade in services, which provides a system of enforceable obligations and commitments for services trade that apply to all members of the World Trade Organization. It has three main objectives: to progressively liberalize trade in services through rounds of negotiations; to encourage economic growth and development through liberalization of trade in services; and to increase participation of developing countries in world trade in services. By the same token, the Agreement expressly recognizes the right of members to regulate the supply of services in order to meet national policy objectives.

2.12. The GATS establishes a set of rules and disciplines governing the use by World Trade Organization members of measures affecting trade in services. Such measures may consist of laws, regulations, administrative actions and decisions with respect to the payment for or purchase or use of a service or the presence of foreign service suppliers. The GATS disciplines extend across all government levels (this includes non-governmental bodies) in the exercise of delegated powers, with two exceptions (see para. 2.14).

2.13. The GATS defines the “supply of a service” to include the production, distribution, marketing, sale and delivery of that service.

2.14. The Agreement covers all services, except core air transport services<sup>5</sup> (that is, measures affecting air traffic rights and directly related services) and services provided in the exercise of governmental authority (that is, services supplied neither on a commercial basis, nor in competition with one or more service suppliers). The GATS defines trade in services in terms of four modes of supply; however, it contains no definition of what actually constitutes a service. The GATS is therefore no different in this regard from its counterpart in merchandise trade, the GATT, which contains no definition of a good.

2.15. The text of the GATS includes a set of *general obligations*, many of which apply directly and automatically to all World Trade Organization members and all services. The GATS also comprises Annexes covering specific sectors (e.g. air transport services, financial services) or trade-related policy matters; and members’ schedules of specific commitments defining the sectors and modes of supply in which members have undertaken access obligations.

2.16. First and foremost among the *general obligations* is the principle of *most-favoured-nation* (MFN) *treatment*, where a Member economy cannot provide less favourable treatment to its WTO Member partners than it does for its most favoured partner. This means that, regardless of the degree of foreign competition that a member allows in a sector, it must apply the same conditions to services and service providers from all other World Trade Organization members.<sup>6</sup> Another general obligation (transparency) requires World Trade Organization members to publish all trade-related measures and establish national enquiry points in order to be able to respond to other members’ information requests.

5 This exclusion is subject to periodic review.

6 The annex on MFN exemptions allowed World Trade Organization members to list exemptions for measures existing at the date of entry into force of the GATS (or the date of accession thereto). These exemptions should in principle last no longer than 10 years, and should be subject to review and (re) negotiated in subsequent trade rounds. New exemptions can be granted only in special circumstances and require a waiver under the World Trade Organization agreement. About 100 members maintained such exemptions at the time of writing.

7 When commitments are “bound” in national schedules, this means that in general they cannot be easily modified or withdrawn; because “unbinding” is a difficult process, the commitments are virtually guaranteed conditions for foreign exporters and investors.

8 Commitments are often negotiated bilaterally at the sectoral and mode levels, and then extended to all World Trade Organization member economies in compliance with the MFN principle; in support of the negotiation process, it would thus be useful to have statistical information, by origin and destination, at a detailed product level.

2.17. *Specific commitments*, relating to market access, national treatment and any additional undertakings, are specified and bound in a national schedule as a result of negotiations.<sup>7</sup> While the GATS requires all member Governments to submit such a schedule, it does not obligate them to undertake commitments in any particular sector or type of transaction (mode of supply). This in turn leaves scope for adjusting the level and structure of commitments to country-specific objectives and constraints. Specific commitments may be undertaken with regard to any service sector and any mode of supply covered by the GATS. For a given sector and mode, the relevant commitment may vary between full competition and denial of any degree of market access and national treatment.

2.18. In many cases, members have opted for an intermediate solution, subjecting their commitments to particular limitations. The GATS contains an exhaustive list of market access limitations, including quota-type ceilings on the number of service suppliers, their operations or employees, and restrictions on the legal form of establishment or the participation of foreign capital. Frequently used national treatment limitations concern the eligibility of foreign suppliers for subsidies and restrictions on foreign land ownership.

2.19. The assumption of specific commitments does not prevent Governments from regulating the services or the suppliers concerned for quality and other policy purposes. The Agreement seeks to ensure, however, that the relevant standards, requirements and procedures do not constitute unnecessary barriers to trade in services.

2.20. Under the GATS, World Trade Organization members are committed to entering into successive rounds of trade liberalizing negotiations.<sup>8</sup> The Agreement provided that the first such round was to begin no later than five years from its date of entry into force. Accordingly, a new round of negotiations began on 1 January 2000, and was integrated in 2001 into the Doha Development Agenda.

### Services Sectoral Classification List

2.21. On 10 July 1991, the GATT Secretariat issued a note setting out a classification of service sectors (document No. MTN.GNS/W/120, entitled “Services Sectoral Classification List”, hereinafter referred to as W/120) based on consultations with members. The list identifies relevant sectors and subsectors so as to enable members to undertake specific commitments. W/120 should therefore be viewed as an optional classification system of services sectors for trade negotiating purposes, rather than as a statistical classification.

2.22. The 12 major categories in the W/120 list are:

1. Business services.
2. Communication services.
3. Construction and related engineering services.
4. Distribution services.
5. Educational services.
6. Environmental services.
7. Financial services.
8. Health-related and social services.
9. Tourism and travel-related services.
10. Recreational, cultural, and sporting services.
11. Transport services.
12. Other services not included elsewhere.

2.23. However, members have tended to avoid any major changes so as to ensure the stability and comparability of commitments over time, even though international statistical classifications such as CPC, BPM6 and EBOPS have been revised. Services trade

negotiators may also use other classifications in negotiations, as has been the case for basic telecommunications, financial services and maritime transport.

### The four GATS modes of supply

2.24. In the GATS, trade in services is defined as the supply of a service:

- From the territory of one [World Trade Organization] Member into the territory of any other Member
- In the territory of one [World Trade Organization] Member to the service consumer of any other Member
- By a service supplier of one [World Trade Organization] Member, through commercial presence in the territory of any other Member
- By a service supplier of one [World Trade Organization] Member, through presence of natural persons of a Member in the territory of any other Member

2.25. The GATS modes of supply are thus defined based on the location of the supplier and the consumer when a service is supplied, taking into account their nationality or origin (see figure II.1). Those modes are generally referred to as:

- Cross-border supply (Mode 1), where both the supplier and the consumer remain in their respective territories (which would correspond to the traditional notion of trade and cover, for example, services supplied by telephone or the Internet)
- Consumption abroad (Mode 2), where the consumer consumes the service outside his or her home territory (as is the case, typically, for international tourist activities and amusement parks abroad)
- Commercial presence (Mode 3), where service suppliers establish (or acquire) an affiliate, branch or representative office in another territory through which they provide their services (as is the case, for example, when a foreign bank investing in a host economy creates a subsidiary in order to supply banking services)
- Presence of natural persons (Mode 4), where an individual (either the service supplier himself if he or she is a self-employed person or his or her employee) is present abroad in order to supply a service (as is the case, for example, when an independent architect oversees a construction project abroad or a computer specialist is sent abroad by his employer to supply an information technology (IT) service)

A more detailed description of modes of supply is provided in chapter V.

## C. Statistical systems and classifications related to international trade in services

2.26. *MSITS 2010* seeks consistency with international standards related to trade in services. In particular, compatibility with the following systems and classifications is given the highest priority: BPM6, the 2008 SNA, ISIC, Rev.4, and CPC, Version 2.

2.27. The key standards on which *MSITS 2010* builds are noted below. In this regard, a fuller treatment of transactions between residents and non-residents and foreign affiliates' systems appears in chapters III and IV, respectively. Chapter V describes how information drawn from these statistical systems can be associated and further developed so as to assess international supply of services for each of the modes.

## 1. Statistical systems and related frameworks

### *System of National Accounts, 2008 (2008 SNA)*

2.28. The 2008 SNA is an integrated system of accounts related to the economic activities and sectors of the economy of a country. It provides a definition of services and distinguishes transformation services from margin services (see box I.1).

2.29. To capture the transactions between an economy and all others, the 2008 SNA provides what it refers to as the “rest of the world account”, which it also refers to as the “external transactions account”. Within this account is an “external account of goods and services”, in which trade in goods and services are separately recorded.

2.30. The 2008 SNA identifies “foreign-controlled corporations” as constituting a sub-sector of each of the two institutional sectors — financial corporations and non-financial corporations. Foreign-controlled enterprises are defined more broadly in the 2008 SNA than the foreign-controlled subset of foreign affiliates covered by FATS, as described in chapter IV. The difference is that the 2008 SNA regards some “associated enterprises”, which are enterprises in which the non-resident ownership of voting rights is between 10 and 50 per cent, as foreign-controlled (through, for example, control of the board or other governing body, control of the appointment and removal of key personnel, or control of key committees of the corporations), whereas *MSITS 2010* recommends concentrating on enterprises that are controlled through the majority ownership of voting power, in other words, it recommends excluding associated enterprises. Enterprises covered in FATS are therefore a subset of foreign-controlled enterprises as defined in the 2008 SNA.

2.31. However, *MSITS 2010* encourages countries that can do so to provide supplementary statistics covering other cases such as majority ownership of voting power by multiple unaffiliated foreign direct investors, and ownership of exactly 50 per cent of voting power by a foreign direct investor, as well as cases where effective control is deemed to have been achieved through a minority stake in an enterprise.

2.32. 2008 SNA statistics on foreign-controlled enterprises relate to those enterprises operating in the compiling economy (“inward”) that are controlled by non-residents. The national accounts statistics for a given compiling economy do not provide information on the enterprises established abroad (“outward”) that are controlled by residents of that economy (although those enterprises would be covered by the national accounts statistics of their respective host economies).

2.33. The 2008 SNA provides the definitions of most of the economic variables that, according to the recommendation in chapter IV, should be collected for FATS. These include the priority variables (sales/output, employment and gross value added) as well as the lower-priority items (financial and non-financial assets, net worth, net operating surplus, gross fixed capital formation, taxes on income and compensation of employees). The 2008 SNA also provides the definition of an enterprise, which is required for compiling the priority variable *number of enterprises*.

### *Sixth edition of the Balance of Payments and International Investment Position Manual (BPM6)*

2.34. BPM6 describes the concepts that underlie the international investment position, the balance of payments and the other changes in the assets and liabilities account. The balance of payments is a statistical statement that summarizes transactions of residents of an economy with non-residents during a given period. A transaction is an interaction

between two institutional units that occurs by mutual agreement or through the operation of the law, and involves an exchange of value or a transfer. Transactions between residents and non-residents consist of those involving the change of economic ownership of goods or the provision of services, acquisition of assets, compensation of employees, dividends, etc., and those (such as taxes, debt forgiveness, grants, personal transfers, etc.) that are classified as transfers. An economic owner bears the risks and rewards of the ownership.

2.35. The 2008 SNA and BPM6 have a common conceptual framework. The definitions of residence, valuation and time of recording, and the principles of accrual accounting recommended in *MSITS 2010*, are the same as those in both BPM6 and the 2008 SNA.

2.36. The international transactions in trade in services that take place between residents and non-residents of an economy that are described in *MSITS 2010* are based on the BPM6 classification and definition of services. However, the level of detail recommended in chapter III of *MSITS 2010* is greater than that of BPM6.

2.37. The scope of *international trade in services* between residents and non-residents in *MSITS 2010* is the same as that in BPM6.

### *International Recommendations for Tourism Statistics 2008 and Tourism Satellite Account: Recommended Methodological Framework 2008*

2.38. *International Recommendations for Tourism Statistics 2008*<sup>9</sup> (IRTS 2008) was developed by the World Tourism Organization and the United Nations. IRTS 2008 provides a comprehensive methodological framework for collection and compilation of tourism statistics and should be viewed as an important foundation of the system of tourism statistics. The development of this system is closely linked to that of the other set of international recommendations related to tourism statistics, which are contained in *Tourism Satellite Account: Recommended Methodological Framework 2008*<sup>10</sup> (TSA-RMF 2008), produced by the United Nations Statistics Division of the Department of Economic and Social Affairs of the United Nations Secretariat, the World Tourism Organization, the Statistical Office of the European Union and the Organisation for Economic Co-operation and Development (OECD).

2.39. TSA-RMF 2008 sets out a framework for measuring the economic contribution of tourism in an internationally comparable way. IRTS 2008 and TSA-RMF 2008 respect the relevant definitions and norms of the 2008 SNA. The coverage of the expenditure of individuals travelling in a country other than their country of residence, as described in *MSITS 2010*, and international tourism expenditure, as described in IRTS 2008 and TSA-RMF 2008, differ to some extent. Their relationship is described in annex V. The balance of payments data on travel, as defined in chapter III, paragraphs 3.115-3.131, are one source of information on inbound and outbound tourism expenditure as defined in tourism statistics recommendations. These recommendations, consistent with BPM6, also allow for a breakdown of non-resident visitors' expenditure according to a breakdown of products, with special emphasis on tourism characteristic products that may be useful for the GATS.

### *International Merchandise Trade Statistics: Concepts and Definitions, 2010*

2.40. *International Merchandise Trade Statistics: Concepts and Definitions, 2010*<sup>11</sup> (IMTS 2010) contains the recommendations regarding statistics of international merchandise

9 Studies in Methods, Series M, No. 83/Rev.1 (United Nations publication, Sales No. E.08.XVII.28).

10 United Nations publication, Sales No. E.08.XVII.27.

11 Series M, No. 52/Rev.3 (United Nations publication, Sales No. E.10.XVII.13).

12 At the time of revision of *MSITS*, *IMTS* was also being revised and harmonization of both manuals was ensured to the extent possible.

trade.<sup>12</sup> The implementation of these recommendations results in data that meet the needs of a variety of national and international users. *IMTS 2010* provides a brief description of flows of goods between residents and non-residents that are not covered by merchandise trade statistics and identifies those services of which the value is included in the value of imported and exported goods.

### International migration frameworks and *Recommendations on Statistics of International Migration, Revision 1*

13 Statistical Papers, Series M, No. 58, Rev.1 (United Nations publication, Sales No. E.98.XVII.14).

2.41. *Recommendations on Statistics of International Migration, Revision 1*<sup>13</sup> (RSIM, Rev.1) sets out a framework for reporting statistical information that measures international migration flows and stocks, including the means through which population censuses can help gather information on foreign persons. The framework, which builds on the taxonomy of traveller inflows and outflows, gives priority to the identification of internationally mobile individuals who satisfy simple general definitions of non-migrants and short- and long-term migrants. The minimum period of stay for inclusion in the short-term migrant category is three months, and for inclusion in the long-term category, one year or more.<sup>14</sup> Persons staying for periods shorter than three months are considered non-migrants. Therefore, the use of the term *migrant* is somewhat broader than that of *residents* in BPM6, where an actual or intended stay of a year or more is required. A fuller taxonomy of migrants and other travellers is provided in box 2 in chapter II of RSIM, Rev.1. Chapter V provides further detail of the taxonomy. See the referenced International Labour Organization (ILO) publication<sup>15</sup> which provides an extensive discussion of sources of migration statistics.

14 There are exceptions with respect to inclusion in the short-term migrant category. For example, persons travelling for purposes of education and training are considered non-migrants if the length of their stay is less than 12 months.

15 R. E. Bilsborrow and others, *International Migration Statistics: Guidelines for Improving Data Collection Systems* (Geneva, International Labour Office, 1997).

### *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition 2008*

2.42. Foreign direct investment (FDI) has assumed a crucial role in the internationalization of economic activities. *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition 2008* (BD4) provides operational guidance, within the framework of the concepts of BPM6 and as an elaboration thereof, on how FDI data should be compiled to meet internationally agreed standards. The *OECD Benchmark Definition* also provides recommendations on indicators of globalization based on statistics of FDI and activities of multinational enterprises (AMNE). The AMNE statistical concepts described in the *OECD Benchmark Definition* are consistent with FATS concepts of *MSITS 2010*.

### *Measuring Globalisation: OECD Handbook on Economic Globalisation Indicators*

2.43. *Measuring Globalisation: OECD Handbook on Economic Globalisation Indicators* provides a framework of methodological and statistical guidelines for constructing indicators, on an internationally harmonized basis, for use by policymakers and for the systematic monitoring over time of the progressive degree of worldwide economic integration. It also provides detailed recommendations on compiling statistics of AMNE which are consistent with the *OECD Benchmark Definition*. Obligations and commitments under the GATS concern many factors associated with the presence of enterprises established abroad that supply services through Mode 3 (*commercial presence*).



2.44. As explained in paragraphs 4.1-4.12, FATS provide information on the activities of majority-controlled foreign affiliates. Although the *OECD Handbook* covers a wider canvas than that of FATS (FDI, technology and trade), the way in which FATS have been conceived in *MSITS 2010* is consistent with the framework established in the *OECD Handbook* as well as in the *OECD Benchmark Definition*.

### Eurostat *Foreign Affiliates Statistics (FATS) Recommendations Manual*

2.45. The Eurostat *Recommendations Manual on the Production of Foreign Affiliates Statistics (FATS)*, 2007 ed.,<sup>16</sup> was published to enable the implementation of Regulation (EC) No. 716/2007 of the European Parliament and of the Council of 20 June 2007 on Community statistics on the structure and activity of foreign affiliates and harmonization of FATS of the European Union members. The *Recommendations Manual* was updated in 2009 and issued as *Foreign Affiliates Statistics (FATS) Recommendations Manual*, 2009 ed. Its concepts and definitions are based upon BD4 which guarantees consistency with *MSITS 2010*.

16 Eurostat *Methodologies and Working Papers* (Luxembourg, Office for Official Publications of the European Communities, 2007).

### Other statistical systems related to trade in services

2.46. Other related international statistical guidelines should be considered, if deemed necessary. For instance, for certain economies where households (or their members) are becoming important international service suppliers and consumers, *Household Accounting: Experience in Concepts and Compilation*, vol. 1, *Household Sector Accounts*,<sup>17</sup> and vol. 2, *Household Satellite Extensions*,<sup>18</sup> as well as the *Handbook on Non-Profit Institutions in the System of National Accounts*,<sup>19</sup> may provide useful guidance.

17 Studies in Methods: Handbook of National Accounting, Series F, No. 75 (Vol. 1) (United Nations publication, Sales No. E.00.XVII.16, Vol. 1).

18 Studies in Methods: Handbook of National Accounting, Series F, No. 75 (Vol. 2) (United Nations publication, Sales No. E.00.XVII.16, Vol. 2).

19 Studies in Methods: Handbook of National Accounting, Series F, No. 91 (United Nations publication, Sales No. E.03.XVII.9).

## 2. Statistical classifications

### Central Product Classification (CPC), Version 2

2.47. CPC, Version 2, is a part of the international family of economic and social classifications. It constitutes a comprehensive classification of all goods and services. It is the standard classification for all products that are an output of an economic activity, including transportable and non-transportable goods and services, as well as originals. For the description of goods, CPC, Version 2, is fully harmonized with the *Harmonized Commodity Description and Coding System 2007*<sup>20</sup> (HS) of the World Customs Organization.

20 Brussels, World Customs Organization, 2005.

2.48. CPC, Version 2, covers the whole spectrum of outputs of the various industries and can serve the different analytical needs of statisticians and other users. It is particularly useful for services. The Central Product Classification provides guidelines for the elaboration of classifications for specific areas of the economy, including international trade in services. For example, the *Provisional Central Product Classification*<sup>21</sup> was used for the elaboration of the categories of services that were utilized mainly to set up the W/120 and consequently the initial schedules of commitments at the end of the Uruguay Round of multilateral trade negotiations and to handle the changes, including within the context of World Trade Organization accessions, that have been made since. The CPC, Version 2, is used to describe the balance of payments services components recommended in BPM6 and further defined in EBOPS (see para. 2.63).

21 Statistical Papers, Series M, No. 77 (United Nations publication, Sales No. E.91.XVII.7).

### *International Standard Industrial Classification of All Economic Activities, Revision 4*

2.49. The *International Standard Industrial Classification of All Economic Activities* (ISIC), *Rev.4* is a basic tool for fostering international comparability of data across a wide range of economic and social statistics, including those on production, value added and employment, and other economic statistics. It is a standard classification of economic activities linked, as far as possible, to the means by which economic processes are organized into units. An industry is defined as the set of production units engaged primarily in the same or similar kinds of economic activity. Criteria relating to the economic transactors (for example, financial institutions) and to types of transactions (intermediate and final consumption, capital formation, etc.) reinforce the bases for identifying stages of production. In line with the United Nations programme for the harmonization of international economic classifications, ISIC, *Rev.4*, categories are correlated with those of CPC, Version 2.<sup>22</sup> This correlation table indicates the main kinds of activities that produce particular goods and services.

22 Correlation tables can be found at <http://unstats.un.org/unsd/class/default.asp>.

### International Labour Organization (ILO) International Standard Classification of Occupations, 2008 (ISCO-08)

2.50. The International Standard Classification of Occupations, 2008 (ISCO-08), provides a sound basis for international comparability of statistics on the categories of foreign natural persons who are participating in the supply of traded services. This framework might also be used for conducting negotiations concerning Mode 4, mainly in the area of professional services.<sup>23</sup> Statistical information on employment in all or selected categories available from, for example, the latest population census or a labour-force survey could prove useful for negotiating and monitoring purposes. Further work may have to be carried out, however, to identify the main occupational groups included, or likely to be included, in future commitments.

23 Some examples of Provisional Central Product Classification categories that correspond to the classifications of ISCO-08 and are covered by the commitments are: legal professionals (ISCO 261 and CPC 861), accountants (ISCO 2411 and CPC 862), engineering professionals (part of ISCO 214 and CPC 8672), architectural professionals (ISCO 216 and CPC 8671) and health professionals (ISCO 22 and CPC 9312).

## **D. Approach and framework of MSITS 2010**

2.51. To address the needs identified in paragraphs 2.4-2.10 above, *MSITS 2010* utilizes an approach that is based on two fundamental principles:

- Consistency with international standards related to trade in services, and their extension where necessary and feasible
- A phased implementation

2.52. Adherence to these principles facilitates the introduction and progressive implementation of a set of distinct elements in a flexible way so as to meet each country's priorities, while at the same time improving across country comparability. Throughout its coverage of international services supply, *MSITS 2010* provides links with relevant international standards.

### **1. Approach of MSITS 2010**

2.53. The *MSITS 2010* framework utilizes two main building blocks for describing the international supply of services:

- Transactions between residents and non-residents (based on BPM6)
- Supply of services through the operations of foreign affiliates based on foreign affiliates statistics (FATS)

It is complemented by a description of how to use these statistics within the context of international agreements.

2.54. The scope of *MSITS 2010* encompasses five components: BPM6 services and related transactions; BPM6 extensions; FATS; statistics on supply of services through the presence of natural persons; and statistics by trading partner, which need to be developed. The five components are presented in paragraphs 2.60-2.89.

2.55. The *MSITS 2010* statistical framework as it relates to resident/non-resident transactions is based on BPM6, which contains, among other things, recommendations on the definition, valuation, classification and recording of resident/non-resident trade in services. BPM6 is a primary source of statistical guidance on international trade in services, international investment transactions and economic flows associated with the movement of workers. Extensions to BPM6 are developed in *MSITS 2010* so as to provide for a more detailed treatment of service transactions between residents and non-residents by product category and by trading partner.

2.56. *MSITS 2010* does not set out to change the BPM6 broad service components but it does call for more detail so that services that feature significantly in international trade in their own right can be identified. Examples of this more detailed treatment are provided in the areas of transport, insurance and pension services, charges for the use of intellectual property, business and professional services, and personal, cultural and recreational services.

2.57. Besides being provided through trade in services between residents and non-residents, services may be supplied through foreign affiliates in host countries. The FATS system, which draws to a great extent on the concepts and definitions contained in the 2008 SNA, has been designed to provide information on the activity of foreign affiliates that is outside the scope of BPM6. The *MSITS 2010* framework builds on FATS in a way that is complementary to, and in parallel with, BPM6.

2.58. In chapter V, *MSITS 2010* proposes a statistical approach that may be used in allocating BPM6 and FATS service transactions to the GATS modes of supply. It presents, as a starting point, a simplified approach that draws on the correspondence between commercial presence and FATS, and between the other modes of supply and transactions between residents and non-residents, as captured in BPM6 services components. It also includes systematic criteria for the allocation of modes of supply and simplified approach of methods and guidelines for the treatment of complex transactions. Although most of the information required to measure the supply of services through Mode 4 is available through the BPM6 services components and the FATS system, *MSITS 2010* also outlines the issues emerging from a more comprehensive analysis of services supply through Mode 4.

2.59. The descriptions of BPM6, its extensions, FATS and issues surrounding modes of supply are discussed only briefly in the present chapter, inasmuch as fuller descriptions are provided in other chapters of *MSITS 2010*.

## 2. Statistics on trade in services from the balance of payments

2.60. Balance of payments statements summarize, notably, the economic transactions of an economy with the rest of the world for a specific period. Two key concepts are involved:

*transaction* and *residence*. A *transaction* is defined as an interaction between two institutional units by mutual agreement that reflects the creation, transformation, exchange, transfer or extinction of economic value, and involves changes in the volume, composition or value of an institutional unit's assets and liabilities. It includes purchases of goods or services, acquisition of assets, compensation of employees and dividends and those interactions (involving, inter alia, taxes, debt forgiveness, grants and personal transfers) that are classified as transfers. *Residence* is central because the identification of transactions between residents and non-residents underpins the BPM6 system, whose definition of residence is identical to that used in the 2008 SNA. Since political boundaries may not always coincide with those appropriate for economic purposes, the *economic territory* is used as the relevant geographical area for characterizing residence. Each institutional unit can be a resident unit of only one economic territory, as determined by its centre of predominant economic interest.

### Main BPM6 standard services components

2.61. BPM6 statistics are arranged within a coherent structure to facilitate their use and adaptation for many purposes, including policy formulation, analytical studies, projections, bilateral comparisons of particular components or total transactions, and regional and global aggregations. The 12 main BPM6 standard services components are:

1. Manufacturing services on physical inputs owned by others.
2. Maintenance and repair services not included elsewhere (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 not included elsewhere (n.i.e.).
9. Telecommunications, computer and information services.
10. Other business services.
11. Personal, cultural and recreational services.
12. Government goods and services not included elsewhere (n.i.e.).

2.62. These 12 services components together match the GATS product coverage, with some exceptions. First, for the most part, many transactions falling under the component *government goods and services not included elsewhere (n.i.e.)* are excluded from GATS.<sup>24</sup> Second, some transactions regarded as services under GATS are recorded under goods in BPM6. This concerns the value of most wholesale and retail trade services (including those related to merchanting of goods) (see chap. III). Third, some BPM6 components, especially *maintenance and repair services not included elsewhere (n.i.e.)*, *travel and construction*, include the value of goods included in transactions. Fourth, BPM6 includes charges for the use of intellectual property, some parts of which are not captured by the Services Sectoral Classification List (W/120) (see chap. V).

### The Extended Balance of Payments Services Classification 2010

2.63. The Extended Balance of Payments Services Classification (EBOPS) was devised for the *MSITS 2002*, based on the experience gained with the implementation of the *Joint OECD-Eurostat Trade in Services Classification* at the end of the 1990s.<sup>25</sup> The first version of EBOPS was a disaggregation of the Joint Classification. Along the lines of its previous version, and as recommended in *MSITS 2010*, EBOPS 2010 is a disaggregated subsystem of the BPM6 services classification. The presentation of the relationship between EBOPS

<sup>24</sup> Article 1 of the GATS, describing the scope of the agreement, excludes services supplied in the exercise of governmental authority, meaning any service that is supplied neither on a commercial basis nor in competition with one or more service suppliers (see <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010/annexes.htm>).

<sup>25</sup> Organisation for Economic Co-operation and Development and Eurostat, *OECD Statistics on International Trade in Services 1989-1998*, 2000 ed. (Paris, 2000), appendix 1. The Joint Classification represented a first attempt to take account of the GATS particularly as regards financial services, and also reflected the statistical implications of the completion of the European Communities' Single Market in Services, which was associated with a great number of directives relating to financial, telecommunications, transport, tourism and audio-visual services.

2010 and CPC, Version 2, which is available at <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010/annexes.htm>, provides greater detail and a necessary, although partial, statistical link between domestic production and trade in services.<sup>26</sup> There is an ongoing need for a convergence of the product classifications of industry and trade for comparative purposes. *MSITS 2010* takes account of this developmental work in aligning more closely the structural components of EBOPS and CPC. The correspondence clarifies the conception of EBOPS 2010 through the use of the detailed categories of CPC, Version 2. As described in chapter III, EBOPS 2010 contains main categories that are identical to the 12 major BPM6 standard services components, as well as further details that are consistent with BPM6. The harmonization is bolstered by the standardization of the coding systems for identification and reporting purposes.

<sup>26</sup> Some countries may have their own concordance between EBOPS and the national product classification as well as national industrial activity classifications.

### 3. Statistics on services supplied through foreign affiliates

2.64. Affiliates are often established abroad to deliver services that require close contact between the supplier and the consumer. In *MSITS 2010*, and following coverage by the GATS, domestic sales/output by foreign affiliates are covered by the term “international supply of services” (see box I.1). However, because foreign affiliates are resident entities in their host country, their sales/output in those countries are not recorded in the balance of payments, which are concerned only with transactions between residents and non-residents. Transactions in services that are taking place between the foreign affiliate and the parent entity, however, are recorded as trade between residents and non-residents (this may also include trade through the movement of persons such as intra-corporate transferees). As the final service supply to the consumer takes place through the affiliate (commercial presence), these transactions may be counted towards intermediate input of foreign affiliates (see chap. V).

2.65. The FATS system was designed to capture sales/output by foreign affiliates. In addition, FATS include a range of other statistical indicators for the purpose of assessing diverse aspects of the globalization phenomenon and to monitor the *commercial presence* mode of supply in a variety of contexts, such as those relative to trade, domestic value added and employment.

#### Foreign direct investment (FDI)

2.66. FDI is usually a precondition for the establishment of a *commercial presence*. FDI statistics are thus a relevant complement to FATS with regard to information on the *commercial presence* mode of supply. Where countries do not compile FATS, FDI statistics may be the only available quantitative information relating to this mode of supply. FDI reflects the objective pursued by a resident entity in one economy of obtaining control or a significant degree of influence on the management of an enterprise resident in another economy. Direct investment includes the initial transaction between the two entities and all subsequent financial transactions between them and among affiliated enterprises, both incorporated and unincorporated. BPM6 defines a direct investor as an entity or group of related entities that is able to exercise control or influence over another entity that is resident in a different economy.

2.67. The entity subject to control or a significant degree of influence is called a direct investment enterprise, and is often referred to as a foreign affiliate. Direct investment rela-

tionships arise when a direct investor owns equity that entitles it to 10 per cent or more of the voting power (either directly or indirectly) in the direct investment enterprise.

2.68. In inward and outward direct investment statistics, where feasible, the direct investment enterprise should be classified by its industrial activity in the host country and by the industrial activity of its direct investor.

2.69. A foreign direct investor can be an individual or household, an incorporated or unincorporated public or private enterprise, an investment fund, a Government or international organization, a non-profit institution in an enterprise that operates for profit, an estate, a trustee in bankruptcy or other trust, or any combination of the above. For two or more individuals, or other entities, to be considered a combination, they must be in a direct investment relationship, or, for individuals, must have a family relationship. A direct investment enterprise is a subsidiary or an associate (either incorporated or unincorporated) operating in a country other than the direct investor's country of residence.

2.70. The basis for compiling FDI statistics has been established in BPM6 and in the BD4, and involves such concepts as that of direct investor, of direct investment enterprise, and of control or significant degree of influence on management and at least 10 per cent voting power or the equivalent.<sup>27</sup> Control is defined in the Framework of Foreign Direct Investment Relationship (FDIR) and is deemed to exist if there is control (i.e. majority ownership of the voting power) at each stage of the chain of ownership.<sup>28</sup>

27 For additional details on direct investment-related concepts and definitions, see box IV.1.

28 See BPM6, chap. 6; and *OECD Benchmark Definition of Foreign Direct Investment*, 4th ed., 2008.

### FATS: concepts and classification

2.71. FATS measure, inter alia, the commercial presence abroad of service suppliers and are therefore closely related to statistics on FDI (see directly above). Data on the activities of foreign-controlled affiliates in the compiling economy are usually referred to as *inward FATS*. Those data relating to the controlled foreign affiliates of the compiling economy that are established abroad are referred to as *outward FATS*.

2.72. FATS cover a broad range of business variables including sales (turnover) and/or output, employment, value added, exports and imports of goods and services, and number of enterprises.

2.73. Ideally, it would be possible to attribute these variables on the basis of either the industrial activities of producers, or the types of products produced and sold. Data on a product basis would identify the specific types of services delivered through the *commercial presence* mode of supply and could most readily be compared with data on services delivered through trade between residents and non-residents. However, some FATS variables, such as value added and employment, do not lend themselves to a product classification. Also, for some countries, FATS may be developed as a subset of domestic enterprise or other statistics that are classified only on an activity basis. For some purposes, the data may need to be viewed in conjunction with data on stocks and flows of FDI, which would normally be classified by activity but not by product.

2.74. *MSITS 2010* recommends that FATS variables be classified by activity according to the ISIC Categories for Foreign Affiliates in services (ICFA, Rev.1), a group of categories derived from ISIC, Rev.4 (see chap. IV; and <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010/annexes.htm>). ICFA covers all kinds of activities, including goods production and was designed to provide the best possible link with EBOPS 2010 so as to facilitate the comparability of the two sets of statistics (see <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010/annexes.htm> for the link between ICFA and EBOPS 2010). On this basis, activities of services enterprises are allowed to be viewed in the context of the activi-

ties of all enterprises. In addition, where a cross-classification by product is possible, such a presentation provides a framework for displaying services produced as a secondary activity by enterprises classified as goods producers.

### FATS and other statistical frameworks

2.75. FATS, as conceived in *MSITS 2010*, build upon existing statistical frameworks. They fall within the overall domain of the 2008 SNA and observe the conventions of both BPM6 and BD4 in relation to FDI. They look to CPC and ISIC for product and activity classifications and to ILO standards for employment variables. They also have been defined in such a way as to ensure consistency with the standards established in the *OECD Handbook on Economic Globalisation Indicators* for the measurement of activities of multinational enterprises (AMNE) and in BD4.

2.76. FATS, as described in chapter IV, capture the activities of foreign-controlled affiliates which form a subset of enterprises on the register of direct investment enterprises, as defined in the Framework for Direct Investment Relationships (FDIR), and cover a wide variety of indicators on both their domestic and their foreign operations.

2.77. The FATS system defines control as majority ownership, that is, more than 50 per cent of the voting power at each stage of the chain of ownership.

2.78. Ownership structures can be very complex. Actual management responsibilities may bear little or no relationship to the formal legal structure of the enterprise. Although it does not cover every possible case, chapter IV provides practical guidance on determining statistical coverage under different ownership structures. (More comprehensive treatment of these issues is outlined in the *OECD Handbook on Economic Globalisation Indicators*.)

## 4. Statistics on services supplied through presence of natural persons

2.79. Given the high level of political and economic interest of Governments in monitoring the movement and presence of foreign persons, there exists a particular need for measurement of related international transactions. Although the emphasis here is on measuring the supply of services through the movement (flow) and presence (stock) of natural persons in an economy (that is, Mode 4, as well as the implications for the supply of services in general), there are some features that extend beyond this domain and are more closely encompassed by the concept of labour mobility (temporary or permanent, whether it be related to services, agricultural or manufacturing activities). While it is important to identify all needs in their diversity, the focus here is on identifying those directly related to the GATS.

2.80. Supply of services through presence of natural persons (Mode 4) and labour mobility may be distinguished by the type of contracts underpinning the transactions. While Mode 4 is associated with a service contract between the supplier in one economy and the consumer of another economy, labour mobility is characterized by employment contracts.

2.81. Mode 4 categories of persons considered in *MSITS 2010* are generally referred to as:

- *Contractual service suppliers*, whether *employees of a foreign service supplier* or *self-employed*. These persons enter the territory of the consumer in the context of a service contract<sup>29</sup>
- *Intra-corporate transferees and foreign employees directly recruited by foreign established companies*: the service supplier has a commercial presence abroad

29 Some self-employed persons may also establish themselves in the host market under a relevant Mode 3 commitment and operate from that base (that is, supply services from within this territory). Although a Mode 4 commitment guarantees the right of those persons to be present in this territory, it is considered that the supply of the service is carried out through a commercial presence.

30 For foreigners directly recruited by the foreign affiliate there may be ambiguity with respect to their coverage under Mode 4, as one could consider that these individuals, in particular foreigners recruited from within the host economy, are seeking to access the employment market of the host economy. Intra-corporate transferees constitute a particularly relevant grouping, as many commitments are made and negotiations carried out with respect to this category of persons.

31 The Mode 4 commitment guarantees the right for the (foreign) service supplier to have (foreign) natural persons working in the affiliate. The supply of the service to the consumer is effected through the affiliate.

32 Their movement for the purpose of conducting negotiations is guaranteed by commitments under Mode 4.

and sends its employee to its affiliate, or foreigners are directly recruited by the affiliate.<sup>30</sup> The supply of the service to the consumer is carried out through a commercial presence<sup>31</sup>

- *Service sellers/persons responsible for setting up commercial presence.* There is initially no actual service supply for this category of persons<sup>32</sup>

### Balance of payments statistics on trade in services through presence of natural persons (Mode 4)

2.82. Balance of payments services transactions include the value of trade in services supplied through Mode 4. The main difficulty in measuring Mode 4 trade lies, therefore, in the separate estimation of this mode of supply within given services transactions.

2.83. A more detailed description of the distinction between services and employment contracts, and more generally, on measuring Mode 4 is provided in chapter V.

### Balance of payments statistics relating to labour mobility

2.84. Balance of payments labour-related income and transfer flows (personal remittances, encompassing compensation of employees, personal transfers, workers' remittances) can be used to assess the benefits of international migration, including labour mobility, to home economies.

2.85. While these flows give information on a country's income generated through transfers of people moving abroad in the context of employment or migrating, personal remittances are not a substitute for the value of trade under Mode 4, as described above. Important differences exist in terms of coverage of persons. For example, the term "personal remittances" refers to persons receiving income related to employment with entities of the host countries (whether in services or non-services sectors) and making transfers to their country of origin. Except for foreigners who are employees in foreign affiliates of service suppliers, they are not considered to be under Mode 4. In addition, these flows also cover earnings of persons employed by international organizations. Thus, personal remittances provide merely supplementary information of a different type (that is, information relating to the movement of persons in general) which may be useful from an analytical perspective in terms of labour mobility but not as a measure for Mode 4 of the GATS (i.e. the population considered differs in most cases).

### Statistics on the number of persons involved in Mode 4

2.86. Statistics on the number of foreign persons moving (flows) and present (stocks) in a host country are an important complement measure of international transactions related to Mode 4 and thereby contribute to a fuller picture of the implications of the movements concerned.

2.87. *Recommendations on Statistics of International Migration, Revision 1* sets out a framework for reporting statistical information that measures international migration flows and stocks. Although the framework does not provide a full breakdown necessary for the analysis of GATS Mode 4, it should serve as a basis for the collection of this type of information. *International Recommendations for Tourism Statistics 2008* may also serve as a basis for collecting statistics on the number of persons involved in Mode 4. Chapter V provides further information with respect to the use of these frameworks.

2.88. Various tools exist for collecting this information, such as administrative sources (population registers, permit data, visas), census data, enterprise surveys, labour-force surveys and other types of household and border/passenger surveys, etc.<sup>33</sup>

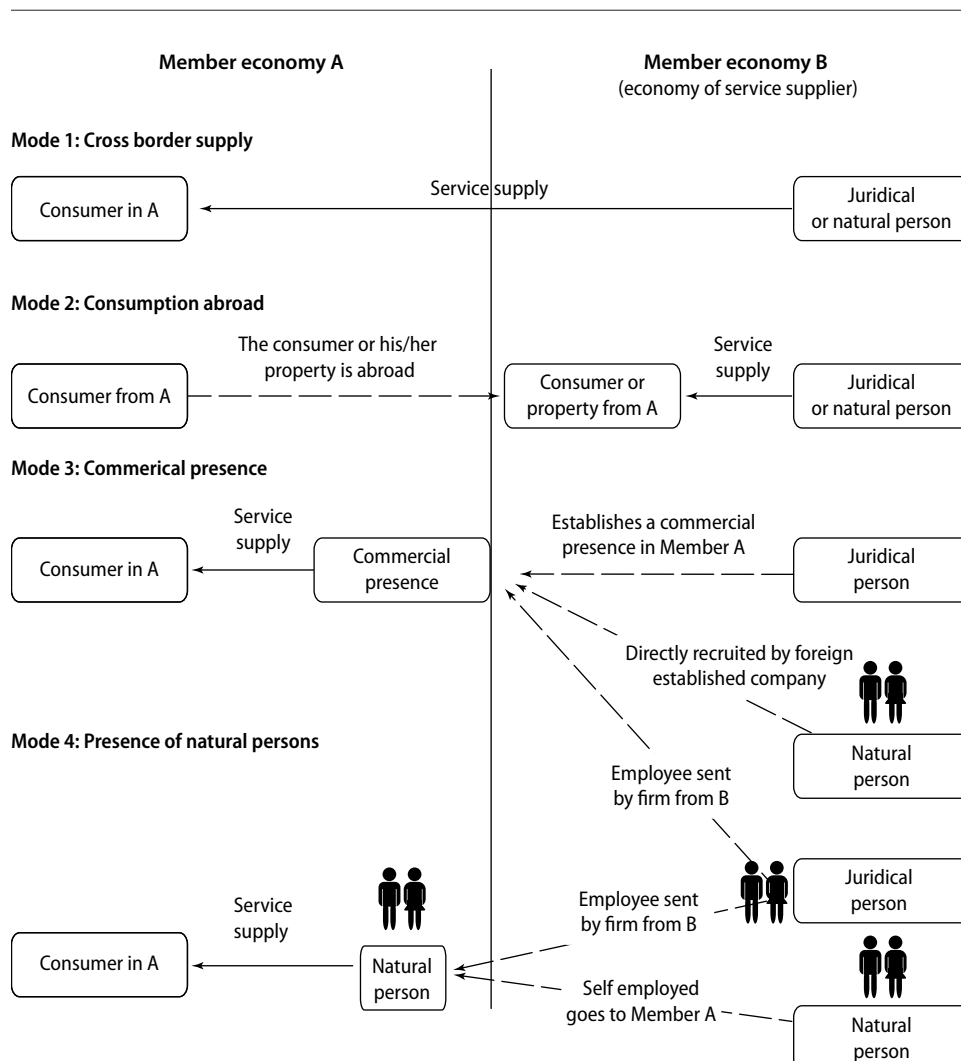
33 These sources are also used to collect information on labour mobility.



## 5. Analysis of international supply of services by origin and destination

2.89. Statistics by origin and destination are needed for analytical and policy purposes, and for use in bilateral and multilateral negotiations. Country or regional analysis of supply of services, whether associated with international transactions, FDI or FATS, is a necessary complement to both product and economic activity based analysis. To the extent feasible, an identical geographical basis should be used for all related sets of statistics. The geographical allocation of services transactions in the balance of payments is to the country where the provider or acquirer of the service is resident.

Figure II.1  
A synthetic view of modes of supply



**Note:** For commercial presence and presence of natural persons, the service might be supplied to either Member economy A or another economy. A more detailed description of modes of supply is provided in chapter V.

A natural person of a member economy is defined in paragraph (k) of article XXVIII of the GATS as a national of that Member economy or a natural person who has a right to permanent residence in that Member economy. A natural person which is not a national of a Member economy, but is a permanent resident of it, may be covered only when the Member economy concerned does not have nationals or, subject to additional qualifications in its acceptance of or accession to the Agreement Establishing the World Trade Organization, accords substantially the same treatment to permanent residents as to nationals in respect of measures affecting trade in services. In article XXVIII (l), the GATS defines a juridical person as any legal entity duly constituted or otherwise organized under applicable law, whether for profit or otherwise, and whether privately owned or governmentally owned, including any corporation, trust, partnership, joint venture, sole proprietorship or association.

## E. Summary of recommendations

2.90. In this chapter, *MSITS 2010* recommends:

1. The compilation of international trade in services statistics according to internationally agreed standards. These standards, principles and guidelines should be applied so as to guarantee international comparability and consistency.
2. That BPM6 recommendations on the principles of recording (regarding residence, valuation, time of recording, currency of recording and conversion) should be followed.
3. The reporting of partner country detail for the 12 major BPM6 services components.
4. That complete statistics on FDI (that is, the flows, income and period-end positions) be classified by ISIC, Rev.4, activities, and that these statistics be complementary to FATS. These data should be reported by partner-country detail, both in the aggregate and by the major industry categories.

## Chapter III

# Services transactions between residents and non-residents

## A. Introduction

3.1. The principles adopted by *MSITS 2010* to record services transactions between residents and non-residents are consistent with those prescribed in the sixth edition of the *Balance of Payments and International Investment Position Manual* (BPM6) and the *System of National Accounts 2008* (2008 SNA). This allows compilers to use many of the same data sources for compiling both balance of payments and international trade in services statistics. It also ensures consistency within each country's statistical system and among the statistical systems across countries. The main principles for recording these transactions are described below and the BPM6 provides additional guidance on recording international transactions.

3.2. In addition to setting out the principles underlying the recording of trade in services, the present chapter discusses the concept of residence and its practical application, along with the valuation and timing of recording transactions. It also touches on the relationship between trade in services and other economic activities.

3.3. Balance of payments services transactions are defined with respect to the residency of transactors, without a distinction with regard to the way the service is actually supplied. Services transactions can also be measured by modes of supply. This is of particular interest for trade negotiators and analysts. Services for which transactions are recorded may generally be provided cross-border or consumed abroad or through the temporary presence of the service supplier or his employees in the economic territory of the consumer. This subject is discussed further in chapter V.

## B. Concept and definition of residence

3.4. The residence of an institutional unit is the economic territory with which it has the strongest connection, constituting its centre of predominant economic interest.<sup>1</sup> Each institutional unit is a resident of one and only one economic territory, as determined by its centre of predominant economic interest. Specific criteria for determining residence are given below. These definitions should be used in preference to determinations based on a discretionary choice among different possible dimensions of economic interest.

3.5. 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 as long as it remains within the economic territory. Actual or intended location for one year or more is used as an operational crite-

<sup>1</sup> Please refer to BPM6, chap. 4, entitled "Economic territory, units, institutional sectors, and residence", and the 2008 SNA, chap. 4, entitled "Institutional units and sectors", for a full discussion of institutional units and sectors.

tion. While the choice of one year as a specific period is somewhat arbitrary, it is adopted to eliminate uncertainty and facilitate international consistency.

3.6. An overview of the concept of the residence for selected entities is provided below:

- 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 household. See paragraphs 3.7-3.16 for more information in this regard.
- Unincorporated enterprises that are not quasi-corporations are not institutional units separate from their owners and therefore, have the same residence as their owners.<sup>2</sup>
- 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 those of their shareholders and subsidiaries may be resident in economies different from those of their parent corporations.
- A corporation, or unincorporated enterprise, may maintain a branch, office or production site in another territory in order to engage in production on a significant scale over a long period of time without creating a corporation therein. In many cases 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. See paragraphs 3.17-3.26 for more information in this regard.
- For entities such as special-purpose entities that have few, if any, attributes of location, the residence is determined by their place of incorporation.
- 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 the non-resident does 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.

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

## 1. Residence of households

3.7. While many people are clearly strongly connected to only one economy, others may 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 a connection with 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.

3.8. 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 or to be treated and used by members of the household as their principal dwelling. If a household is to qualify as having a principal dwelling in a given territory, it is sufficient that the household be present for one year or more in that territory, or intend to be. If there is uncertainty about which dwelling is the principal dwelling, this is determined by the

length of time spent there, rather than by other factors such as presence of other family members, cost, size, or length of tenure.

3.9. 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. Based on this definition, the use of households as the institutional unit is compatible with determination of residence on an individual basis.

3.10. Further to these general principles, some other factors are used to determine residence for particular categories, namely, those comprising students, medical patients and ships' crews, 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 to be more important in determining residence. In the case of significant population movements between two particular territories, compilers in each territory should cooperate so as to ensure consistent definitions and measurement.

3.11. 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 one year. However, the status of students changes to that of resident of the territory in which they are studying when they form the intention of maintaining their presence in the territory of study after the completion of their studies. The residence of accompanying dependants of students is determined in the same manner as that of the persons they accompany.

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

3.13. Crews of ships, aircraft, oil rigs, space stations and 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 established by determining where they spend most of their time when not 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.

3.14. 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 — form part of the economic territory of the employing Government. Members of these categories continue to be residents in their home economies even if they live in dwellings located outside the enclaves. The expenditure of diplomats, etc., in their host economies is included in *government goods and services n.i.e.* Other employees, such as locally recruited staff, are resident in the location of their principal dwelling.

3.15. 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 that of national diplomats and others discussed in paragraph 3.14, inasmuch as the latter continue to be paid from and directed by their home Government and tend to have shorter postings and to be rotated back to their economy of origin.

3.16. Border workers, seasonal workers and other short-term workers cross borders for a short period to undertake a job. Therefore, no special treatment is required. Other short-term work-related movements may be necessary for undertaking 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 in the territory of the principal dwelling, rather than in the territory where the task is undertaken.

## 2. Residence of enterprises

3.17. An enterprise is an institutional unit engaged in production, and may be a corporation or quasi-corporation, a non-profit institution, or an unincorporated enterprise (part of the household sector). 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 at a location in the territory.

3.18. 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 in situations where a single legal entity has substantial operations in two or more territories, as is the case, for example, with respect to branches, landownership, and multi-territory enterprises. Through the splitting of such legal entities, the residence of each of the subsequently identified enterprises becomes clear. However, the utilization of the term “centre of predominant economic interest” does not imply that entities with substantial operations in two or more territories no longer need to be split.

3.19. In some cases, a corporation has little or no physical presence; for example, its administration may be contracted out entirely to other entities. Banking, insurance, investment funds (as distinct from their managers), securitization vehicles and some special-purpose entities often operate this way. 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.

3.20. An enterprise may have a location that is used as a base from which it delivers services to other locations. This arrangement 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 established by determining its base of operations, rather than the point of delivery of the service or the location of mobile equipment, unless the activities at the point of delivery are substantial enough to amount to the operation of a branch. For example, construction may be carried out by a non-resident enterprise, without the creation of a resident 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*).

3.21. For major projects, such as those involving bridges, dams and power stations, that take a year or more to complete and are managed through a site office, the operations

would usually satisfy the criteria set up for identification of a branch and would not be classified as international trade in services.

3.22. The identification of branches as separate institutional units requires evidence of substantial operations that can be separated from those of the rest of the entity, so as to avert the creation of numerous artificial units. The following definition of a branch is provided to aid consistent identification: a branch exists when the unit has a complete set of accounts, including a balance sheet, or when it would be possible and meaningful, from both an economic and a legal viewpoint, to compile those accounts if they were required.

3.23. In addition, a branch will often exist where one or both of the following determinants are present:

- The unit undertakes or intends to undertake production on a significant scale that is based or is to be based in a territory other than that of its head office, for one year or more, and in this regard:
  - If the production process requires physical presence, then the operations may involve the physical location of a branch in that territory. Some indicators of an intention to establish a location in the territory include purchasing or renting business premises, acquiring capital equipment, and recruiting local staff
  - If the production does not involve physical presence, as is the case, for example, for some forms of banking, insurance, other financial services, ownership of patents and “virtual manufacturing”, the operations should be recognized as being carried out in that territory by virtue of the registration or legal domicile of those operations there
- The unit is recognized as being subject to the income tax system, if there is one, of the economy in which it is located, even if it may have a tax-exempt status.

3.24. Multi-territory enterprises function as a seamless operation across more than one economic territory. Although such enterprises have substantial activity in more than one economic territory, they are run as an indivisible operation that neither has separate accounts nor makes separate decisions; hence, no separate branches can be identified. Such enterprises may have operations that include shipping lines, airlines, hydroelectric schemes on rivers shared by more than one territory, pipelines, electricity transmission lines, bridges, tunnels and undersea cables. Some non-profit institutions serving households may also operate in this way.

3.25. Governments usually require separate entities or branches to be identified in each economic territory to allow for more convenient regulation and taxation. Multi-territory enterprises may be exempted from such requirements, or there may be arrangements, involving, for example, such as a formula for payment of taxation to the respective authorities.

3.26. 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, then it may be 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 reflecting the contributions to actual operations. For example, equity shares, equal splits, or splits based on operational factors such as tonnages or wages, could be considered. Where taxation authorities have accepted the multi-territory arrangements, a prorating formula that may have been determined should serve as the starting point for statistical calculations.

### 3. Residence of general government

3.27. 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. Whether or not they are separate institutional units, they are residents of their home territory, rather than of the host territory in which they are physically located. This treatment is adopted because those operations 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 is not part of the general government sector in either economy.

### 4. Residence of international organizations

3.28. International organizations are resident in an economic territory of their own, and not 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. International organizations are limited to those created by Governments.

3.29. An international organization that operates peacekeeping and other military forces, and/or acts as the interim administration in a territory, remains classified 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.

3.30. 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, or if it lacks a physical presence, of the economy where it is incorporated or registered.

### 5. Residence of non-profit institutions serving households

3.31. 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 should not be treated as international organizations.

## C. Valuation of transactions

3.32. 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 and are sometimes called "at arm's length" transactions. These transactions will generally be valued at the actual price agreed between the supplier and the consumer.



3.33. 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, the development of a proxy measure by analogy with known market prices, established under conditions that are considered essentially the same as those pertaining to the unpriced or mispriced transaction.

3.34. 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.

3.35. Transactions in services should be recorded on a gross basis, that is to say, transactions in exports and imports transactions should be separately compiled, rather than recorded net.

3.36. 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 factors of income distribution or equity build-ups or withdrawals.

3.37. BPM6 notes that replacing book values (transfer prices) with market-value equivalents is desirable when 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 with which to replace book values is an exercise calling for cautious and informed judgement.<sup>3</sup>

3.38. 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 of the service provider, which facilitates 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, a misleading picture of growth in money terms may result. A similar effect may be observed if a country is experiencing currency value inflation. In both cases, it may be more useful for purposes of analysis to express all transactions in another, more stable currency.

3.39. 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 those entailing 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 midpoint between buying and selling rates at the time of the transaction should be used so that any service charge (the spread between the midpoint and those rates) is excluded. This service charge is included as part of financial services (see para. 3.202). However, because the actual midpoint rate at the time at which the transaction occurs may not be available to the compiler, an accepted practice is to take the average midpoint rate for the period for which the data are being compiled.

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

4 See BPM6, chap. 3.

3.40. BPM6 should be consulted for recommendations on conversion in cases where there are multiple official exchange rates, or black or parallel market rates.<sup>4</sup>

## D. Time of recording of transactions

3.41. The appropriate time for recording transactions in services is when they are delivered or received (the “accruals basis”). Some services, such as certain transport or hotel services, are provided within a discrete period, in which case 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. 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 (such as freight, insurance and construction), there may be advance payments or settlements at later dates for such services. The provision of services should be recorded on an accrual basis in each accounting period, that is to say, it should be recorded when the service is rendered and not when the payment occurs.

## E. Scope of resident/non-resident trade in services

3.42. The present 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.

3.43. The service categories are described in the Extended Balance of Payments Services Classification (EBOPS 2010), which is completely consistent with BPM6 but provides for more detailed breakdowns in a number of areas. The EBOPS 2010 classification is presented in annex I.

## F. The Extended Balance of Payments Services Classification (EBOPS)

3.44. The revised version of this classification, EBOPS 2010, updates that recommended in the previous *MSITS*. It provides for further breakdowns of the BPM6 classification so as to meet a number of user requirements, including the provision of information required in connection with the General Agreement on Trade in Services (GATS). A number of supplementary items and complementary groupings are included in EBOPS 2010 which

do not always come under the rubric of services transactions.<sup>5</sup> They are included to provide additional information. In many countries, the information to be included in supplementary items (for example, with regard to insurance) may be obtained as part of the process of data collection.

3.45. Supplementary items provide useful additional information for analytical purposes, including data quality assessment, and 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 additional data-collection systems in order to obtain the relevant data.

3.46. The further detail recommended in EBOPS 2010 reflects a recognition of the requirements of trade negotiations, primarily those conducted under the GATS, as well as the importance of services in studies of globalization. *MSITS 2010* recognizes that not all countries have the same needs for data, and that compilers will make decisions regarding the data to be compiled based on their individual country needs.

3.47. The BPM6 and EBOPS classifications of services are primarily product-based, and in many cases may be described in terms of the international classification of products, as contained in CPC, Version 2. A similar, but more detailed, approach is used in this Manual. A detailed correspondence between EBOPS 2010 and CPC, Version 2, can be found online at <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010/annexes.htm>.

3.48. There are a number of EBOPS 2010 components for which a correspondence with CPC, Version 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 or the mode of consumption of goods and services, rather than the type of product consumed. It should be noted that it is not possible to establish a one-to-one correspondence between EBOPS 2010 and CPC, Version 2, because, in places, CPC, Version 2, calls for more detail than is shown in EBOPS 2010, while elsewhere, the reverse is true. A further correspondence between EBOPS and W/120 has been created as well and is available online, also at <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010/annexes.htm>.

3.49. In cases where compiling countries choose to disaggregate beyond the EBOPS classification, CPC, Version 2, should be followed to the extent possible.

3.50. 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. Compilers should then work towards disaggregation of these components to the level specified in EBOPS 2010, in an order that reflects the economic significance to their economies of the various services components.

3.51. Although data produced with greater frequency would be useful for a range of analytical purposes, *MSITS 2010* recommends that EBOPS-level data and the supplementary items be produced on an annual basis. Quarterly data compiled at a more aggregated level should be consistent and reconcilable with the annual data.

5 Some of the items identified as supplementary in BPM6 are standard items in EBOPS 2010, as the latter is a more detailed classification.

## G. EBOPS, analytical and GATS information needs

3.52. In the 2008 SNA, the “purchaser’s price” is defined as the amount payable by the purchaser, excluding any deductible value-added or similar deductible tax in order to

take delivery of a unit of a 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). 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. However, for goods, like BPM6, *MSITS 2010* identifies the pricing level as free on board (f.o.b.) at the border of the exporting country. In general, the f.o.b. price will not necessarily be the same as the purchaser's price because the f.o.b. price may include separately invoiced distribution costs (wholesale and/or retail margins as well as costs of transport to the border of the exporting economy). Further, the purchaser's price will cover costs incurred in taking the goods to the purchaser's choice of location, which may be beyond the customs frontier. Therefore, those distribution costs, which correspond to separately identified services in the 2008 SNA framework, are not separately identified in the balance of payments framework.

3.53. As indicated in the previous paragraph, although most distribution services of wholesalers and retailers are excluded from EBOPS, they are included in W/120, which is used in GATS negotiations. In the 2008 SNA, wholesalers and retailers are defined as entities that purchase and resell goods with no, or only minimal, processing (for example, cleaning and packaging). 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 either are included in the f.o.b. values of the goods to which they relate, or are provided by the importer. However, given the interest in such information, compilers may wish to provide estimates of distribution services, including those related to the merchandising of goods and those already included in EBOPS *trade-related services* (discussed in paras. 3.296-3.297) as a complementary grouping, *total trade-related transactions* (see also chap. V, box V.4).

3.54. There are other EBOPS items that do not fully respond to analytical and GATS information needs, such as freight transport and insurance (because of adjustments made to the data) and construction. Further information on these are provided in paragraphs 3.107-3.110, 3.146 and 3.189.

3.55. In addition to *total trade-related transactions*, a number of other complementary groupings, given their analytical usefulness, are proposed in EBOPS, such as *audiovisual transactions*, *cultural transactions*, *environmental transactions*, *total health services* and *total education services* (see paras. 3.280-3.303).

## H. Services transactions between related (affiliated) enterprises

3.56. 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. *MSITS 2010* 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 additional burden on both suppliers and compilers of data and could raise issues of confidentiality. Therefore, *MSITS 2010* recommends that such a breakdown be carried out at the aggregate level for total services transactions (under

the complementary grouping of EBOPS entitled *total services transactions between related enterprises*). This recommendation is given a lower priority than that regarding the compilation of statistics at the level of detail described in BPM6. Countries willing to provide additional detail are encouraged to do so for some aggregated EBOPS 2010 categories.

## I. Statistics by trading partner

3.57. 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 economy of residence of trading partners. Such statistics provide a firm basis for the multilateral and bilateral trade in services negotiations carried out under the 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 economy's data with those of a trading partner, using "mirror statistics", constitute 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).

3.58. *MSITS 2010* recommends 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 recommendations in *MSITS 2010*. It is recognized, however, that compiling statistics by trading partner is resource-intensive and may be difficult owing to issues related to disclosure and incompleteness of information. *MSITS 2010* therefore recommends that those statistics identified by compilers as most relevant to their economies be compiled at a detailed partner economy level. Thus, compilers should give priority to deriving data on trade in services for the main trading partners of their economies.

## J. Difference between service provision and provision of labour

3.59. Services provided by a consultant, independent contractor, or employment agency are distinguished from the provision of labour. Payments for the use of labour do not represent trade in services but rather compensation of employees to be 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, the payment constitutes compensation of employees if an employer-employee relationship exists, or a service if the individual performing the task is self-employed and working under contract.

3.60. Box V.2 provides further guidelines for distinguishing between the provision of services and the provision of labour.

## K. Outsourcing

3.61. In cases where a company “outsources” services that is, contracts another (specialist) company to provide services that were previously internal company functions (for example, billing or information “help” services), those 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 *computer services*. Given the analytical interest in these activities, EBOPS 2010 also proposes a complementary grouping for *call-centre services* (see para. 3.294).

## L. Service subcontracting

3.62. Service subcontracting entails the purchase and sale of services without any significant transformation of the service between the purchase and the sale (for example, in business, transport, construction or computing). For example, a specialist service arranger who has been paid to provide back-office functions for a customer may subcontract to another contractor. Subcontracting is therefore similar in some ways to merchanting of goods, as the services are purchased and resold. However, the degree of transformation involved may be harder to identify for services than for goods, for example, in the case of bundling and managing the services of different contractors. “Service merchanting” of this kind is an important activity in some economies.<sup>6</sup> 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, computer, or other business services*. However, if the activity is significant for an economy, *MSITS 2010* encourages compilers to also publish additional data on a net basis.

<sup>6</sup> A distinction should be made between “service merchanting” as discussed above, and merchanting services, as presented 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 credits when acquired by the merchant and as credits when sold.

## M. Electronic commerce

3.63. Electronic commerce, or e-commerce as it is more widely known, is a method of ordering and/or delivering products by electronic means, for example, through the Internet or other computer-mediated networks. In principle, charges for electronically delivered products are included in services, while goods ordered by electronic means and supplied across the border are generally classified as goods (except that products, for example, software products, obtained with a non-perpetual licence 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 principles outlined in paragraphs 3.97-3.103. Financial services associated with e-commerce are included in financial services.

## N. Reconciling balance of payments trade in goods and services and international merchandise trade statistics

3.64. Users may be interested in deriving statistics of international trade in goods and services by aggregating statistics on international trade in services from balance of pay-

ments statistics and international trade in goods from international merchandise trade statistics (IMTS). There are conceptual differences between these two sets of statistics and if these differences are not taken into account, aggregation may lead to double counting or omissions. Differences between IMTS (compiled according to *IMTS 2010*) and general merchandise in the balance of payments (compiled according to BPM6) are shown in box III.1. A few of those differences relate to transactions that may be recorded in IMTS (as goods) but are classified in balance of payments statistics under trade in services, as follows:

- C.i.f., f.o.b. 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. If provided by a non-resident, they are classified as imports of services.

#### Box III.1

#### Reconciling balance of payments trade in goods and services and international merchandise trade statistics

	Exports	Imports
<b>Merchandise trade statistics as provided in source data</b>		
<b>Adjustments, as relevant:</b>		
+ Goods procured in ports by carriers		
+ Fish catch, minerals from the seabed and salvage sold from resident-operated vessels		
+ Goods changing ownership entering/leaving territory illegally		
+/- Goods lost or destroyed in transit		
+ Goods acquired from other economies for processing abroad	n.a.	
+ Goods sold abroad after processing in other economies		n.a.
+/- Goods changing ownership in customs warehouses or other zones		
- Migrants' personal effects		
- Goods imported for construction projects by non-resident enterprises		
- Goods for repair or storage without change of ownership		
- Goods sent abroad or returned after processing without change of ownership		
- Returned goods		
+/- High-value capital goods, if delivery differs from change of ownership		
- c.i.f./f.o.b. adjustment	n.a.	
+ Net exports of goods under merchanting		n.a.
+ Non-monetary gold		
= 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 (other adjustments, for example, are necessary in the case of construction). 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.

- 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 under *Manufacturing services on physical inputs owned by others*.
- A number of adjustments are necessary in the context of construction, such as for goods imported by non-resident construction enterprises for projects in the compiling economy and vice versa: these are excluded from goods and are included in the gross value of construction (see paras. 3.138-3.141 for more detailed information).

## O. Definitions of the components of the Extended Balance of Payments Services Classification

3.65. The remainder of this chapter discusses in detail the definitions of the various components of EBOPS 2010. While the classification shown in annex I is primarily product-based, it is transactor-based, or based on the mode of consumption, for *travel, construction and government goods and services n.i.e.* In addition, detailed correspondence tables between EBOPS 2010 and CPC, Version 2, and EBOPS 2010 and W/120 can be found at <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010/annexes.htm> and 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

3.66. *Manufacturing services on physical inputs owned by others* includes activities such as processing, assembly, labelling and packing that are undertaken by enterprises that do not own the goods. Examples include oil refining, liquefaction of natural gas and assembly of clothing and electronics. Excluded are the assembly of prefabricated construction (included in construction) and labelling, and packing incidental to transport (included in transport services).

3.67. The manufacturing is undertaken by an entity that does not own the goods and that is paid a fee by the owner. The ownership of the goods does not change, so no general merchandise<sup>7</sup> transaction is recorded between the processor and the owner. Only the fee charged by the processor is included under this item, although such a fee may include the cost of materials purchased by the processor.

3.68. An international trade element exists where the work done is by a resident of one economy for the owner of the 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 purchases and sales of goods and services

3.69. Purchases of materials by the owner (that is, goods to be processed) may be obtained from residents of the same economy as that of the owner, the same economy as that of the processor, or a third economy. The treatment is as follows:

<sup>7</sup> General merchandise covers goods whose economic ownership is changed between a resident and a non-resident and that are not included in: goods under merchanting; non-monetary gold; and parts of travel, construction, and government goods and services n.i.e. (see BPM6, paras. 10.13-10.24).



- When the goods are acquired from residents of the same economy as that of the owner, there is no international transaction
- When the goods are acquired from residents of the same economy as that of the processor or a third economy, the owner of the goods to be processed records imports of general merchandise

3.70. Sales of finished goods (that is, goods after processing) are treated as follows:

- When the goods are sold to residents of the same economy as that of the owner, there is no international transaction
- When the goods are sold to residents of the same economy as that of the processor or a third economy, the owner of the goods under processing records the sale as exports of general merchandise

### Recording of related goods movements

3.71. 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 the analysis of processing activities. Values of the following items may be identified:

- (a) For customers of manufacturing services on goods processed abroad (the owner):
  - (i) Goods supplied for processing (goods sent);
  - (ii) Goods dispatched after processing (goods returned);
- (b) For providers of manufacturing services on goods processed in the reporting economy:
  - (i) Goods received for processing (goods received);
  - (ii) Goods dispatched after processing (goods sent).

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

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

- For goods included in general merchandise, general principles for f.o.b. valuation apply, so that transport costs up to the customs frontier are treated as payable by the exporter, and transport costs after the frontier are treated as payable by the importer
- 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 according to the arrangements of the parties, that is, according to the amount payable by the party invoiced to pay the expense.

### Recording of manufacturing fees

3.74. 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 of this 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 movements of goods where there is no sale (see box III.2 for an example).

3.75. 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 with *manufacturing services on physical inputs owned by others*.

3.76. Manufacturing on own account and *manufacturing services on physical inputs owned by others* are different arrangements, and for this reason it is desirable to show them separately. This is because the role of the manufacturer on own account in designing, marketing and financing the goods is quite different.

3.77. 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 also ensures the correct attribution of value added due to the owner for designing, marketing, financing, etc., rather than to the party that undertakes physical processes. BPM6 provides additional information on the recording of transactions relating to global manufacturing arrangements and merchanting of goods as well as examples of the measurement of manufacturing services (that change or do not change the condition of the goods) related to merchanting activities.

#### Box III.2

##### Recording of manufacturing fees

The value of the fees charged for *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.

For example, assume that a manufacturer in economy X owns goods worth 1,000. 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 1,300. The difference of 300 comprises the processing fee of 120 charged by the processor, holding gains of 80 and overheads of 100. The value of manufacturing services on physical inputs owned by others is 120, not 300, 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 economy X and non-residents, then these transactions would be recorded under the relevant items.

Assume further that these goods are not returned to economy X but sold instead 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. The separate transaction with economy Z is treated as an export of goods from economy X.

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

3.78. *Maintenance and repair services n.i.e.* includes 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 included under construction. Maintenance and repairs of computers are included under computer services.

3.79. 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 encompasses 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). 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 are included. No distinction is made between those repairs included by the customer in intermediate consumption and those included in capital formation.

### 3. Transport

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

3.81. A transport provider may subcontract in order to be able to use the services of other operators in providing part of the final transport service. Such services should be recorded on a gross basis. For example, a courier service provider might contract separately with more than one transport operator. Commissions payable by providers of transport services to an agent should be separately recorded.

3.82. EBOPS 2010 follows BPM6 in recommending a cross-classification of transport by mode of transport and by kind of service. While BPM6 recommends the identification of three modes of transport, EBOPS 2010 distinguishes 8 modes of transport, namely, *sea, air, space, rail, road, internal waterway, pipeline and electricity transmission*. EBOPS 2010 also identifies *other supporting and auxiliary transport services* as well as *postal and courier services*. EBOPS 2010 recommends the same classification of kind of service as BPM6, namely, *transport of passengers, transport of freight*, and *other* which includes *other supporting and auxiliary services* and *postal and courier services*. A discussion of the modes of transport and kinds of service follows.

3.83. *Sea transport* covers all international freight and passenger transport services undertaken by seagoing vessels but does not include transport by underwater pipelines (included in pipeline transport) and cruise fares (included in travel).

3.84. *Air transport* covers all international freight and passenger transport services provided by aircraft.

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

3.86. *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 for transport by the space vehicles of another economy.

3.87. *Rail transport* covers international transport by trains.

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

3.89. *Inland waterway transport* covers 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.

## Box III.3

**Electrical power transmission and distribution**

Cross-border trade in electricity has become an important and growing dimension 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, such as hydroelectric plants and nuclear plants, that are distant from the population centres. Or, those plants may be located in specific areas in order to take advantage of their resources; however, transport of those resources over long distances may be too costly.

An electrical power system comprises the electricity generating plants, the transmission network (or grid) and the distribution facilities. While electricity demand is variable, the high capital cost of generating plants suggests that it may be cheaper to purchase electricity to meet the high demand rather than increase generating capacity in order to contend with temporary fluctuations. As demand variability tends to be correlated with geography, the increased demand is normally met from distant power plants. This means that transmission networks may span several economies across vast areas.

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 be only a few enterprises engaged in electricity transmission and, in many economies, it is in the hands of a monopoly. These companies generally specialize in transmission and are not engaged in generation or distribution.

3.90. *Pipeline transport* covers the transport of goods in pipelines, such as the transport of petroleum and related products, water and gas. Excluded are distribution services, typically from substations to the consumer, for water, gas and other petroleum products (included in *other business services n.i.e.*), and the value of the products transported (included in *general merchandise*).

3.91. *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 have ended when the electricity enters distribution facilities of an electric system that deliver electricity to end-users for consumption (see box III.3). The electricity itself is excluded (included in *general merchandise*) as is the electricity distribution, which is the delivery of electricity from the substation to the consumer (included in *other business services n.i.e.*).

3.92. *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.

3.93. EBOPS 2010 and BPM6 provide a breakdown into kinds of transport service, as explained directly below.

3.94. *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 (that is, via internal flights).

3.95. *Passenger services* includes fares and other expenditure related to the carriage of passengers, including any taxes levied on passenger services, such as sales or value-added taxes. 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 are also included. The valuation of passenger transport should include fees payable by the carriers to travel agencies and other providers of reservation services. Also included 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.

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

3.97. *Freight services* covers the transport of objects. It may be divided into three types of freight services. The first two are associated with the fact that, in line with the recommendations of the BPM6, goods are valued f.o.b. at the customs frontier of the exporting economy. The third type encompasses the freight of goods where they do not change ownership. These three types are further described below. The service charge may be charged directly or included in the price.

3.98. All freight costs up to the customs frontier of the economy of the exporter are shown as incurred by the exporter. All freight costs beyond the customs frontier of the economy of the exporter are shown as incurred by the importer. In practice, whether these costs are considered to be imports or exports of freight services depends on the residence of the freight operator.

3.99. The first type of freight services encompasses international transport of the compiling economy's exports and imports of goods. Included are transport services, provided by resident operators, that are supplied beyond the customs frontier on the compiling economy's exports (exports of freight services) and services provided by non-resident operators, supplied beyond the exporting economy's customs frontier, on the compiling economy's imports (imports of freight services).

3.100. The second type of *freight services* is provided by 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 by non-resident operators of the compiling economy, inside the customs frontier of the compiling economy, on the compiling economy's exports (imports of freight services).

3.101. The third type encompasses *freight services* supplied for goods where there is no change of ownership. These include the following:

- Transit trade through an economy
- Transport of goods between third economies (cross-trade)
- Coastal transport or other transport of goods between points within an economy
- Movements of goods to or from entities located outside territories where the entities are residents (such as Government agencies) provided by non-resident carriers
- Goods sent for storage or processing and migrants' personal effects

3.102. When actual arrangements for paying freight costs differ from f.o.b. terms of delivery, re-routing is needed. Re-routing of freight services may mean that a transaction

that is actually between two residents is treated as a transaction between a resident and a non-resident, and vice versa, as shown in box III.4. The timing of the provision of freight services may differ from the timing of the change of ownership of those goods, as would be the case for goods sent abroad on consignment where the sale occurs in a different accounting period from that in which the goods crossed the exporter's customs frontier.

3.103. In principle, freight services should be recorded in the period in which they are rendered but in fact they are attributed to the importer in the period in which the goods were purchased. However, in practice, the aggregated nature of recording of freight services and the lack of information on individual freight movements mean that timing adjustments needed to deal with this issue may not be feasible, material or appropriate, for example, in the case where the importer pays for the service in the period in which it is rendered.

3.104. *Other supporting and auxiliary transport services* includes 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 of the appropriate mode of transport (sea, air, rail, road or inland waterway transport).

3.105. 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 of transport equipment performed in ports and airports; and salvage operations and associated agents' fees (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*.

3.106. 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 3.20 discusses the issues relating to the attribution of residence of owners and operators of *mobile equipment, including ships and aircraft*.

#### Box III.4

##### Examples of the treatment of freight services and re-routing

A piece of equipment costs 10,000 units at the factory at which it was produced in economy A. It costs 200 to transport it to the customs frontier of economy A, it costs 300 to transport it from the customs frontier of economy A to the customs frontier of economy B, where a customs duty of 50 is levied, and it costs 100 to deliver it from the customs frontier of B to the customer. (For simplicity's sake, insurance of the equipment during transport is not covered in the example.)

Under all contractual arrangements between the parties, the f.o.b. value is 10,200 and the c.i.f. value is 10,500. However, how the services are recorded depends on the arrangements

for paying the transport costs and on the residence of the transport provider. A few of the possible arrangements are discussed below:

#### **Example 1**

The parties contract on an f.o.b. basis (that is, the invoice price is 10,200; the exporter is responsible for costs up to the frontier of A; and the importer is responsible for subsequent costs). In this case, no re-routing is needed. All freight is shown as being provided by the actual provider and payable by the actual invoiced party.

#### **Example 2**

The parties contract on an ex-works basis (that is, the invoice price is 10,000; and the buyer pays for transport from the seller's premises).

- The freight from the factory to the customs frontier of economy A is provided by a resident of economy A. The 200 payable, which is actually a service provided by a resident of economy A and payable by a resident of economy B, must be re-routed to be shown as a resident-to-resident transaction within A, as all costs up to the frontier of the exporting economy are treated as being payable by the exporter and included in the price of the goods.
- The freight from the factory to the customs frontier of economy A is provided by a resident of economy B. The 200 payable, which is actually a domestic service transaction within economy B, must be re-routed as being a service provided from B to A, since all costs up to the frontier of the exporting economy are treated as being payable by the exporter.

#### **Example 3**

The parties contract on a c.i.f. basis (that is, the invoice price is 10,500). The 300 payable for freight from the customs frontier of economy A to that of economy B is re-routed, because the contract makes it payable by the exporter, but it is treated as payable by the importer in the balance of payments statistics (that is, following f.o.b. valuation). As a result, if the freight provider is a resident of economy A, a domestic transaction within economy A is treated as being a balance of payments transaction. Conversely, if the freight provider is a resident of economy B, an international transaction is treated as being a domestic transaction within economy B.

Normally it is not possible to study every contract; hence, general patterns of freight cost arrangements need to be identified. When contract terms other than f.o.b. are used, actual payment arrangements for freight may need adjustments to meet the f.o.b. valuation convention.

Rentals, charters or operating leases of vessels, aircraft, freight cars, or other commercial vehicles with crews for the carriage of freight are included in freight services. Also included are towing and services related to the transport of oil platforms, floating cranes and dredges. Financial leases of transport equipment are excluded from transport services.

#### **Re-routing**

In all cases where apparently domestic transactions are re-routed to be recorded as international transactions, or vice versa, goods trade must be recorded on a consistent basis, so that the financial payment from economy B to economy A equals the sum of its goods and services imports, both before and after re-routing adjustments. (If the goods are recorded at f.o.b. values, the adjustments to freight bring them into consistency with goods. If the goods are recorded at transaction values, the goods values need corresponding adjustments.)

Re-routing records a transaction as taking place in channels different from that observed. For example, a direct transaction between unit A and unit C may be best understood as a transaction first between unit A and unit B, and then between unit B and unit C. Mostly, this occurs when a unit that is a party to a transaction does not appear in the actual accounting records because of administrative arrangements.

### Valuation of freight transport services on a transaction basis

3.107. A number of users, in particular for GATS information purposes, would need additional information on the value of freight transport services provided by residents to non-residents and vice versa, as a complement to the freight transport data compiled according to the f.o.b. or c.i.f. valuation principles for goods. This information is useful because it represents the actual market transactions as they occur, with no correction, adjustment or estimation.

3.108. In this case, the transport service is recorded if, and only if, a transaction in transport services occurs between a resident and a non-resident. The recording of the separate transport service depends on the delivery terms that are specified in the contract for the sale or purchase of the goods and realized in the market transaction.

3.109. When the transportation contract is made between two residents for transport services to be provided on an exported good, the transport service would be excluded based on this measurement method but a part of it would be included if the balance of payments principles were to be applied. This occurs, for example, when the delivery terms specified in the contract for the sale or purchase of a good are *franco domicile* ("carriage paid") and when the exporter has contracted with a resident of the exporting economy to provide the transportation service. The transaction-based measurement method would apply in the case where:

- A contract to provide transport services is made between a resident and a non-resident and the delivery term is specified as ex-works. The full transport service is recorded, including that part of the transportation service provided before the border of the exporting economy.
- Transport services occur between residents and non-residents relating to cross-trade and coastal navigation, or cabotage.

3.110. Generally, this transaction information is collected by many national compilers (that is, before any adjustment required to comply with f.o.b. valuation of goods). It is then adjusted to comply with balance of payments principles. Compilers are encouraged to make this information publicly available, given its analytical interest, although *MSITS 2010* does not include a recommendation in this regard.

### Postal and courier services

3.111. *Postal and courier services* covers the pickup, transport and delivery of letters, newspapers, periodicals, brochures, other printed matter, parcels and packages. It also includes post office counter services, such as sales of stamps, poste restante services and telegram services<sup>8</sup> and mailbox rental services.

3.112. 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 n.i.e.*) and 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 by residents to non-residents during the visits of non-residents in the compiling economy (or by non-residents to residents during visits abroad) are included in *travel*.

<sup>8</sup> The provision of the telegram service is covered under *telecommunications services*; however, the sale of telegram services over the counter at a post office is included under postal services.



3.113. Courier services include all kinds of courier service, for example, timed, express and door-to-door delivery. Excluded are the movement of mail carried by air transport enterprises (recorded under *transport, air, freight*), storage of goods (recorded under *transport, other, supporting and auxiliary services*) and mail preparation services (recorded under *other business services n.i.e.*).

3.114. 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 paragraph 3.98. This treatment is a consequence of the f.o.b. valuation of the goods concerned in BPM6 and the 2008 SNA.

## 4. Travel

3.115. The component of EBOPS 2010 differs from most internationally traded services in that it is transactor-based. Unlike most services in EBOPS, *travel* is not a specific product; rather, it encompasses a range of goods and services consumed by non-residents in the economy that they visit. *Travel* is defined as covering goods and services for own use or to be given away, acquired from an economy, by non-residents during visits to that economy. It covers stays of any length, provided that there is no change in residence.

3.116. *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, border and other short-term workers in the economy of employment.<sup>9</sup>

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

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

3.119. 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 or her behalf, provided without a quid pro quo (for example, free room and board received: in such a 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).

3.120. The goods and services for own use or to be given away, 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*. This includes transport within a particular economy being visited where such transport is provided by carriers resident in that economy 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 a third economy.

3.121. 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 that is in excess of customs thresholds, are excluded. These goods are included in general merchandise.

9 These acquisitions are not considered tourism expenditure; hence, showing them separately allows travel data recorded in the EBOPS 2010 to be reconciled with tourism statistics.

3.122. *Travel* excludes the acquisition of goods and services by diplomats, consular staff, military personnel, etc., and their dependants in the territory in which they are posted (included in *Government goods and services n.i.e.*).

3.123. *Business travel* covers the acquisition of goods and services, for own use or to be given away, by persons whose primary 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. Examples of persons travelling for business purposes include carrier crews stopping off or laying over; Government employees on official business; employees of international organizations on official business; employees travelling to economies where they are not resident on behalf of their employing enterprise; self-employed individuals travelling for business purposes; and border, seasonal 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.

3.124. The business activities undertaken while travelling may include production or installation work, sales campaigns, market exploration, commercial negotiations, missions, conferences, conventions, other meetings, and other business activities undertaken on behalf of an enterprise resident in another economy.

3.125. The acquisition of goods and services for own use or to be given away by border, seasonal 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 sub-component *acquisition of goods and services by border, seasonal, and other short-term workers*. All other business travel is included in the EBOPS 2010 sub-component *other business travel*. The separate identification of these items would facilitate a reconciliation with tourism statistics (see para. 3.131 and box III.5).

3.126. *Personal travel* covers goods and services acquired by persons going abroad for purposes other than business, such as taking holidays, participation in recreational and cultural activities, visits to friends and relations, pilgrimage, and education- and health-related purposes. *MSITS 2010* recommends a breakdown of *personal travel* into three sub-components based on the primary purpose of personal travel:

- *Health-related*, which includes expenditure for medical services, other health care, food, accommodation and local transport, acquired by persons travelling for medical reasons.
- *Education-related*, which includes expenditure for tuition, food, accommodation, local transport and health services, acquired by non-resident students.
- *Other*, which includes expenditure by those travelling neither for health nor for education as primary purposes. This category is usually the largest component of travel, as it includes all persons going abroad for holidays, recreational and cultural activities, visits to friends and relations, and pilgrimages.

The residence of international patients and students is discussed in paragraphs 3.11-3.12. Health and education services not included in travel are discussed in paragraphs 3.264-3.265.

3.127. Also recommended is an alternative presentation of *travel*, by product (see annex I), according to the following categories: *goods*; *local transport services*; *accommodation services*; *food-serving services*; and *other services*. A further breakdown of *travel, other services* into *health services* and *education services* is also suggested. This alternative presentation will help to achieve a more appropriate analysis from a GATS perspective (see chap. V) and bring about closer links to tourism statistics and supply and use tables (see box III.5). The sepa-

## Box III.5

**Relationship between travel and tourism**

*Travel*, as defined in *MSITS 2010*, is synonymous with the term *travel* used in BPM6. It is also related to the term *tourism* used in *International Recommendations for Tourism Statistics 2008* (IRTS 2008) (as well as in *Tourism Satellite Account: Recommended Methodological Framework 2008*). However, although EBOPS 2010 proposes an alternative breakdown of *travel* by product which allows a closer link with IRTS 2008 and tourism satellite accounts, there are a number of differences in terms of the coverage between balance of payments definitions, on the one hand, and tourism statistics recommendations, on the other.

IRTS 2008 uses the concept of “usual environment” as an additional criterion besides “residence”. The concept is designed to exclude from tourism statistics persons who travel regularly between their place of usual residence and place of work (for example, border or seasonal workers), who study (individuals studying abroad for more than one year), or who visit other places as part of the regular life routine, although these places may be in a different economic territory. There are also some additional differences in terms of the coverage of expenditure between travel and tourism expenditure. Some of the main differences are that:

- *Travel* includes estimated values of products (such as accommodation) that may be provided free of charge. It includes the acquisitions of goods and services by border, seasonal and other short-term workers (that is, persons in an employer-employee relationship with a unit resident in the economy visited). It also includes acquisitions of students and medical patients (as well as their accompanying dependants) away from their country of residence for a period of one year or more. Tourism, as defined, excludes these items.
- *Travel* excludes purchases of valuables and consumer durables above a customs threshold (tourism includes all such purchases irrespective of the threshold). *Travel* also excludes expenditure on international passenger transportation (included in EBOPS 2010 under *passenger transport*) which, except in the case of border, seasonal and other short-term workers, is included by tourism.

To highlight the link between balance of payments and tourism statistics *MSITS 2010* includes a supplementary item, *Tourism-related services in travel and passenger transport* (see para. 3.131). Annex V also provides more guidance on the differences between the conceptual framework of *MSITS 2010* and tourism statistics-related recommendations.

rate identification of expenditure on local transport, accommodation and food services will facilitate the analysis of travel expenditure. If the alternative presentation, by product, is utilized, care should be taken by compilers to ensure that no confusion exists between the health services and education services within the presentation by product and health-related and education-related expenditure within personal travel (presentation by purpose of travel). 3.128. 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 reflects the deduction of a margin or commission. If the agent is a resident of the same economy as the customer, then the margin or commission entails a resident-to-resident transaction. 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 by the customer to non-residents, and thus is included in travel. Fares for cruises provided by operators resident in economies other than that of the passenger are included in *travel* (not *passenger transport*).

3.129. 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, other forms of acquisition and leasehold of holiday homes have emerged.

<sup>10</sup> For further guidance on the identification of time-share services, see BPM6, para. 10.100 and table 10.3.

3.130. The term “time-share”<sup>10</sup> covers a wide range of such arrangements. The recording of the periodic flow of accommodation services is derived based on:

- The acquisition of deeded ownership of property, that is, the ownership of land and buildings. The accommodation services provided to the owner should be imputed based on market prices.
- Payments for rights to use a property under a membership system. These payments are equivalent to prepaying for accommodation services. After the initial acquisition, the prepayment is drawn down and the imputed accommodation services are recorded in *travel*.<sup>11</sup>

<sup>11</sup> 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.

### Tourism-related services in travel and passenger transport

3.131. EBOPS 2010 *travel* and *passenger transport* items are related to tourism expenditure, as defined in *International Recommendations for Tourism Statistics 2008*. However, there are a number of differences in terms of coverage between the two frameworks (see box III.5). To highlight the link between *travel* and *passenger transport* and tourism statistics, *MSITS 2010* proposes a supplementary item, *Tourism-related services in travel and passenger transport*, as an estimate of tourism as an international traded service. This supplementary item includes travel expenditures and international transport of visitors — both overnight visitors (tourists) and same-day visitors (excursionists) — and consequently excludes *acquisition of goods and services by border, seasonal, and other short-term workers* (that is, those in an employer-employee relationship with a unit resident in the economy visited), as well as *passenger transport payable by border, seasonal, and other short-term workers*.<sup>12</sup>

<sup>12</sup> See annex V for more information.

## 5. Construction

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

3.133. *Construction* is valued on a gross basis, that is, inclusive of all goods and services used as inputs to the work, 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. Box III.6 provides a numerical example.

3.134. *Construction* is also valued on a gross basis in the sense that it can be disaggregated into construction abroad and construction in the compiling economy. Construction credits consist of credits for construction abroad and credits for construction in the compiling economy. Construction debits consist of debits for construction abroad and for debits construction in the compiling economy.

3.135. This disaggregation allows for the recording on a gross basis of both the construction work undertaken and the goods and services acquired from residents in the host economy, by non-resident enterprises undertaking the construction.

3.136. *Construction abroad* comprises construction work for non-residents by enterprises resident in the compiling economy (export) and the goods and services acquired from residents in the host economy by those enterprises (import).

3.137. *Construction in the reporting economy* comprises construction work for residents of the compiling economy by non-resident construction enterprises (import) and the goods and services acquired in the compiling economy from resident entities by those 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.

3.138. The goods and services acquired from residents of the economy of the location of the construction work are recorded under *construction* as exports of that economy and as imports of the economy of the construction enterprise.<sup>13</sup> Goods and services acquired from residents of the home economy of the enterprise undertaking the construction by that enterprise are excluded, as they represent resident-to-resident transactions. Goods and services acquired from residents of third economies (that is, those that are 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.

13 This includes goods and services that were produced in the economy of the enterprise and were then purchased by residents of the economy of location of the construction work.

3.139. *Expenditure on goods and services in the host economy* includes expenditure by the construction enterprise on locally supplied items and goods and services that have been imported to the host economy, where the goods and services are for use on the construction site.

3.140. 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*.<sup>14</sup> 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 reasons, 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.

14 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 imports under the general and special trade systems. In cases 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 so as to exclude the value of any such goods from the balance of payments goods component.

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

3.142. If the external operations of a construction enterprise are substantial enough, they may constitute a branch resident in the economy of operations (see paras. 3.17-3.26). 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 and coverage within FATS. There may also be the supply of goods and services between the branch and the parent, for example, for materials.

3.143. 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.

3.144. Construction may also be undertaken in a manner similar to that for *manufacturing services on 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

## Box III.6.

**A numerical example of the measurement of construction**

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

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

The total value of construction 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 economy A	Units	In economy B	Units
<i>Construction abroad</i>		<i>Construction in the compiling economy</i>	
Credit	10 260 <sup>c</sup>	Credit	4 545 <sup>d</sup>
Debit	4 545 <sup>d</sup>	Debit	10 260 <sup>c</sup>

<sup>a</sup> Labour (compensation of employees) is recorded as primary income in the macroeconomic statistics (see paras. 3.59-3.60 and chap. V for an explanation of the difference between service provision and the provision of labour). The labour purchased in economy B for 2110 was provided by residents of economy B, and will be recorded as compensation of employees in the primary income account of the balance of payments.

<sup>b</sup> This is a transaction between a resident and a non-resident, as the goods are purchased from a resident of economy B by enterprise A. Although the goods were imported from A, they are now part of the stock of goods of economy B.

<sup>c</sup> Gross value of construction.

<sup>d</sup> Amount of goods and services purchased by enterprise A in economy B (the host economy), equal to 525 + 1730 + 2290 units (economy A debit; economy B credit).

do not change ownership. The treatment, as for manufacturing services, is to record actual changes of ownership, not physical movements of goods.

3.145. Transactions relating to existing buildings are included in construction in the same way as are those relating to new buildings. Most transactions involving acquisitions of existing buildings and land are treated in the macroeconomic statistics as being between two resident units. 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.

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

3.147. GATS users and a number of analysts are interested only in the service aspects. Although *MSITS 2010* does not recommend that those aspects constitute a separate item, when an interest is identified, and if this information is available as a by-product of the data collection on construction, compilers are strongly encouraged to make the information publicly available.

## 6. Insurance and pension services

3.148. *Insurance and pension services* covers the provision to non-residents of various types of insurance by resident insurance enterprises, and vice versa.

3.149. *MSITS 2010* recommends that insurance and pension services be disaggregated into four separate sub-components: direct insurance; reinsurance; auxiliary insurance; and pension and standardized guarantee services. Direct insurance is further broken down into life insurance, freight insurance and other direct insurance. Pension and standardized guarantee services is further broken down into pension services and standardized guarantee services.

3.150. 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 in order to meet future claims.

3.151. 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 with regard to investing the funds for their beneficiaries and redistribute some risks.

3.152. Insurance and pension fund operations have common features, but they can be distinguished. While life insurance and pension funds include a large saving component, the objective of non-life insurance (including term life insurance) is largely to pool risk.

3.153. 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. In order to analyse the economic processes underlying these operations, it is necessary to examine their components so as to separate services from other elements such as income transfers.

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

3.155. Direct insurance and reinsurance may apply to both life and non-life policies. A direct insurance transaction 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 to say, reinsurance allows insurance risk to be transferred from one insurer to another. Many insurers act as both direct insurers and reinsurers.

3.156. Reinsurance and direct insurance services are estimated or valued by the service charges included in the total premiums. The estimation procedures recommended in *MSITS 2010* (as in BPM6) are summarized in box III.7.

3.157. For exports of non-life insurance services, the service charge can be estimated from total non-life insurance output by multiplying the gross premiums earned from non-residents, by the ratio of service charge to gross premiums earned for all non-life insurance operations. The same prorating technique can be used for life insurance, annuities, pension funds and standardized guarantee services. To the extent that these ratios vary for different lines of business (reinsurance, marine, term life, etc.), the calculations should be made separately.

3.158. Similarly, if it is known that there are different margins between resident and non-resident customers, data from the operations most relevant to non-resident policyholders should be used. The ratios should be calculated according to the formula given in paragraph 3.161, so that they take into account premium supplements and claims volatility (see box III.7 for an example of such calculations).

3.159. For imports of non-life insurance services, the available information is less complete than that for exports. For reinsurance, the only customers are insurance companies; hence, data on premiums payable and claims receivable may be readily available from them. However, premium supplements are not observable.

3.160. For direct insurance, there is a wider range of customers and available data may be more limited and may encompass, for example, only premiums paid and actual claims.

3.161. To derive a service charge from these values, ratios need to be obtained using the most suitable available indicator:

- Ratios of large international insurance companies from other economies or from published accounts may be used. International trade in some types of non-life insurance is dominated by relatively large specialized companies.
- Ratios from the resident insurance industry may be considered. In some economies, there may be equivalent lines of business.
- Ratios based on premiums payable abroad and claims receivable from abroad over a medium- to long-term period may be used. International insurance trade includes direct insurance of large items (like ships and aircraft) and reinsurance; therefore, the use of claims receivable over the short term for a particular economy may be highly volatile. An adjustment for premium supplements would also be needed; otherwise, there could be an understatement of the value of services.

3.162. As the calculation of such ratios should be as consistent as possible with that for total services and exports, they should also take into account premium supplements and claim volatility. Although premium supplements are not readily observable for imports, there needs to be some adjustment in order to prevent an understatement of the value of services and any asymmetry with exports. Premium supplements to premiums ratios observed from other cases could be used to prevent such an understatement. The same prorating techniques can be used for life insurance, annuities, pension funds and standardized guarantee services.

3.163. Premiums for insurance policies are paid in advance, while claims are paid only if the insured events occur, sometimes much later. Insurance technical reserves represent the amounts identified by insurance companies to account for these prepayments of premiums and claims incurred but not yet paid. In other words, reserves can be viewed as representing the application of usual accrual accounting principles.

3.164. Insurance companies hold assets to meet the liabilities to policyholders represented by the reserves. The management of these financial and non-financial 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. 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.

3.165. Non-life 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 to say, non-life insurance is designed primarily for pooling risk, rather than as an investment.

3.166. The various types of non-life insurance include insurance for accidents and health, term life, marine, insurance for aviation and other transport, fire and other property damage, and pecuniary loss, and general liability and credit insurance. Because of the way in which insurance corporations keep their accounts, it may not always be possible to separate term insurance from other life insurance. In these circumstances, for purely practical reasons, term insurance may have to be treated in the same way as life insurance.

3.167. The value of non-life insurance services can be computed as follows:

- Gross premiums earned
- *Plus:* premiums supplements
- *Less:* claims payable
- *Less:* adjustments for claims volatility, if necessary

3.168. Major catastrophes that may require large payments of claims are expected to occur once in several years. When they do occur, the payments of claims in the year of the catastrophe could exceed the value of premiums. If only the claims incurred in the accounting period are used in the formula, the value of insurance services could be highly irregular and, in some cases, could even be negative. Therefore, 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 large values of claims are incurred, the adjustment would be negative, while in other periods the adjustment would be positive.

3.169. The formula can also be expressed as follows:

- Gross premiums earned
- *Plus:* premiums supplements
- *Less:* expected claims

3.170. Life insurance involves a stream of payments by the policyholder in return for an agreed minimum lump sum at the end of the term of the policy, which may occur upon maturity or the death of the policyholder. The reverse obtains in the case of annuities, in that the insurer makes a stream of payments in return for a lump sum at the beginning of the term of the policy. Thus, for a life insurance policy, a claim is always paid. The sum may be fixed or may vary so as 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.

3.171. In contrast to life insurance, term life insurance benefits are payable only on the death or incapacity of the insured within a specified time period; therefore, term life insurance is included in non-life insurance.

3.172. The formula for deriving the value of life insurance services is basically the same as for non-life insurance, except that payments to policyholders are called benefits instead of claims and reserves are added to account for the accrual of future benefits.

3.173. Thus, the formula for life insurance is as follows:

- Gross premiums earned
- *Plus:* premium supplements
- *Less:* benefits due
- *Less:* increases (*plus* decreases) in life insurance reserves (actuarial reserves and reserves for with-profits insurance)

3.174. The item for actuarial reserves in the formula for life insurance reflects the amounts that are payable at the end of the policy, rather than claims in the current period. They are shown as accruing to particular policyholders because they consist of allocations to the actuarial reserves and reserves for with-profits insurance policies intended to build up the sums guaranteed under these policies. Changes in the actuarial reserves and reserves for with-profits insurance include the provision made for bonuses payable in future.

3.175. It is common with life insurance policies for amounts to be explicitly attributed by the insurance corporation to the policyholders in each year. These sums are often described as bonuses. The sums involved are not actually paid to the policyholders but the liabilities of the insurance corporation towards the policyholders increase by this amount, which is shown as investment income attributed to the policyholders. The fact that some of it may derive from holding gains does not change this designation: as far as the policyholders are concerned, it is the return for making the financial asset available to the insurance corporation.

3.176. All the income from the investment of non-life reserves and any excess of income from the investment of life reserves, over any amounts explicitly attributed to the policyholders, is shown as investment income attributed to policyholders, regardless of the source of the income.

3.177. In the case of annuities, the same principles apply, but the calculation is different because of the opposite cash flow. This is elaborated in the 2008 SNA (see chap. 17 entitled "Cross-cutting and other special issues").

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

3.179. *Freight insurance premiums* payable on internationally traded goods before they reach the customs frontier of the economy of the exporter, are included in the f.o.b. price of the goods. Freight insurance premiums payable subsequent to the departure of the goods from 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:

- Relate to exports of goods beyond the customs frontier of the compiling economy, and are supplied by resident insurers (credits), or
- 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)<sup>15</sup>

<sup>15</sup> 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 III.7

## Calculation of non-life insurance services

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

Premiums earned from abroad	100
Claims payable abroad	.95
Income attributable to policyholders	20 (premium supplements)
Insurance service charge is	.25 [=100+20-95]

## Example 2: For resident insurers with separate data on policy-holders 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 per cent
Estimated insurance services from non-residents	10 [40*0.25]

## Example 4: With an adjustment for claims volatility:

Premiums earned from abroad	=135
Income attributable to policyholders	=8 (premium supplements)
Claims payable abroad	=160
Adjustment for volatility in claims payable (meaning that expected long-term level of claims would be 120, that is, 160-40)	=-40
Estimated insurance services provided to non-residents = premiums earned plus premium supplements less expected claims (that is, expected claims are derived as actual claims payable plus adjustment for volatility)	=135+8-120=23

**Note:** Not taking into account the volatility would lead to a negative value of services: -17

**Note:** These examples are derived from more elaborated examples included in BPM6, which also show the impact on other accounts.

3.180. In addition, *freight insurance services* includes services related to other transport of goods, where the insurance services provided are between a resident and a non-resident of the compiling economy.

3.181. *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 insurance; pecuniary loss insurance; general liability insurance; and other insurance, such as travel insurance and insurance related to loans and credit cards.

3.182. *Reinsurance* entails 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 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.

3.183. The measurement of the value of reinsurance services is similar to that for direct non-life insurance. However, there are some types of payments peculiar to reinsurance. These are commissions payable to the direct insurer under proportionate reinsurance and profit sharing in excess of loss reinsurance. Once these are taken into account, the output of reinsurance can be calculated as:

- Total actual premiums earned
- *Less:* commissions payable
- *Plus:* premium supplements
- *Less:* adjusted claims incurred and profit sharing

3.184. *Auxiliary insurance 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 billed through explicit charges.

3.185. *Pension services* covers the services provided by funds established to provide income on retirement and benefits for death or disability, for specific groups of employees. These funds may be organized by the employers, by the government or by insurance corporations on behalf of the employees. In some cases, special units may be established to hold and manage the assets to be used to meet the obligations of the pension fund.

3.186. 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".

3.187. There may be explicit or implicit service charges for pension schemes. If the charges are implicit, their measurement is similar to that for life insurance and annuities, and they are calculated as:

- Gross contributions
- *Less:* contribution supplements
- *Plus:* benefits payable
- *Less:* adjustment for change in pension entitlements

3.188. *Standardized guarantee services* are services related to standardized guarantee schemes which represent a class of identical financial guarantees (that is, similar types of credit risk) that are issued in large numbers, usually for small amounts.<sup>16</sup> Examples include export credit guarantees and student loan guarantees. They constitute arrangements whereby one party (the guarantor) undertakes to cover the losses of the lender in the event that the borrower defaults. Either the borrower or the lender may contract with the guarantor to repay the creditor if the debtor defaults. The guarantors are generally government units or financial corporations, usually insurance companies. While it is generally not possible to estimate very precisely the risk of any one loan's being in default, it is possible to make a reliable estimate of how many out of a large number of such loans will default. It is therefore possible for a guarantor to determine suitable fees to be charged for a guarantee based on the same type of principle utilized by an insur-

<sup>16</sup> Standardized guarantees can be contrasted with two other types of guarantees: guarantees that are financial derivatives and one-off guarantees (see BPM6, chap. 5).

ance corporation, where the fees received in respect of many policies cover the losses by a few. A guarantor working on a commercial basis who charges fees, meets claims and earns investment income functions similarly to those in the field of non-life insurance. The value of the service is calculated on the same basis as that used for non-life insurance (see para. 3.167).

3.189. *MSITS 2010* recommends that data on gross premiums receivable and payable, and gross claims receivable and payable be shown as supplementary items. These items are useful for the GATS besides being of analytical value, and should be shown separately for *life insurance, freight insurance and other direct insurance*.

## 7. Financial services

3.190. *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.<sup>17</sup> Included are services provided in connection with transactions in financial instruments, as well as other services related to financial activity, encompassing, inter alia, 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.

3.191. *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 the interest rate and the reference rate on loans and deposits (referred to as financial intermediation services indirectly measured (FISIM)). *EBOPS 2010* identifies FISIM separately from all other financial services.

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

### Explicit charges

3.193. 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 and late repayment fees and penalties and account charges.

3.194. 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 would therefore be taken into account as FISIM. Explicit charges also include a variety of other commissions and fees for various financial services.

### Margins on buying and selling transactions

3.195. 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. The dealer and the market-maker are distinguished from other traders by the existence in their case

<sup>17</sup> 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, rather, it places itself at risk by acquiring financial assets and incurring liabilities on its own account.

of a buy-sell spread, which shows that they serve the market somewhat like wholesalers by providing liquidity and inventory.

3.196. 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, estimates should be included in *financial services*, if possible.

3.197. 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.

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

#### Asset management costs taken out of income

3.199. 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, such 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.

3.200. 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.

3.201. The corresponding entry entails increasing the net value of investment income payable to the investor, to the gross value before deduction of the expenses. Without the recognition of the output of such services, the costs incurred would lead to negative operating surplus for the asset management enterprises. With this treatment, these enterprises have a net operating surplus of zero.

#### FISIM

3.202. Actual interest can be seen as including both an income element and a charge for a service. Lenders and deposit-takers operate by offering rates of interest to their depositors that are lower than the rates that they charge to their borrowers. The resulting interest margins are used by the financial corporations 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.

3.203. By convention, these indirect charges in respect of interest apply only to loans and deposits, and only when those loans and deposits are provided by, or deposited with, financial corporations. While loans made by holding companies, special-purpose enti-

ties and other captive financial institutions to their affiliates are not normally expected to generate FISIM, they may do so if a margin is charged. Financial corporations may generate FISIM even if they have only loans or only deposits. For instance, a credit card issuer that raises all of its funds by debt securities can earn FISIM on its loans to credit card customers.

3.204. The rate of FISIM may vary due to a range of factors, including the accessibility of funds; the services included, such as arrangements for check-writing facilities (for deposits); perceptions of the credit risk of the borrower; and the collateral provided (for loans). FISIM payable by each of the depositors and borrowers is calculated by applying the concept of a “reference” rate of interest. The reference rate should contain no service element and should reflect the risk and maturity structure of deposits and loans. The rate prevailing for inter-bank borrowing and lending may be a suitable choice as a reference rate. A single rate should be used for transactions in the domestic currency, whereas different rates should be applied for loans and deposits in other currencies. The reference rate will change over time in response to market conditions.

3.205. As cross-border deposits and loans may be transacted in different currencies, separate reference rates should be applied for each currency involved in a significant proportion of those loans or deposits. For international consistency, the definition of the reference rate and the rate used should be taken from the financial markets of the home market of the currency and, preferably, should be the same as that used by statistical compilers in that economy.

3.206. FISIM is calculated as follows (see box III.8 for a numerical example):

- For loans from financial corporations, it is the difference between the interest actually payable on loans, and the amount that would be payable if the reference rate were used
- For deposits with financial corporations, it is the difference between the interest that would be earned if a reference rate was used, and the interest actually earned

3.207. Because a repurchase agreement with supply of cash (known as a “repo”) is treated as involving a loan or deposit, it may give rise to FISIM. Similarly, a financial lease is treated as giving rise to a loan; hence, it may also give rise to FISIM, if provided by a financial corporation. Inter-bank loans and deposits generally occur at or close to the reference rate, in which case there is no FISIM. However, where there are significant international inter-bank transactions at interest rates above the reference rate (for example, if the debtor bank has a lower credit rating), it would be suitable for FISIM to be identified.

3.208. Estimates of cross-border FISIM can be calculated from data on the international investment position or from banking data on deposits and loans from financial corporations, in conjunction with the amounts of actual interest payable and receivable and reference interest rates. For economies where cross-border FISIM is small, it can be measured with relatively simplified methods based on aggregated data.

3.209. Negative FISIM may occur, for example, when loans are at fixed interest rates and market rates rise. Negative FISIM can also occur owing to measurement error. For example, as some large international transactions between banks may be at or near the reference rate, a small error in measuring the reference rate could cause negative FISIM.

3.210. Actual interest payable by borrowers is partitioned between a pure interest charge at the reference rate and FISIM. Similarly, pure interest receivable by depositors is calculated by applying the reference rate to depositors. Depositors are then shown as consuming a service equivalent to the difference between the actual interest and interest at the reference rate.

## Box III.8

**Estimation of FISIM**

FISIM payable by lenders (or depositors) and borrowers is calculated using the concept of a "reference" rate of interest. As reference rate represents the pure cost of borrowing funds, it should be a risk-free rate that includes no service element. 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 is usually used for loans and deposits involving the domestic currency. The reference rate will change over time in response to 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 was used and the interest actually earned.

**Example**

For resident deposit-taking corporations (all loans and deposits in domestic currency)

Inter-bank interest rate 5 per cent per annum

Interest rate on loans 7 per cent per annum

Interest rate on deposits 2 per cent per annum

Average value of loans during the year = 1,000

Actual interest receivable by the deposit-taking corporations = 70

Partitioned into:

pure interest receivable (1,000 at 5 per cent) = 50

FISIM receivable (70–50) = 20

Average value of deposits during the year = 500

Actual interest payable by the deposit-taking corporations = 10

Partitioned into:

pure interest payable (500 at 5 per cent) = 25

FISIM receivable (25–10) = 15

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

3.211. In summary, *financial services* include:

- Commissions and fees associated with financial transactions, such as:
  - Letters of credit, bankers' acceptances, lines of credit and other, similar instruments
  - Financial leasing
  - Money transfer
  - Factoring
  - Commodity futures
  - Arrangement of financial derivative contracts
  - Underwriting, placement of issues, brokerage and redemption of securities, including commissions associated with the income payments related to securities
  - Clearing of payments



- Financial advisory services
  - Custody services for financial assets or bullion
  - Financial asset management services
  - Merger and acquisition services
  - Corporate finance and venture capital services
  - Credit card and other credit granting services
  - Foreign exchange
  - Regulation and administration of financial markets
  - Credit rating
  - Service charges on purchases of International Monetary Fund (IMF) resources
  - Charges associated with undrawn balances under standby or extended arrangements with IMF
  - FISIM
- 3.212. Financial services exclude:
- Interest earned on deposits, loans, financial leases and debt securities (this is investment income, not included in EBOPS)
  - Dividends earned
  - Life insurance and pension intermediation services (included in *insurance and pension services*)
  - Other insurance services
  - Non-financial advisory services provided by banks (such as management advisory services, which are included in *business and management consulting and public relations services*)
  - Gains made and losses taken on purchase and sales of securities and financial derivatives on own account

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

3.213. The present section covers intellectual property products that are not included elsewhere in EBOPS 2010. Table III.1 provides a listing of intellectual property products and their treatment

3.214. 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, trade secrets, and franchises, where rights arise from research and development, as well as from marketing
- Charges for licences 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 the recording of live performances and for television, cable or satellite broadcast

3.215. 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 the right to use. Alternatively, the owner may license other producers to reproduce and distribute the content.

Table III.1  
Treatment of intellectual property

	Use of intellectual property		Sale or purchase of intellectual property ownership rights <sup>a</sup>
	<i>Charges for the use of intellectual property n.i.e.</i>		Balance of payments capital account
Franchises and trademarks			
Outcomes of research and development	<i>Charges for the use of intellectual property n.i.e.</i>		Research and development services
Computer software products; audio-visual and related products	Licence to use excluding reproduction and distribution <sup>b</sup>	Licence to reproduce and/or distribute <sup>c</sup>	
(a) Customized products of all types	Relevant service item <sup>d</sup>		
(b) Non-customized products, downloaded or otherwise electronically delivered	Relevant service item <sup>d</sup>	<i>Charges for the use of intellectual property n.i.e.</i>	Relevant service item <sup>d</sup>
(c) Non-customized products provided on physical media with periodic licence fee	Relevant service item <sup>d</sup>		
(d) Non-customized products provided on physical media with right to perpetual use	Goods		

**a** Covers the case where there is a change of economic ownership of the whole of the intellectual property right in question and 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.

**b** 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.

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

**d** The relevant item is classified under either computer services or audio-visual and related products, depending on the nature of the content provided (see also paras. 3.216-3.220).

For example, the sale or 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 licence to use that excludes reproduction and distribution; this situation would be recorded in goods and services depending on the product (see examples (b), (c), and (d) under software in table III.1). If a manufacturer pays for the right to include the software on the computers that it produces, then the payment would be a licence to reproduce and/or distribute (charges for the use of intellectual property provided by the owner of the original).

3.216. The payments made by the licensee may be described in various ways, including as fees, commissions or royalties. The treatment of flows relating to intellectual property products is summarized in table III.1. In contrast with temporary rights to use, which are included in this category, 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. Along the same lines, temporary rights related to computer software and audio-visual originals are treated differently from outright sales.

3.217. The research and development component of *charges for the use of intellectual property n.i.e.* differs from the software, audio-visual and related products, etc., components in one important respect. It is possible, although very unlikely, that “copies” of research and development are sold that are not temporary but do restrict the rights of users to their own use, in the same way that copies of software and audio-visual and related products can be acquired by purchasers but with restrictions on their use (namely, licences to use

excluding reproduction and distribution). However, such payments for the use of copies of research and development-related products should be included under licences for the use of outcomes of research and development and not under research and development services, which differs from the treatment for similar payments concerning software or audio-visual and related products (that is, inclusion under the items to which they relate) (see table III.1).

3.218. The time of recording of charges for the use of intellectual property follows the substance of the licence agreement. If the rights to use the intellectual property are sold for a one-time fee under a non-cancellable contract, whereby 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 to record the payments only when they are made.

3.219. Franchise fees, trademark revenue, payments for use of brand names, etc., include aspects of property income (namely, by putting a non-financial, non-produced 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 generally be feasible to do so, in which case, a convention is adopted according to which 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 are available, the compiler should do so.

3.220. EBOPS 2010 recommends an extended breakdown of *charges for the use of intellectual property n.i.e.* This breakdown is as follows:

- *Franchise and trademark licensing fees*, which covers all payments and charges for the use of trademarks and franchises.
- *Licences for the use of outcomes of research and development*, which covers fees and charges for the use of proprietary rights arising from research and development.
- *Licences to reproduce and/or distribute computer software*, which 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. The sale of a copy of a computer software package that is purchased by an individual or enterprise for individual use is not covered by a licence to distribute. The sale of the software for individual or personal use is recorded in *computer services*. Software sold on physical media with the right to perpetual use is included under *goods*.
- *Licences to reproduce and/or distribute audio-visual and related products*, which is further broken down into two sub-components:
  - *Licences to reproduce and/or distribute audio-visual products*, which covers fees and charges for the authorized reproduction and/or distribution, through licensing agreements, of produced audio-visual originals or prototypes (for example, cinematographic works and sound recordings). Also included are rights relating to the reproduction and/or distribution of recordings of live performances and radio, television, cable and satellite broadcast. Retransmission rights for sports events are also covered. Further information on audio-visual products is provided in the complementary grouping *audio-visual transactions*.
  - *Licences to reproduce and/or distribute other products* covers fees and charges for the authorized reproduction and/or distribution through licensing agreements of original works of authors (for example, transla-

tion rights), painters, sculptors, etc., excluding those relating to products of an audio-visual nature.

## 9. Telecommunications, computer and information services

3.221. *MSITS 2010* recommends that the BPM6 component *telecommunications, computer, and information services* be further disaggregated into three sub-components: telecommunications services, computer services and information services.

3.222. *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 sub-component 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*. Downloaded content is included in the appropriate services items.

3.223. *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., and includes business network services, teleconferencing and support services. It does 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 network equipment (included in *construction*), and database services (included in *information services*).

3.224. *Computer services* consists of hardware- and software-related services and data-processing services. Table III.1 presents a classification of various arrangements involving software products and the related charges for their use as intellectual property. As shown in the table, some forms of software are classified under goods. EBOPS 2010 proposes a complementary grouping, *computer software transactions*, covering all transactions relating to computer software, be it services or goods transactions (see paras. 3.292-3.293); and recommends the breakdown of *computer services* into *computer software* and *other computer services*.

3.225. *Computer software* includes:

- Sales of customized software (however delivered) and related licences to use
- Development, production, supply and documentation of customized software, including operating systems, made to order for specific users
- Non-customized (mass-produced) software downloaded or otherwise electronically delivered, whether with a periodic licence fee or a single payment
- Licences to use non-customized (mass-produced) software provided on a storage device such as a disk or CD-ROM with a periodic licence fee
- Sales and purchases of originals and ownership rights for software systems and applications

3.226. Non-customized software on storage devices with licences that convey perpetual use are excluded from services and included in general merchandise.

3.227. Software includes general business productivity software, computer game software, and other applications.

3.228. For national accounts purposes, it would be useful to separately identify computer *software originals*.

3.229. The time of recording for software follows the same principles as for other intellectual property.

3.230. *Other computer services* includes:

- 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, and 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 timesharing basis
- Web page hosting services (that is, provision of server space on the Internet for hosting of clients' web pages)
- Provision of applications, hosting clients' applications, and computer facilities management

3.231. Excluded from *computer services* are computer-training courses not designed for a specific user (included in *other personal, cultural, and recreational services* under *education services*) and leasing of computers without an operator (included in *operating leasing services*). Also excluded are charges for licences to reproduce and/or distribute software, which are included in *charges for the use of intellectual property n.i.e.*

3.232. *Information services* is divided into *news agency services* and *other information services*:

- *News agency services* includes the provision of news, photographs and feature articles to the media
- *Other information services* includes database services, such as 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 (encompassing search engine services that find Internet addresses for clients who input keyword queries). Also included are: direct non-bulk subscriptions to newspapers and periodicals, whether by mail, electronic transmission or other means; other online content provision services; and library and archive services. (Bulk newspapers and periodicals are included under general merchandise.)

Downloaded content that is not software or an audio-visual or related product is included in *information services*.

## 10. Other business services

3.233. *MSITS 2010* coverage of *other business services* is identical to that of BPM6, although with a greater disaggregation. EBOPS 2010 identifies three sub-components: *research and development services, professional and management consulting services* and *technical, trade-related and other business services*. Within these three sub-components, a number of further breakdowns are suggested.

### Research and development services

18 The OECD *Frascati Manual: Proposed Standard Practice for Surveys on Research and Experimental Development* (Paris, 2002) provides a methodology for collecting and using research and development statistics that has become the internationally recognized standard.

3.234. *Research and development services* covers those services that are associated with basic research, applied research and experimental development of new products and processes and covers activities in the physical sciences, the social sciences and the humanities.

3.235. The definition of research and development services used here, and in CPC, Version 2, is wider than the *Frascati Manual*<sup>18</sup> definition (which is used to define the scope of capital formation in the 2008 SNA). The definition used in *MSITS 2010* includes other testing and other product development that may give rise to patents.

3.236. To reflect this difference in coverage, EBOPS 2010 recommends a breakdown of *research and development services* into two subgroupings: *work undertaken on a systematic basis to increase the stock of knowledge* (reflecting the coverage of research and development within a 2008 SNA context) and *other*.

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

- *Provision of customized and non-customized research and development services* covers the provision of research and development services that are made-to-order (customized) and development of non-customized research and development, excluding sales of proprietary rights, and sales related to licences to reproduce or use
- *Sale of proprietary rights arising from research and development* covers: patents, copyrights arising from research and development, industrial processes and designs (including trade secrets) and other. These items should be identified separately

Licences to reproduce and licences to use outcomes of research and development should be included under the appropriate category in *charges for the use of intellectual property n.i.e.* In practice, it may be difficult to differentiate all payments for licences to reproduce from the sale of proprietary rights, as in some cases the former will represent sales of proprietary rights.

3.238. Excluded are technical studies and consultancy work: both are included in professional and management consulting services.

3.239. *Other* includes testing and other product/process development activities not included elsewhere.

### Professional and management consulting services

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

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

provided. *MSITS 2010* further breaks down the item *legal, accounting, management consulting, and public relations services* into *legal services*; *accounting, auditing, bookkeeping and tax consulting services*; and *business and management consulting and public relations services*:

- *Legal services* includes legal advisory and representation services in any legal, judicial and statutory procedures; drafting services for legal documentation and instruments; certification consultancy; and escrow and settlement services.
- *Accounting, auditing, bookkeeping, and tax consulting services* includes the recording of commercial transactions for businesses and others; examination services for accounting records and financial statements; business tax planning and consulting; and preparation of tax documents.
- *Business and management consulting and public relations services* includes 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 such services as are related to improving the image of the clients and their relations with the public and other institutions.

3.242. *Advertising, market research, and public opinion polling services* transacted between residents and non-residents, includes 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.

3.243. It may be desirable, if there are substantial resident to non-resident transactions, to show separately the value of the transactions in *convention, trade-fair and exhibition organization services* that are included in *advertising, market research, and public opinion polling services*. This particular item, which corresponds to class 8596 (“Convention and trade show assistance and organization services”) of CPC, Version 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.

### Technical, trade-related and other business services

3.244. *Technical, trade-related and other business services* is broken down into five sub-components: *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.* *Architectural, engineering, scientific and other technical services* is broken down into three components:

- *Architectural services*, which includes transactions related to the design of buildings
- *Engineering*, which includes the design, development and utilization of machines, materials, instruments, structures, processes and systems. Services of this type involve the provision of designs, plans and studies related to engineering projects. Mining engineering is excluded and included instead in *services incidental to mining, and oil and gas extraction*
- *Scientific and other technical services*, which include surveying; cartography; product testing and certification; and technical inspection services

3.245. *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, and oil and gas extraction*:

- *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. If a Government issues a non-tradable emission permit and, alongside this permit, provides extensive services for the non-resident purchaser, the payment will be recorded in services according to the service provided (in most circumstances, as *government goods and services n.i.e.*). Other types of emission permit payments are excluded from services.<sup>19</sup>
- *Services incidental to agriculture, forestry and fishing* includes 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, as are veterinary services.
- *Services incidental to mining, and oil and gas extraction* includes mining services provided at oil fields 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 geologic surveying, are also included here.

<sup>19</sup> See BPM6, para. 13.14. Note that at the time of writing, the treatment of other emission permits is part of the 2008 SNA research agenda and that a number of issues are under discussion by the Inter-Secretariat Working Group on National Accounts (ISWGNA). For permits issued under cap-and-trade schemes, a tax on the production accounts of the emitter should be accrued to the point in time when emissions occurred. Transactions between government and non-residents when permits are issued are transactions in assets.

3.246. *Operating leasing services* encompasses 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 include resident/non-resident leasing (rental) and charters without crew, of ships, aircraft and transport equipment, such as railway cars, containers and rigs. Operating lease payments relating to other types of equipment are also included and 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

3.247. Operating leasing of dwellings and other buildings is included in this item. If no objective basis exists for splitting the payment between rent on land and rental on the buildings, the whole amount should be treated as rental on the building 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 excluded from operating leasing and treated as rent on the land (included in the primary income account of the balance of payments statistics). Likewise, rent of land alone and rent of other natural resources are excluded from services.

3.248. Excluded from *operating leasing services* 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*. Rental of dwellings (accommodation) and vehicles to non-residents during their stays in economies other than their economies of residence, is included in *travel*.



3.249. Operating leasing should be distinguished from financial leasing. Under a financial lease, the lessee undertakes most or all of the risks and benefits of ownership. There is a change in economic ownership although the legal title remains with the owner. Although similar, a financial lease is seen as a loan and therefore the transactions concerned are excluded from services.

3.250. *Trade-related services* covers commissions on goods and service transactions payable to merchants, commodity brokers, dealers, auctioneers and commission agents. These services include, for example, 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.

3.251. Any margins not included in the f.o.b. 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 n.i.e.*); brokerage on financial instruments (included in *financial services*); and transport-related charges, such as agency commissions (included in *transport*). Given GATS requirements and other analytical needs, EBOPS 2010 proposes a complementary grouping for *total trade-related transactions* (trade-related services and the value of distribution services which in the balance of payments is included in value of products sold) (see paras. 3.296-3.297).

3.252. *Other business services n.i.e.* includes distribution services for water, steam, gas and petroleum products as well as distribution services for electricity, where these are identifiable separately from transmission services (transmission of these products is recorded under *transport*); air conditioning supply; 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.

## 11. Personal, cultural and recreational services

3.253. *Personal, cultural, and recreational services* comprises two sub-components, *audio-visual and related services* and *other personal, cultural, and recreational services*.

3.254. *Audio-visual and related services* covers services associated with audio-visual activities (movies, music, radio and television) as well as services relating to the performing arts. The coverage of this EBOPS item is therefore broader than that of CPC, Version 2, group 961 ("Audio-visual and related services").

3.255. In EBOPS, *audio-visual and related services* is further broken down into *audio-visual services* (corresponding to CPC, Version 2, group 961 ("Audio-visual and related services")) and *artistic related services* (corresponding to CPC, Version 2, group 962 ("Performing arts and other live entertainment event presentation and promotion services")) and group 963 ("Services of performing and other artists").

3.256. *Audio-visual services* relates to the production of motion pictures (on film, videotape, or disk or transmitted electronically), radio and television programmes (live or on tape) and musical recordings. Performing arts and other live entertainment event presentation and promotion services (namely, live performances such as concerts and plays) are excluded from this item and included in *artistic related services*. However, the recording of live performances is included in *audio-visual services* and for these recordings, the same treatment as for other audio-visual products applies. Included in audio-visual services are amounts receivable or

payable for rentals of audio-visual and related products and charges for access to encrypted television channels (such as those offering cable and satellite services).

3.257. Mass-produced audio-visual products (movies and music, including recordings of live performances) that are purchased or sold outright or for perpetual use, are included under audio-visual services if downloaded (in other words, delivered electronically). However, those on CD-ROM, disk, etc., are outside the scope of the EBOPS 2010 standard categories (and included under general merchandise). Similar products obtained through a licence to use (other than when conveying perpetual use) are included in audio-visual services, as is other online content related to audio and visual media. Charges or licences to reproduce and/or distribute audio-visual products are excluded from audio-visual services and included in *charges for the use of intellectual property n.i.e.*

3.258. Also included are purchases and sales of ownership rights for entertainment such as radio and television broadcast originals, sound recordings, motion pictures, videotapes, television and radio programme originals, etc., over which legal or de facto ownership can be established by copyright. Table III.1 summarizes the treatment of intellectual property associated with audio-visual services as defined in EBOPS, as well as other types of intellectual property.

3.259. It would be useful to separately identify *audio-visual originals*, as the information on these products would be of use to compilers and analysts of national accounts.

3.260. *Artistic related services* includes the services provided by performing artists (actors, musicians, dancers, etc.), authors, composers and sculptors. It also includes services provided by independent models as well as set, costume and lighting designers. Transactions are included if the service providers are not employees of the entity making payments (otherwise, they represent compensation of employees). Also included are presentation and promotion services for performing arts and other live entertainment events. However, the recording of such events is included in *audio-visual services*.

3.261. Mass-produced artistic related products (for example, books), as well as related purchases and sales of ownership rights of literary or other *artistic originals* (excluding those covered under audio-visual), should be treated in the same way as audio-visual products as described above.

3.262. Transactions relating to the selling of exclusive rights (for example, the exclusivity of a publisher to publish literary works of an author) are not covered (this right of exclusivity is considered an asset, that is, a contract for future production, and the payment is included in the capital account).

3.263. *Other personal, cultural, and recreational services* is divided into four components: *health services, education services, heritage and recreational services* and *other personal services*.

3.264. *Health services* comprises general and specialized human health services supplied by hospitals, doctors, nurses and paramedical and similar personnel, as well as laboratory and similar services, whether rendered remotely (through telemedicine or tele-diagnosis) or on-site. Included are diagnostic-imaging services and 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 *services incidental to agriculture, forestry and fishing*).

3.265. *Education services* comprises services relating to all levels of education whether delivered through correspondence courses, via television, satellite, or the Internet, or by teachers, among others, who supply services directly in host economies. Excluded are

education services provided to non-residents who are present in the territory of the service supplier (included in *travel*).

3.266. *Heritage and recreational services* includes services associated with museums and other cultural, sporting, gambling and recreational activities, except those involving persons outside their economy of residence (included in *travel*). The amounts paid for gambling, including for lottery tickets and the placing of bets, consist of two elements:

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

3.267. The value of the lottery and other gambling and betting services supplied by or to non-residents is estimated as the amount wagered by non-residents, 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.

3.268. *Other personal services* includes social services, membership dues of business associations, domestic services, etc.

## 12. Government goods and services n.i.e.

3.269. *Government goods and services n.i.e.* covers:

- Goods and services supplied by and to enclaves, such as embassies and military bases
- Goods and services acquired from the host economy by diplomats, consular staff and military personnel located abroad and their dependants
- Services supplied by and to Governments and not included in other categories of services

3.270. EBOPS 2010 recommends that *government goods and services n.i.e.* be further classified according to the following breakdown:

- Embassies and consulates
- Military units and agencies
- Other government goods and services n.i.e.

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

### Goods and services supplied by and to enclaves, such as embassies and military bases

3.271. 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 EBOPS.

3.272. Exports of *government goods and services n.i.e.* include the supply of goods and services to embassies, consulates, military units, defence agencies and other official entities

(such as aid missions, and government tourism information and trade promotion offices) of foreign Governments located in the compiling economy.

3.273. 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.*

### Goods and services acquired by staff employed in enclaves and their dependants

3.274. All expenditure on goods and services by diplomats, consular staff, and military personnel, and dependent members of the same household, in the economies in which they are located, is also included in *government goods and services n.i.e.* 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.*

3.275. 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

3.276. Services supplied by and to Governments should be classified to the relevant service category (business services, health, etc.), if possible. However, some services are related to government functions that cannot be classified to another specific service category; hence, they are classified as government services. For example, technical assistance on public administration is included in government services. Also, payments for police-type services (for example, keeping order), such as those supplied by mutual agreement by a foreign Government or international organization, are included in *government goods and services n.i.e.* Government supply of a licence or permit that is classified as provision of a service is also included under *government goods and services n.i.e.*

### Government licences, permits, etc.

3.277. One of the regulatory functions of Governments is to forbid the ownership or use of certain goods, or the pursuit of certain activities, unless specific permission is granted through the issuing of a licence or other certificate for a fee. If the issue of such licences involves little or no work on the part of government, the licences being granted automatically on payment, it is likely that they are simply a device through which to raise taxes, even though the Government may provide some kind of certificate, or authorization, in return.

3.278. Governments also use the issue of licences to exercise some proper regulatory function. Where the licensing is used to check the competence or qualifications of the person concerned, to check the efficient and safe functioning of equipment, or to carry out some other form of control that it would otherwise not be obliged to do, the pay-

ments made should be treated as purchases of services from government, rather than as payments of taxes, unless the payments are clearly out of all proportion to the costs of providing the services.

3.279. The borderline between taxes and payments of charges for services rendered is not always clear-cut in practice. In the case of permits issued by the private sector, as treatment as a tax is not an option, the fee can be only a service or contract, lease or licence asset. In the case of licences (Government or private) that may be resold by the holder, the resale is recorded in the capital account. By convention, amounts payable by households for licences to own, or use vehicles, boats or aircraft, along with licences for recreational hunting, shooting or fishing, are treated as taxes. Amounts payable by households for all other kinds of licences, permits, certificates, passports, etc., are treated as purchases of services.

## P. Complementary groupings of service and non-service transactions

3.280. For various analytical purposes, compilers may wish to aggregate a number of service transactions (and non-service transactions) so as to provide information on areas of particular interest or concern to users. These may relate to health care, environmental activities or audio-visual or software activities. As is the case for the components described above, it would be useful for compilers to follow the same guidelines for producing these complementary aggregations. Compiling economies which are willing to further disaggregate some of the complementary groupings (e.g. call-centre services), are encouraged to do so on a basis compatible with CPC, Version 2.0. For each complementary grouping a list of services (or goods) items is provided which indicates under which item the transactions sought are most likely classified. This does not necessarily mean that the entire service item should be included under the complementary grouping, or that other relevant transactions may not be covered under other items. The following complementary groupings are discussed:

- *Audio-visual transactions*
- *Cultural transactions*
- *Computer software transactions*
- *Call-centre services*
- *Total services transactions between related enterprises*
- *Total trade-related transactions*
- *Environmental transactions*
- *Total health services*
- *Total education services*

### 1. Audio-visual transactions

3.281. *Audio-visual transactions* has been identified as a complementary aggregation for addressing the needs of analysts for information on a range of transactions relating to audio-visual activities. It is sometimes difficult to isolate *audio-visual services* from other audio-visual transactions, not only because these transactions are of a technical nature, but also because they are often conducted between related enterprises. In audio-visual busi-

ness networks, integration of production and distribution enterprises and co-production activities are more often the rule than the exception.

3.282. This aggregation should be used to show the total value of such resident/non-resident transactions. *Audio-visual transactions* is defined as covering all international transactions relating to products (goods and services) with an audio-visual content. It represents a reorganization of a range of resident/non-resident transactions, including transactions that are outside the range of services covered in EBOPS 2010. It is recommended for its analytical usefulness and includes transactions encompassing:

- *Audio-visual services*
- *Licences to reproduce and/or distribute audio-visual products*
- *Audio-visual goods* that are not covered by the above items. The definitions of the goods in the list need to be consistent with the definitions of the products in the services categories;

3.283. *Audio-visual transactions* will therefore include customized, original or mass-produced recordings and other entertainment or artistic products on physical media (CD-ROM, disk, etc.) or delivered electronically, whether purchased or sold outright, for perpetual use, or with a periodic licence fee. *Audio-visual transactions* include distribution rights for film and television programmes; television retransmission rights for sports events; 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; rights related to the recording of live musical or theatrical performance; sale of ownership rights for original films and television programmes, for cinema release or for broadcasting; and subscription services provided for encrypted television channels, such as cable, and over-the-air, or free-to-air, broadcasting.

3.284. It should be noted that fees and rights may be paid for 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.

3.285. For musical works and television and radio programmes, the management and collection of these fees are often carried out by "performing rights societies" or "collecting societies".

3.286. The enterprises carrying out these transactions are mainly producers of audio-visual goods and services that receive distribution rights (for example, when there is a television or radio transmission) or author's or composer's rights (for example, when records are sold); television and radio channels that pay for rights for retransmission and encrypted television channels; and performing rights societies that act as intermediaries between producers and the media.

3.287. For national accounts purposes, it would be useful to separately identify all licences to use audio-visual products.

## 2. Cultural transactions

3.288. *Cultural transactions* includes *audio-visual transactions* and other cultural related transactions in *services* and *goods*, such as performing rights related to live musical or theatrical performances; rights for theatrical releases abroad by drama companies; rights for musical shows produced abroad; music composers' rights that are not linked to the

sale of records paid through collecting societies; performing fees related to live musical or theatrical performance; and fees for theatrical releases abroad by drama companies.

3.289. This complementary grouping therefore includes transactions included in:

- Audio-visual transactions (see list above)
- Artistic related services
- Licences to reproduce and/or distribute other products
- Heritage and preservation services (for example, involving fees collected from exchanges of artefacts between museums of different countries)
- News agency services
- Other information services, excluding database and related services
- Architectural services
- Advertising services that are included in *advertising, market research, and public opinion polling services*
- Cultural related goods that are not covered by the above items (the definitions of items in the list need to be consistent with the definitions of products covered in services categories).

3.290. The list of cultural goods and services, which is based on CPC and the Harmonized Commodity Description and Coding System (HS), is further elaborated in the 2009 UNESCO Framework for Cultural Statistics.<sup>20</sup>

<sup>20</sup> United Nations Educational, Scientific and Cultural Organization (UNESCO) Institute for Statistics, 2009 *UNESCO Framework for Cultural Statistics* (Montreal, Canada, 2009).

### 3. Computer software transactions

3.291. The *computer software transactions* complementary grouping encompasses transactions relating to computer software goods and computer software services. It therefore includes transactions included in:

- Computer software services
- Licences to reproduce and/or distribute software
- Computer software goods that are not covered by the above items (the definitions of the goods in the list need to be consistent with the definitions of products in the services categories)

3.292. *Computer software transactions* includes sales of customized software (however delivered) and related licences to use; development, production, supply and documentation of customized software, including operating systems made to order for specific users; non-customized (mass-produced) software downloaded or otherwise electronically delivered, whether with a periodic licence fee or a single payment; non-customized (mass-produced) software provided on physical media with a periodic licence fee; sales and purchases of originals and ownership rights for software systems and applications; charges for licences to reproduce and/or distribute intellectual property embodied in produced computer software; software installation; and non-customized software provided on physical media with the right to perpetual use.

3.293. For national accounts purposes, it would be useful to separately identify all *licences to use computer software products*.

### 4. Call-centre services

3.294. *Call-centre services* is not identified as a separate category in BPM6 or EBOPS 2010, which is why it is suggested as a complementary grouping in *MSITS 2010*. This

aggregation groups all relevant transactions (that is, those provided by call centres) included in the various services item, which correspond to services that are provided by call-centres (for example, computer technical support, debt collection or marketing services). Given their growing importance in a number of economies, a broader grouping could also be created to cover all Business Process Outsourcing (BPO) services.

## 5. Total services transactions between related enterprises

3.295. *Total services transactions between related enterprises* provides information on the value of the various types of service between affiliated direct investment enterprises. It includes payments from subsidiaries and associates to the parent enterprise or other related enterprises that represent contributions to the general management costs of the subsidiaries and associates (for planning, organizing and controlling) and also reimbursements of expenses settled directly by parent enterprises. It also includes payments from parent enterprises to their associates and subsidiaries.

## 6. Total trade-related transactions

3.296. *Total trade-related transactions* encompasses all transactions relating to the distribution services 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 (included in *trade-related services*), as well as the traders' margins. The margins of wholesalers and retailers are generally included indistinguishably in the value of products sold (including for goods under merchanting) and are not presented separately in the balance of payments statistics.<sup>21</sup>

3.297. *Total trade-related transactions* includes:

- Trade-related services
- The estimated distribution services included in the value of products sold (including goods under merchanting)

## 7. Environmental transactions

3.298. The *environmental transactions* grouping is an aggregation of all transactions that relate to the treatment, cleaning, restoring etc. of the environment following damage caused by the pollution of water, air, and soil. The grouping also covers transactions relating to waste disposal, noise reduction and ecosystems, as well as services associated to the measurement, prevention, correction and limitation of damage.

3.299. It includes, in particular, transactions in *waste treatment and de-pollution* as well as a number of other transactions relating to the preservation and protection of the environment. The EBOPS 2010-CPC, Version 2, correspondence table presents the coverage of this complementary grouping (available from <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010/annexes.htm>).

## 8. Total health services

3.300. *Total health services* combines international transactions relating to the provision of health services. It includes generalized and specialized human health services provided

<sup>21</sup> Please see chap. V, paras. 5.40-5.42, and box V.4 on the experience of the United States of America in estimating distributions services.



remotely or on site; and health services provided to persons while they are visiting the economy of the health service provider.

3.301. *Total health services* includes transactions included in:

- Health services (product breakdown of travel, other services)
- Health services (under *other personal, cultural, and recreational services*)

## 9. Total education services

3.302. *Total education services* combines international transactions relating to the provision of education services. It includes the provision of all levels of education through distance teaching, teaching services provided directly in the host economies and education services provided to non-residents who are present in the territory of the service provider.

3.303. *Total education services* includes transactions included in:

- *Education services* (product breakdown of travel, other services)
- *Education services* (under *other personal, cultural, and recreational services*)

## Q. Data collection

3.304. Methods of collection can be described in terms of the following main types of sources:

- International merchandise trade statistics (IMTS)
- International transactions reporting systems
- Surveys of enterprises
- Surveys of households
- Administrative data
- Information obtained from partner countries and international organizations
- Other sources

3.305. Data may be obtained directly through one or more of these methods, or it may be that some type of modelling is used in order to obtain estimates of the balance of payments components.

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

3.307. An international transactions reporting system (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 them. In many countries, commercial banks record all of the transactions that take place through their systems and report these (either individually or in aggregate form) to the balance of payments compiler. In cases 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. Additional data must be collected for transactions where no money changes hands (as in barter trade or when trade credits are extended).

3.308. Surveys of enterprises collect information in aggregate form on the transactions of resident enterprises with non-residents. Such surveys may entail full coverage or may be conducted on a sample basis. Surveys of enterprises may be conducted to collect informa-

tion 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, and hotels and restaurants that cater primarily to overseas visitors. Alternatively, surveys may be applied to a wide range of enterprises in order 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 estimation methods).

3.309. There are few household surveys conducted specifically for balance of payments purposes; usually, they may be periodic or ongoing surveys conducted to collect information on travel. However, compilers may use existing household surveys to derive information for balance of payments purposes.

3.310. Official 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.

3.311. 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 sources are applications that may be needed in order 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.

3.312. Information obtained from partner countries is useful for providing data where it is not possible to collect them directly within a country as well as for validating other data-collection and estimation methods. Data from international organizations are particularly useful to aid-recipient countries that are compiling data on technical assistance services.

3.313. Compilers must consider many factors 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 to the particular country of the various methods of data collection that might be used.

3.314. Information on some types of transactions may be obtained from more than one data source. In this case, data can be usefully cross-checked.

## **R. Summary of recommendations**

3.315. The main recommendations on compiling statistics on transactions between residents and non-residents can be summarized as follows:

1. The BPM6 recommendations on the principles of recording residence, valuation, time of recording, unit of account and currency 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 the 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; however, the data requirements in individual compiling economies should be taken into account. Related supplementary items should also be compiled. A further, although less immediate, priority is the compilation of data on EBOPS 2010 complementary groupings.

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. Allocate the transactions between residents and non-residents over the GATS modes of supply. As a starting point 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 as described in chapter V (table V.2).



## Chapter IV

# Foreign affiliates statistics (FATS) and the international supply of services

## A. Introduction

4.1. For both goods and services, international sales may be effected not only through the transactions between residents and non-residents that are recorded in balance of payments accounts as specified by BPM6 and the 2008 SNA, but also through the establishment of a commercial presence abroad. For services, this method of serving foreign markets is particularly important because, often, it can be the only method that permits close and continuing contact between service providers and their customers, which is necessary if those service providers are to compete effectively with indigenous enterprises.

4.2. In *MSITS 2010*, statistics describing the overall operations of foreign-controlled affiliates<sup>1</sup> are called foreign affiliates statistics (FATS). Principles for recording FATS are in line with international statistical standards, especially those governing the measurement of foreign direct investment (FDI) within BPM6 and the *OECD Benchmark Definition of Foreign Direct Investment*, 4th ed. (BD4).<sup>2</sup> The FDI universe, which is introduced in box IV.1, enables an understanding of the universe of FATS. Furthermore, although the FDI universe has a broader coverage than that of the FATS universe, FDI statistics may provide useful indicators relating to commercial presence for those countries that have not yet begun to compile FATS. A precondition for the establishment of a foreign affiliate is generally the development of investment flows leading to an FDI relationship. The affiliate engages in the production and supply of goods and services, but there may also be, among other things, intra-enterprise international trade in services (for example, management charges).

4.3. Foreign affiliates statistics form a subset of statistics on the activities of multinational enterprises (AMNEs) and exclude the activities of the affiliate's ultimate parent enterprise. Conceptually, the population of enterprises covered by the statistics on AMNEs is itself a sub-category of the enterprises covered by FDI statistics: the former relates to control, while the latter is based on ownership and influence.<sup>3</sup>

4.4. Consonant with the theme and purpose of *MSITS*, its recommendations for compiling these statistics have been designed and presented with services in mind. However, apart from the particular activity and product breakdowns suggested, most of the recommendations are equally applicable to goods and services.

## B. Coverage of FATS

4.5. Before considering the particular measures that should make up the FATS data set, it is necessary to consider which enterprises should be covered by these statistics as well as the recommendations regarding statistical units.

<sup>1</sup> Here, the term "affiliate" is synonymous with "direct investment enterprise", which, following usage of BPM6 and the *OECD Benchmark Definition of Foreign Direct Investment*, 4th ed., (BD4), refers to an incorporated or unincorporated enterprise in which a direct investor who is resident in another economy owns 10 per cent or more of the voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise). As will be explained below, the present chapter is concerned mainly with only those affiliates that are "controlled" by the direct investor. In what follows, they may — for ease of exposition — also be referred to simply as "affiliates"; within the context of the discussion, however, it will be clear that they are members of the subset of affiliates that are foreign-controlled.

<sup>2</sup> They are also in line with *Measuring Globalisation: the OECD Handbook on Economic Globalisation Indicators 2005*.

<sup>3</sup> In other words, the population of FDI enterprises satisfying the ownership criterion of 10-100 per cent of the voting power is greater than the population of enterprises covered by MNE statistics, for which more than 50 per cent ownership is necessary for control. However, the reconciliation of the two sets of statistics is not achievable solely through this theoretical discussion of control and influence (see BD4, chap. 2, para. 27).

### Ownership criteria

4.6. Although 10 per cent ownership of the voting power is recommended as the lower threshold for FDI, *MSITS 2010* is in accordance with the *OECD Handbook on Economic Globalisation Indicators* and BD4 in recommending that FATS should be compiled, as a first priority, for the foreign-controlled subset of foreign affiliates. “Control”, as referred to in the Framework for Direct Investment Relationships (FDIR), set out in chapter 3 of BD4 (para. 135), is deemed to exist if there is majority ownership (that is, control of more than 50 per cent) of the voting power at each stage of the chain of ownership.

4.7. Although the GATS does not provide statistical definitions, it does give some indication of the kind of ownership criteria that would be useful in support of the Agreement, which refers to concepts of “ownership”, “control” and “affiliation”. Under the GATS (see article XXVIII, sect. (n)), a juridical person (such as a business enterprise) is:

- “Owned” by persons of a World Trade Organization Member if more than 50 per cent of the equity interest in it is beneficially owned by persons of that Member
- “Controlled” by persons of a Member if such persons have the power to name a majority of its directors or otherwise to legally direct its actions
- “Affiliated” with another person when it controls, or is controlled, by that other person, or when it and the other person are both controlled by the same person

Therefore, the GATS is concerned with cases of control as defined by the FDIR, as well as with other cases in which control can be demonstrated to have been achieved.

4.8. Similar criteria are already used as the basis for FATS in key countries that maintain this type of data<sup>4</sup> and provide operationally practical bases for the selection of enterprises that are to be regarded — following a concept found in the 2008 SNA<sup>5</sup> — as “foreign-controlled enterprises”.

4.9. Although it may in some respects have been conceptually more appealing to categorize enterprises based on the actual presence or absence of foreign control in an operational sense, control as defined by the FDIR (corresponding to majority ownership of the voting power at each stage of the chain of ownership) has been selected as the recommended ownership criterion for FATS. In contrast with de facto control,<sup>6</sup> its implementation does not require the use of subjective criteria, nor does it require that compilers examine the nature of investments on a case-by-case basis. The absence of a subjective factor has the added benefit of eliminating a potential source of bilateral asymmetry — namely, possibly different assessments of the issue of control by home- and host-country compilers.

4.10. While the measure of control recommended by *MSITS 2010* differs from that of the 2008 SNA derived from its concept of foreign-controlled enterprise, the two approaches are alike in that both are based on control by a single investor (or investor group). This approach is followed in *MSITS 2010* not only for the sake of consistency with other international guidelines, but also because it is only through a single investor or associated investor group that control can be systematically exercised. However, the relevance of other criteria for selection is acknowledged, and countries that can do so might wish to provide supplementary statistics covering cases where foreign control may be deemed to be present, even though no single foreign direct investor holds a majority stake.

<sup>4</sup> See, for instance, the Eurostat *Foreign Affiliates Statistics (FATS) Recommendations Manual*, which foresees the compilation of FATS on controlled foreign affiliates.

<sup>5</sup> See the 2008 SNA, chap. 26, entitled “The rest of the world accounts and links to the balance of payments”, paras. 26.84, 26.85 and 26.89.

<sup>6</sup> De facto control (actual control) is less clear-cut than de jure control (legal control of more than 50 per cent of voting power), as it is associated with questions of direct and indirect influences.

4.11. Examples of investments that might be covered on a supplementary basis are majority ownership of voting power by multiple unaffiliated foreign direct investors, and ownership of exactly 50 per cent of voting power by a foreign direct investor. Also covered would be cases in which a qualitative assessment is made that effective control has been achieved through a minority stake in an enterprise.<sup>7</sup> Such supplementary statistics on affiliates that are not controlled through majority ownership of voting power may be particularly relevant in cases where the ownership by non-resident investors is restricted.

7 These and other special cases are discussed in the *OECD Handbook on Economic Globalisation Indicators*.

4.12. Statistics on foreign affiliates controlled by residents of the compiling economy should include all controlled foreign affiliates, irrespective of whether the control in the affiliate is held directly or indirectly and irrespective of whether the direct investor in the compiling economy is the ultimate investor (ultimate controlling institutional unit (UCI)) or is, instead, an intermediate investor in an ownership chain. However because the activities of an affiliate held through an ownership chain could be recorded in the FATS of both the ultimate and the intermediate investors, and in order to facilitate international aggregation without double counting, compilers are strongly encouraged to identify the aggregate share of FATS variables accounted for by enterprises for which the compiling country is the ultimate controller. Of particular interest will be data on this set of foreign affiliates belonging to ultimate investors resident in the compiling economy. For FDI data, investments in given affiliates may be reflected in the statistics of both immediate and ultimate controllers.

## C. Statistical units

4.13. In principle, FATS could be collected at either the enterprise (company) level or at the level of individual business locations (establishments). Neither basis of location is unequivocally superior; rather, each has its own strengths and weaknesses. For example, some financial indicators, such as total assets, are more appropriately collected from enterprises than from establishments. In addition, because FDI statistics are usually collected at the enterprise level, collection of FATS at this same level facilitates linkages between the two types of data. However, because enterprises are more likely than establishments to engage in activities in multiple industries, data that are classified on the basis of primary activity can be more difficult to interpret for enterprises than for establishments. Although there may thus be advantages associated with each basis of collection, *MSITS 2010* makes no recommendation as to statistical units. FATS often will be developed in the context of existing statistical systems, where the statistical units are already defined, and in those cases, there may be little choice in respect of the units that are to be used.

4.14. Because the statistical units can have an important bearing on how the statistics should be interpreted, both in isolation and in comparison with other data sets, it is recommended that metadata on the statistical units used in collecting FATS be disclosed in explanatory notes.

## D. FATS and trade in services

4.15. The primary interest of *MSITS 2010* in FATS is related to the international supply of services. In this context, the most pertinent information on the operations of affiliates may be considered to be that on their sales (turnover) and/or output. Services supplied through transactions between residents and non-residents are usually measured

in terms of sales (apart from any services that may have been donated) and a comparable measure must be available for affiliates in order that services supplied through them may be measured on a parallel basis. Although, as discussed below, *MSITS 2010* recommends a broader programme of data collection, it recognizes that some countries may, at least initially, limit themselves to the collection of statistics on sales and/or output, inasmuch as these statistics most directly support the monitoring of commitments under the GATS.

4.16. While data collected on sales and/or output may be considered to be the most important information needed for FATS, additional information is generally required for an adequate assessment of the economic effects of affiliate operations and of measures to liberalize the supply of services through commercial presence. For example, information on value added allows output originating within the affiliate to be distinguished from output originating in the enterprises that supply it with intermediate inputs. Similarly, information on employment is required to assess the impact of affiliates on labour markets. Accordingly, *MSITS 2010* recommends utilization of multiple indicators, or variables, rather than only sales and/or output, in compilation of FATS.

4.17. FATS may be developed for both foreign-controlled affiliates *in* the compiling economy (inward FATS) and controlled foreign affiliates *of* the compiling economy (outward FATS). Since under the GATS, countries make commitments with respect to the services that are supplied in their own economies by suppliers of other economies rather than the services they supply abroad, the data most directly related to commercial presence may be those on the activities of foreign-controlled affiliates in the domestic economy (inward FATS). Nonetheless, the reason countries make these commitments is to secure commitments on the part of other countries, with a view to enhancing the ability of their enterprises to supply services in those countries. In terms of commercial presence, this type of services supply is tracked by data on outward FATS, which must therefore be considered relevant as well.

## E. Collecting inward and outward FATS

4.18. In addition to being more directly related to the compiling country's own commitments under the GATS, inward FATS are often easier to collect than outward FATS. The entities covered are located in the compiling country, and data for those entities would ordinarily already be included in the country's domestic enterprise statistics. Although specific surveys may be needed, obtaining a basic data set may involve only identifying the foreign-controlled subset of domestically located enterprises and tabulating existing data for them. For outward FATS, in contrast, the entities covered are located outside the compiling economy and generally would not be covered by existing data. In this case, specific surveys of resident direct investors, rather than surveys from the foreign affiliates themselves, would be necessary. An increasing number of countries have successfully compiled outward FATS.

4.19. Because one country's inward FATS provide information on the outward FATS of partner countries, exchanges of information among partner countries have the potential to provide countries that do not collect data on outward FATS with information on the overseas activities of their own multinational companies. For such data to be useful, it is important that they be compiled using standardized definitions and methodologies. In this regard, *MSITS 2010* can play an important role in promoting comparability. In addition, international organizations can, by republishing data for their members, serve as clearing houses for such information. The value of such clearing houses may be considerable, as they can help to achieve consistency in presentation and greatly reduce the number of contacts required to assemble the data.



## F. FATS and FDI statistics

4.20. FDI financial transactions and related investment position (stock) and income measures are not, strictly speaking, FATS variables because they do not pertain to the overall operations of foreign affiliates but relate only to transactions between and positions with direct investors and their foreign affiliates. In addition, FDI measures are ordinarily compiled with respect to transactions and positions with all foreign affiliates, whereas FATS variables, as discussed in paragraphs 4.5–4.12, are to be compiled only with respect to affiliates in which the direct investor holds a controlling interest.

4.21. Notwithstanding those differences, FDI statistics should be considered an important adjunct to FATS. Countries that cannot implement the compilation of FATS immediately may find that FDI statistics (and, more specifically, FDI positions<sup>8</sup>) can serve as an indicator of a country's interests in using commercial presence to supply services internationally. In addition, FDI statistics can be used in conjunction with FATS to indicate the extent to which the operations of affiliates were financed with funds from direct investors, as well as the extent to which the income generated by affiliates accrued to direct investors. *MSITS 2010* recommends that FDI statistics be compiled in accordance with the specifications of BPM6 and BD4. For convenience, those guidelines are summarized in box IV.1.

8 Moreover, FDI flows within a given period may also be useful as supplements to indicators based on positions. For example, FDI by type could be of prime interest in explaining, at least in part, the related financial movements associated with the activities of multinational enterprises (see Organisation for Economic Co-operation and Development, Directorate for Financial and Enterprise Affairs and Directorate for Science, Technology and Industry, "Why users need to link FDI and AMNE statistics: note by the Secretariat" (COM/DAF/DSTI/WD(2009)1), para. 25).

## G. FATS for analysing globalization and for GATS-related needs

4.22. Interest in statistics on foreign affiliates has been spurred by two primary factors. The first is the growing integration or *globalization* of the world economy. From a variety of motives — among others, to reap the benefits of geographical diversification, to circumvent trade barriers, to increase proximity to markets, and to reduce costs of labour, transportation and other inputs — an increasing number of enterprises have expanded their operations beyond the countries of their controllers. The need to understand this phenomenon of internationalization of operations, and to monitor the performance of the foreign affiliates through which they are conducted, is quite separate from the needs associated with any trade agreements. In this regard, FATS and the broader AMNE statistics are important analytical tools.

4.23. The second factor accounting for interest has been the GATS. By recognizing the need for proximity between suppliers and consumers of services, it has, among other consequences, created a new need for information describing the activities of foreign-owned or -controlled enterprises in host economies. The information will mainly relate to commercial presence. However, partial information on presence of natural persons may also be available from this source, if employment by foreign affiliates is among the variables for which data are collected and if their foreign employees, who are present temporarily in the country of location of the foreign affiliate as corporate transferees or not, can be separately identified.

4.24. For both of these purposes, FATS are of interest in their own right, but it will often be possible to ascertain their full significance only when they are viewed in conjunction with other information, such as comparable information on total home- or host-country economic activity and on services supplied through modes other than commercial presence. For example, while the number of employees of foreign-controlled affiliates in the domestic economy is useful information in and of itself, a fuller understanding of its

## Box IV.1

**Measuring foreign direct investment**

As presented in BPM6 and BD4, foreign direct investment (FDI) reflects the objective, of a resident enterprise in one economy (direct investor), of establishing a lasting interest in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor. The direct or indirect ownership of 10 per cent or more of the voting power of an enterprise resident in one economy by an investor resident in another economy is evidence of such a relationship. Direct investment comprises not only the initial transaction between the investor and the enterprise but also all subsequent transactions between them and among affiliated enterprises.

A foreign direct investor is an entity (an institutional unit) resident in one economy that has acquired, either directly or indirectly, at least 10 per cent of the voting power of a corporation (enterprise), or the equivalent for an unincorporated enterprise, resident in another economy. A direct investor could be classified to any sector of the economy and could be any of the following: (a) an individual; (b) a group of related individuals; (c) an incorporated or unincorporated enterprise; (d) a public or private enterprise; (e) a group of related enterprises; (f) a government body; (g) an estate, trust or other societal organization; or (h) any combination of the above. A direct investment enterprise is an enterprise resident in one economy and in which an investor resident in another economy owns, either directly or indirectly, 10 per cent or more of its voting power if it is incorporated, or the equivalent for an unincorporated enterprise.

The Framework for Direct Investment Relationships (FDIR) is a generalized methodology for identifying and determining the extent and type of direct investment relationships. For a compiling economy, the FDIR identifies all enterprises related to a particular enterprise, whether it is a direct investor or a direct investment enterprise or both, that is to say, it identifies all enterprises over which the investor has significant influence, using the 10 per cent or more voting power criterion. In this determination, it is necessary to establish whether each enterprise under consideration is a subsidiary (an enterprise in which a non-resident investor owns more than 50 per cent of the voting power), an associate (an enterprise in which a non-resident investor owns from 10 to 50 per cent) or a fellow enterprise (a non-resident enterprise having the same parent but without sufficient ownership of voting power). Inasmuch as it encompasses enterprises that are not controlled by the direct investor, the concept of direct investment enterprise is broader than the concept of foreign-controlled affiliate used by *MSITS 2010* in defining the universe of enterprises covered by FATS.

Compilation of statistics on direct investment will entail collection or estimation of mainly three broad types of data: direct investment income, direct investment financial transactions and direct investment position (stock).

The direct investment position measures the value of the stock of direct investment (direct investment equity capital — including reinvestment of earnings — and debt). In principle, the position should be measured at current market prices as of the dates involved (that is, the beginnings or ends of reference periods). In practice, however, there may be some departures from the market price principle. In many cases, book values from the balance sheets of direct investment enterprises (or of direct investors) will be used to determine the value of the stock of direct investments.

Direct investment transactions are all investment transactions between direct investors, direct investment enterprises and/or fellow enterprises (encompassing direct investment equity capital, reinvestment of earnings and intercompany debt).

Direct investment income is part of the return on the direct investment position, that is to say, it is the return on equity and debt investment (earnings on equity investment plus income on debt between direct investors and direct investment enterprises and between fellow enterprises). Direct investment income is recorded as it accrues.

For balance of payments and international investment position statistics, FDI aggregates components are reported on an asset/liability basis. For FDI statistics broken down by partner country and by economic activity, data are reported on the basis of the directional principle which takes into account reverse investments and investments between fellow enterprises. For the reporting country, inward investments represent non-resident investments in resident enterprises and outward investments represent investments abroad of resident investors.

Following BD4, in both inward and outward direct investment statistics, the analysis of economic activity should be primarily directed towards the activity of the direct investment enterprise, that is, of the resident direct investment enterprise for inward investment and of the non-resident direct investment enterprise for outward investment. The minimum level of detail recommended by BD4 is that of 11 major divisions of the International Standard Industrial Classification of All Economic Activities (ISIC), Rev.4, high-level aggregation for SNA data reporting.<sup>a</sup> For the purposes of consistency with FATS compiled as recommended by *MSITS 2010*, a further breakdown to the level of the *MSITS 2010* ISIC, Rev.4, Categories for Foreign Affiliates in services (see paras. 4.37-4.41) would be desirable.

BPM6 and BD4 provide additional details on the treatment of direct investment, including special instructions for the treatment of intercompany transactions between affiliated financial intermediaries (for example, security dealers) and special-purpose entities (SPEs).

<sup>a</sup> See BD4, para. 379, and ISIC, Rev.4, part four, sect. A.1.

significance could be obtained if the proportion of domestic employment accounted for by these affiliates could be computed. For such computations to be possible, compilers will have to devote attention to issues of comparability between FATS variables and statistics on the domestic economy covering the same items.

4.25. To promote such comparability, the *MSITS 2010* recommendations for FATS draw to a very considerable extent on concepts and definitions found in the 2008 SNA — in terms of both the entities to be covered and the selection and definition of variables for measuring their operations and performance. This approach also allows FATS to be related to or integrated with not only statistics for the domestic economy but also similar statistics on the activities of foreign affiliates in the production and distribution of goods. Concerning the latter, the concepts, definitions and recommendations of *MSITS 2010* are also harmonized with those used in the *OECD Handbook*, which regards foreign affiliates as suppliers of both goods and services.

4.26. Some enterprises produce both goods and services, and it is only by coverage of all producers that the activities of those for which supply of services is a secondary activity would be reflected in the statistics. In addition, coverage of all producers allows for the activities of services producers to be examined in the context of statistics covering all enterprises. As explained in paragraphs 4.35-4.43, attributing and presenting FATS variables by activity and, to the extent possible, selected ones by product, rather than limiting the universe to entities whose primary economic activity is the production of services, constitute the mechanism recommended for isolating services from goods.

## H. Attribution of FATS variables

4.27. FATS variables may be attributed or classified in a variety of ways. One method is geographical, which entails determining in what country the production took place, and what country is to be regarded as the country of the owner of the producing affiliate. Another method is based on the primary industrial activity of the producer (see para.

4.37). Some variables may, in addition, be classified by product, according to the types of goods or services produced. Recommendations on each of these bases for attribution are provided in the sections that follow.

## 1. Attribution by country

4.28. The issues to be addressed in attributing variables by country differ between inward and outward FATS. For inward statistics, a choice must be made between attribution to the immediate investing country and attribution to the country of the ultimate controlling institutional unit. For outward statistics, the issue is whether to attribute variables to the immediate host country or to the ultimate host country.

4.29. The need to follow investments to their ultimate origins or destinations is a reflection of both the nature and the uses of these statistics. These issues are discussed below with respect to each type of investment and recommended bases of attribution are provided.

### Inward FATS

4.30. For foreign-controlled affiliates in the compiling economy, the question is whether to attribute FATS variables to the country of the immediate investor (first foreign parent) or to that of the ultimate investor (ultimate controlling institutional unit (UCI)). Commonly, the first foreign parent and the ultimate investor are one and the same, but in many cases they are distinct. A discussion on the determination of country of immediate or that of ultimate investor is presented in box IV.2.

4.31. Apart from practical considerations, it is preferable, conceptually, to attribute variables concerning production and industrial activity to the country of the ultimate investor because this is the country that ultimately controls, and therefore derives most of the benefits from controlling, the direct investment enterprise. In light of the relevance of the ultimate-investor basis and the demonstration by a number of countries that compilation on this basis is feasible, *MSITS 2010* recommends that the ultimate investor serve as the first-priority basis for compilation of FATS and as the basis on which estimates are prepared in the greatest detail. However, considering that information on immediate investors may be available as a by-product of linkages to FDI data, and to facilitate comparisons with those data, countries are encouraged to make available some data classified to the country of the first foreign parent.<sup>9</sup>

### Outward FATS

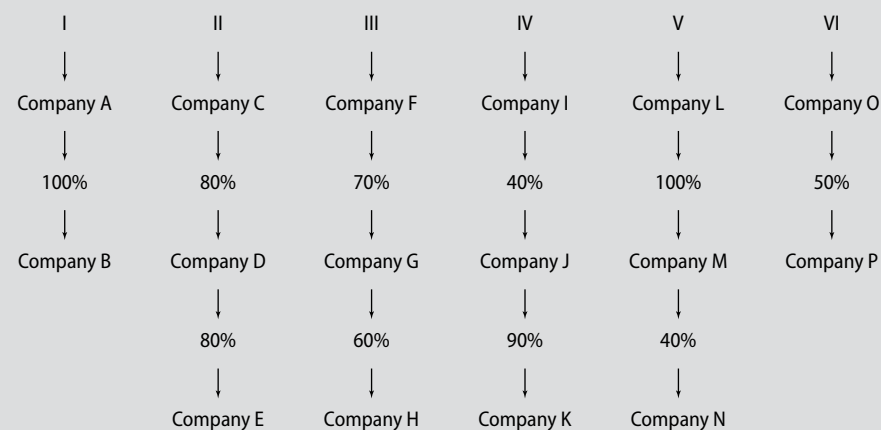
4.32. For foreign affiliates controlled by residents of the compiling economy, two options for the geographical attribution of FATS variables are possible. The variables could be attributed to the country of location of the affiliate or, if the ownership is through a directly held affiliate located in another country, to the country of that affiliate. *MSITS 2010* follows other international guidelines in recommending that attribution of FATS should be to the country of the affiliate whose operations are described by the variables, since that is the country in which the foreign direct investor's commercial presence exists and where the various activities (sales and/or output, employment, etc.) tracked by the statistics are carried out. This basis of attribution is recommended in both the *OECD Handbook* and in BD4. In addition, it is consistent with the treatment of foreign-controlled enterprises in the 2008 SNA, in that the value added (see para. 4.55 below for a definition) in production by the enterprise is attributed in both cases to (in other words, is included

<sup>9</sup> FDI transactions and positions by partner and by industry should be recorded in accordance with a directional principle. In the standard directional presentation, compilers should provide the key FDI statistics excluding resident special-purpose entities (SPEs); however, separate details for these resident SPEs should be provided. In addition, compilers are strongly encouraged to provide supplementary series for the purpose of looking through all (including non-resident) SPEs. These novel features in BD4 represent improvements through which data can be obtained that is more meaningful, analytically speaking, compared with those derived from recording transactions/positions for the first counterpart. BD4 devotes its annex 7 to SPEs.

## Box IV.2

## Immediate and ultimate investors

Foreign-controlled affiliates in the compiling economy may be grouped geographically based on the country of the immediate investor (first foreign parent) or the country of the ultimate investor (ultimate controlling institutional unit (UCI)). The first foreign parent is the first foreign person in the chain of control of the affiliate. The ultimate controlling institutional unit is the first person in the chain—beginning with and including the first foreign parent—that is not controlled (that is, no other unit holds more than 50 per cent of the voting power of the UCI) by another person. The following examples illustrate how these entities may be identified in particular cases. In each case, the chain of ownership of voting power runs from top to bottom, with the company at the bottom being the foreign affiliate whose control is at issue.



Case I. Company A is both the foreign parent and the UCI of company B.

Case II. Company D is the foreign parent of company E. Because company D is, in turn, controlled by company C, company C is the UCI of company E; its country would be considered the country of control of company E in FATS.

Case III. Following the same reasoning as in case II, company G is the foreign parent of company H, while company F is its UCI. Company F is the UCI of company H and is deemed to control company H even though its indirectly held ownership of voting power in company H is only 42 per cent—the product of its 70 per cent share of company G and company G's 60 per cent share in company H. It can be presumed to control company H because each entity in the chain can control the entity below it, including that entity's actions with respect to the entities that are, in turn, below it.

Case IV. Company J is the foreign parent of company K. Company I is not the UCI of company K because it is not controlling company J. At this stage, it is not possible to determine who is the UCI of company K, as it is not specified who owns the remaining 60 per cent of voting power of company J. Also, company J is not included in the core FATS data for the economy of company I, because company I does not control company J.

Case V. Company M is the foreign parent of company N. Because company M is, in turn, controlled by company L, company L is definitely the UCI of company M, but it cannot be stated that company L is also the UCI of company N, it is not been known who owns the remaining 60 per cent of voting power of company N. However, company N is not covered by FATS because it is not controlled by its foreign parent.

## Box IV.2

**Immediate and ultimate investors** (*continued*)

Case VI. Company O is the foreign parent and could be the UCI of company P if no other foreign investor also owns 50 per cent of the voting power of company P. However, if another foreign investor did own 50 per cent of the voting power of company P, other criteria would have to be taken into account in order to identify the UCI. Usually, a company like company P is not covered by FATS because it is not controlled by its foreign parent, but it nonetheless represents a case that may be deemed relevant for the purposes of the GATS or of globalization analysis. Thus, the compiling country may wish to show data for company P (and other cases of interest) on a supplementary basis (see paras. 4.10 and 4.33-4.34).

<sup>10</sup> See note 9 regarding the new treatment of SPEs in BD4.

in the gross domestic product (GDP) of the economy of location of the enterprise. Since surveys are an important source of outward foreign affiliates statistics, knowing the UCI is key to identifying the correct survey population of resident direct investors. To the extent that the statistics may be used in conjunction with FDI statistics,<sup>10</sup> it should be reiterated that the latter are attributed to the immediate host country, as is appropriate for tracking financial flows and positions.

### Ownership of voting power by residents of more than one country

4.33. Ordinarily, FATS variables for a given foreign affiliate are attributed in their entirety to a single country of ownership of voting power. As descriptors of the operations of affiliates, they should not be factored down by ownership shares. Nor are the values of the variables to be apportioned between the controlling enterprise and any foreign minority owners of voting power. However, in cases where supplementary statistics are provided covering cases in which foreign control has been achieved otherwise than through majority ownership of voting power by a single investor, classification dilemmas may arise when direct investors of different countries have collectively achieved control through holdings of equal ownership of voting powers. Because the ownership of voting power is evenly split, the determination of the country of control has to be made using criteria other than ownership percentages of voting power.

4.34. Although it is sometimes difficult to reach a decision in such cases, there is often some factor that would lead to the selection of one country rather than another. For example, if one controlling entity's interest in the affiliate was held directly and the other controlling entity's interest was held indirectly, then the affiliate generally would be classified to the country of the controlling entity holding the direct interest. Or, if one of the foreign controlling entities was a government entity, then the country of that government would probably be considered the country of control. Finally, if one of the foreign controlling entities was a holding company or was located or incorporated in a tax haven country, then the other country would probably be considered the country of control. In the absence of any such factor as could be used as a basis of attribution, the value of FATS variables may be allocated evenly among the foreign countries of control. However, data so allocated may pose problems of interpretation, and efforts should first be made to determine a basis for allocation to a single country.

## 2. Attribution by activity and product

4.35. Ideally, it would be possible to attribute all FATS variables on the basis of the industrial activity of producers and, in addition, particular variables, such as sales or output, exports and imports, by the types of services products produced and sold. Data on a product basis, ideally following EBOPS (see paras. 4.42-4.43), would identify the specific types of services delivered through the commercial presence mode of supply and could most readily be compared with data on services delivered through trade between residents and non-residents. However, some FATS variables, such as value added and employment (discussed below), do not lend themselves to a product classification. Also, for some countries, FATS may be developed as a subset of domestic enterprises or other statistics that are classified only on an activity basis. This means that all of the data for a given enterprise are classified to the single activity — often termed the “primary” activity — that, based on some key variable (such as employment or sales), is the largest. Finally, for some purposes, the data may need to be viewed in conjunction with data on stocks and flows of FDI, which normally would be classified by activity but not by product.

4.36. Taking these factors into account, an activity basis is recommended as the first priority for FATS. However, as a longer-term goal, countries are encouraged to work towards providing product detail for the items that can be classified on this basis. Countries that are building on existing data systems that already include product detail will wish to utilize this level of detail from the outset in their tabulation and presentation of FATS, because doing so could help them monitor commitments under the GATS that are specified in terms of services products. Similarly, countries that are building their FATS data systems from the ground up should consider the feasibility of providing for a product dimension.

### By activity

4.37. *MSITS 2010* recommends that, for reporting to international organizations, FATS variables be classified by activity according to ISIC, and grouped according to the ISIC, Rev.4 Categories for Foreign Affiliates in services, Revision 1 (ICFA, Rev.1), which have been derived from ISIC. These categories cover all activities, but with more detail provided for services than for goods. Annex II on ICFA, Rev.1, offers general guidelines. As noted earlier (paras. 4.18-4.19), it is most likely that, in general, more data will be available for inward FATS than for outward FATS, in which case countries might provide a less detailed table for outward FATS on some selected industries that are of particular importance for them. However if countries are in a position to provide more detail than is presented in annex II, this supplementary breakdown should be compatible with ISIC, Rev.4. Services supplied by enterprises primarily engaged in manufacturing activities may also be of interest in the context of the supply of manufacturing services on physical inputs owned by others.

4.38. This all-inclusive basis of presentation allows activities of services enterprises to be viewed within the context of the activities of all enterprises. In addition, it provides a framework for displaying services produced as a secondary activity by enterprises classified as goods producers. Finally, this approach has been adopted by the countries and international organizations that are actively developing FATS.

4.39. Primarily because the activities carried out by a given firm are often not limited to its activity of classification, the data recorded against any given activity must be interpreted as an indication of the total activity of enterprises for which the given activity is the most important, or primary, activity, rather than as a precise measure of the activity itself.<sup>11</sup>

<sup>11</sup> For example, computer services may be provided not only by enterprises classified in the computer services industry but also by enterprises classified in computer manufacturing and computer wholesale trading. Similarly (although this is less common in practice), computer services enterprises may engage in manufacturing or wholesale trade as secondary activities. Statistics shown for the activity “computer services” would misstate the value of the activity both by excluding the computer services provided by manufacturers and wholesale traders and by including the manufacturing and wholesale trade activities of computer services enterprises.

4.40. For the same reason, as well as because of differences in the classifications themselves, the extent to which data on resident/non-resident trade classified according to EBOPS can be aligned with data on FATS variables classified according to ICFA, Rev.1, is inherently limited. Nonetheless, establishing a correspondence between the two bases of classification may be useful, mainly for activities that tend to be carried out only by enterprises that are specialized in the activity and generally do not engage in significant secondary activities.<sup>12</sup> For this purpose, the EBOPS categories corresponding most closely to the ICFA, Rev.1, categories in services activities have been indicated in the online version of *MSITS 2010*. The reverse correspondence is also shown.

4.41. *MSITS 2010* recognizes that data for particular ICFA, Rev.1, categories may sometimes have to be suppressed (that is, not separately shown) so as to preserve the confidentiality of those data for individual companies. This will happen most often at the most detailed level of the classification, or when smaller countries are involved or in cases where the data are cross-classified by country or area.

### By product

4.42. As a longer-term goal, countries are encouraged to work towards disaggregating by product some of the variables — which include sales (turnover), output, exports and imports — that lend themselves to attribution on this basis. Product-based statistics are more likely to be free of problems of interpretation related to secondary activities<sup>13</sup> and are consistent with the basis on which GATS commitments are made and with the basis of classification used for trade between residents and non-residents.

4.43. To the extent possible, the breakdown should be on a basis compatible with EBOPS 2010 for services (and according to the Harmonized System for goods) so as to facilitate comparisons with resident/non-resident trade in services classified on this basis. If this level of specificity cannot be achieved, countries may wish to disaggregate sales (or output) in each industry as between total goods and total services as a first step towards achieving a product basis (see paras. 4.46-4.52 below on the sales and output variables for a discussion of this option).

## I. Economic variables for FATS

4.44. A wide range of economic data or variables — operational and financial — in regard to FATS may be pertinent for analytical and policy purposes. The selection of the variables to be collected should be based primarily on their usefulness for trade policy needs and for analysing globalization phenomena. The practicalities associated with data availability also must be considered. With such considerations in mind, and in the interests of harmonization with other international guidelines, *MSITS 2010* recommends that the FATS variables to be collected include at least the following basic measures of foreign affiliate activity: sales (turnover) and/or output; employment; value added;<sup>14</sup> exports and imports of goods and services; and number of enterprises. Although these variables constitute a basic set which can provide answers to a variety of questions, additional variables may prove useful in addressing specific issues. *MSITS 2010* suggests several additional measures that might be considered for collection by countries that are able to compile such information. Most of the “basic” and the “additional” variables, as well as their definitions, have been drawn from the 2008 SNA.

4.45. Table IV.1 provides a concrete illustration of how these variables, classified by activity on the basis of ICFA, Rev.1, might be presented. Additional tables might be

12 For example, if legal services were performed only by law enterprises and law enterprises tended to perform only legal services sales recorded under the “legal services” activity would correspond closely to sales of legal services because they would be recorded in a product classification. This example is unlike that presented in note 11, involving computer services.

13 In some cases, however, even in a product-based classification, the payments for the services may be bundled with those for some other products (for example, the distribution service fee might be included in the payment for the sold good).

14 Value added is generally estimated by national statistical institutions and is not directly reported.



constructed to present the variables from different perspectives; for example, time series or geographical detail could be utilized for a single variable (which would entail making specific time periods or country names, rather than the names of variables, the titles of column headings).

## 1. Sales (turnover) and/or output

4.46. *Sales* and *turnover* here have the same meaning and are used interchangeably. Following the 2008 SNA (which may be consulted for additional details and examples), *output* differs from sales because it includes changes in stocks of finished goods and work-in-progress and because of differences in measurement applicable to activities involving wholesale and retail trade or financial intermediation. Output is a superior and more refined measure of activity for most purposes and is recommended as the preferred variable for compilation. However, sales data are easier to collect and may present more options for disaggregation. Thus, there may be a continuing role in FATS and AMNE statistics for both measures.

4.47. For certain service activities, special conventions are used for measuring output. Services activities do not involve stocks of finished goods, and changes in work-in-progress will usually be impossible to measure. In practice, therefore, measured output will be identical to sales for most service activities, except for the three activities identified below:

- (a) For wholesale and retail distribution, although the sales are of goods, the output is defined as a service, equal not to the total value of sales but to the trade margins realized on goods purchased for resale.
- (b) For financial intermediaries, output includes not only services that are charged for by explicit fees, but also margins on buying and selling transactions, asset management costs deducted from property income receivable in the case of asset-holding entities, and margins between interest payable (or receivable) and the reference rate on loans (called financial intermediation services indirectly measured (FISIM)) (see box III.8). The main factors affecting the measurement of the output of financial services — and how they can be differentiated from sales — are discussed in the 2008 SNA (paras. 6.157-6.174).
- (c) For insurance, output is measured not by total premiums earned, but by a service charge that takes into account the income earned on technical reserves and also the fact that a portion of premiums must be devoted, not to the provision of services, but to the payment of claims and to the accumulation of capital sums guaranteed under life insurance policies, annuity plans and pension entitlement schemes.

In all these cases, output will generally be considerably lower than sales because, unlike sales, it excludes the amounts — which may constitute a large portion of total operating revenues — that pass through the enterprise without being considered a part of its intermediate consumption.

4.48. *Sales* measures gross operating revenues, less rebates, discounts and returns. *Sales* should be measured exclusive of consumption and sales taxes on consumers and value-added taxes. Although lacking the duplication-free quality of value added, the sales variable generally presents fewer collection-related difficulties and is thus likely to be more widely available than value added. Also unlike value added, sales indicates the extent to which foreign affiliates are used to deliver outputs to customers, irrespective of the extent

Table IV.1

**Sample format for reporting operations of foreign affiliate statistics by industry to international organizations, using ICFA, Rev.1**

Declaring economy: ...  
 Reference year: ...  
 Partner economy: ...

Industry of affiliate	Sales/turnover or output <sup>a</sup>	Employment	Value added	Exports of goods and services <sup>a</sup>	Imports of goods and services <sup>a</sup>	Number of enterprises
<b>Agriculture, forestry and fishing</b>						
Crop and animal production, hunting and related service activities						
<i>Support activities to agriculture and post-harvest crop activities</i>						
<i>Hunting, trapping and related services activities</i>						
Forestry and logging						
<i>Support services to forestry</i>						
Fishing and aquaculture						
<b>Mining and quarrying</b>						
Mining support service activities						
<b>Manufacturing</b>						
Repair and installation of machinery and equipment						
<b>Electricity, gas, steam and air conditioning supply</b>						
<i>Electric power generation, transmission and distribution</i>						
<b>Water supply; sewerage, waste management and remediation activities</b>						
Water collection, treatment and supply						
Sewerage						
Waste collection, treatment and disposal activities; materials recovery						
Remediation activities and other waste management services						
<b>Construction</b>						
<b>Wholesale and retail trade; repair of motor vehicles and motorcycles</b>						
Wholesale and retail trade and repair of motor vehicles and motorcycles						
Wholesale trade, except of motor vehicles and motorcycles						
Retail trade, except of motor vehicles and motorcycles						
<b>Transportation and storage</b>						
Land transport and transport via pipelines						
<i>Etc.</i>						

<sup>a</sup> If possible, should be broken down by type of product, at least total goods and total services.

to which the output originated in the affiliates themselves or in other enterprises. Further, sales are more comparable than value added with regard to such variables as exports and imports, which themselves mainly arise from sales.

4.49. In addition to disaggregation by industry and by country (following the principles of attribution discussed earlier), other breakdowns of sales may be useful for particular purposes. One such breakdown entails distinguishing among sales within the host country (local sales), sales to the country of the parent enterprise (that is, the immediate investor) and sales to third countries (see paras. 4.58-4.60).<sup>15</sup> All three types of sales result from the commercial presence of the home country in the host country. However, only the local sales represent the delivery of output within host economies, and thus relate directly to the commitments made under the GATS Mode 3 by those economies. In any analysis of FATS variables in conjunction with data on the parent country's trade with non-residents, it should be noted that the foreign affiliates' sales to the parent country would appear in both data sets. This may suggest the usefulness of an adjustment to eliminate the duplication, or a memorandum item to identify it.

4.50. In the search for other breakdowns that could prove useful, countries might attempt to disaggregate sales within each industry between sales of goods and sales of services so as to obtain an aggregate measure of sales of services. As mentioned in paragraph 4.43 on the attribution of FATS variables, such a breakdown would represent a first step towards a product breakdown of sales. Sales of services would include both sales of services by enterprises that produce services as a primary activity and sales of services by enterprises that produce goods as a primary activity but have secondary operations in services.

4.51. The potential usefulness of this extension is considerable, and compilers that are able to provide these data are encouraged to do so. It is likely that a significant share of sales of services by affiliates is accounted for by affiliates whose primary industry is manufacturing or another goods-producing industry. For example, sales of computer services might, as noted earlier, be spread among manufacturing affiliates, wholesale trade affiliates and computer services affiliates. If only total sales were collected, then, by default, only the sales by the affiliates classified in computer services would be taken as a measure of sales of such services, resulting in a significant understatement.

4.52. As a longer-term goal, countries are encouraged to work towards developing product detail on sales, on a basis compatible with EBOPS 2010.<sup>16</sup>

## 2. Employment

4.53. In a FATS context, *employment* would normally be measured as the number of persons on the payrolls of foreign affiliates. Employment data are sometimes converted on a full-time equivalent (FTE) basis, whereby part-time workers are counted according to the time worked (for example, two workers on half-time schedules are counted as one full-time worker). Although FTE employment may provide a better measure of labour input, this measure is not as widely available as numbers of employees and may be difficult to implement consistently in the context of internationally varying employment practices. For these reasons, the recommendation of *MSITS 2010* is that the FATS employment variable be the number of persons employed. The number should be representative of the period covered, but in the absence of strong seasonal or other fluctuations in employment, it may be measured as of a point in time, such as the end of the year, following national practices. A useful extension would be the separate identification of employment of foreigners within the affiliates.

15 In some cases, it might be possible to derive a close proxy for this breakdown by examining data on total sales in conjunction with data on exports. Export data may indicate sales to the country of the parent separately from sales to third countries, and local sales may be derived by subtracting these export sales from total sales.

16 Such detail is likely to be more difficult to collect for EBOPS 2010 categories *travel and government goods and services n.i.e.* as these emphasize the transactor or the mode of consumption of goods and services, rather than the type of product consumed.

4.54. Data on employment by affiliates can be used in several ways. They can be used to determine the share of foreign affiliates in host-country employment, or the extent to which employment by foreign affiliates complements or substitutes for domestic (home-country) employment by parent companies or other domestic enterprises. An industry breakdown of affiliates' employment can yield further insights into the impact of foreign-controlled enterprises on specific parts of the economy. In conjunction with data on compensation of employees — one of the “additional” variables suggested below — the employment variable may be used to examine compensation practices of affiliates relative to those of domestically controlled enterprises. In addition, although data would not, in general, appear to be available, identifying separately the portion of employment by affiliates that is accounted for by employees from abroad would be useful for elaborating on the presence of natural persons (mode 4) commitments which is linked to the supply of services through mode 3. If possible this information should be broken down into intra-corporate transferees and foreign employees directly recruited by foreign established companies (see paragraphs 5.87-5.88).

### 3. Value added

4.55. The 2008 SNA defines “the gross value added of an establishment, enterprise, industry or sector” as “the amount by which the value of the outputs produced by that establishment enterprise, industry or sector exceeds the value of the intermediate inputs consumed” (para. 15.133). A related concept, “net value added”, is defined as gross value added less the consumption of fixed capital. Gross value added can provide information about the contribution of foreign affiliates to the gross domestic product of a host country, both in the aggregate and in specific industries. For this reason and because it may often be easier to compute (because it does not require estimation of capital consumption) and is thus more widely available, the gross measure of value added should be accorded the higher priority.

4.56. Although it is defined in terms of outputs and intermediate inputs, value added is also equal to the sum of primary incomes generated in production (compensation of employees, profits, etc.). In some cases, depending on the particular data that are available, this equivalence may be exploited in deriving estimates of value added. Such an alternative might be chosen, for example, if data on intermediate consumption were lacking but information on the various incomes generated in production was available.

4.57. Because it includes only the portion of the firm's output that originates within the enterprise itself, value added is a particularly useful measure from the perspectives of both the GATS and globalization analysis. This is why it has been included among the “basic” FATS variables, even though, as a measure that may have to be estimated or derived from other variables, it can be among the more difficult variables to compile. For inward FATS, value added will often be available from regular industrial or enterprise surveys; but for outward FATS, it may have to be derived from other variables collected in separate surveys.

### 4. Exports and imports of goods and services

4.58. International goods and services transactions of foreign affiliates constitute another basic indicator of activity. The concept involved is that of international trade in goods and services between residents and non-residents. Both balance of payments data

and data provided by parent enterprises and affiliates in separate questionnaires may be appropriate sources for such information. To a large extent, the possibilities for disaggregating total exports and total imports may depend on the sources used to obtain the data.

4.59. Where the data are obtained through linkages with primary data sources for balance of payments transactions, breakdowns by product and by origin or destination will often be possible. If this is the case, exports and imports of services may be disaggregated, not only by the primary activity of the affiliate according to ICFA Rev.1 but also by product, on a basis compatible with EBOPS 2010.

4.60. Although linkages with balance of payments data may thus provide useful information, often it will be difficult or even impossible to separately identify the transactions of foreign-controlled enterprises in these data. Thus, it may be possible to develop the data on exports and imports only through the use of separate questionnaires. In that case, these same breakdowns would be useful; however, it is unlikely that a large number of countries would be able to collect the necessary data with the frequency or at the level of detail associated with balance of payments data. It would be useful, for purposes of globalization analysis, to disaggregate exports and imports into a few broad categories where trade with related enterprises would be distinguished from trade with unrelated parties, thus providing information for one of the last of the elements for a phased approach to implementation of *MSITS 2010* (see para. 1.33).<sup>17</sup> In addition, trade with the country of the parent enterprise could be distinguished from trade with other countries. If possible, those breakdowns should be achieved separately for goods and services. For inward FATS, for example, this would mean disaggregating the affiliate's exports of goods and exports of services into (a) exports to the parent enterprise, (b) other exports to the country of the parent and (c) exports to third countries. Imports would be similarly disaggregated.

17 Trade with related enterprises is defined to include trade with all enterprises with which there is a direct investment relationship.

## 5. Number of enterprises

4.61. The number of enterprises (or establishments, where the establishment is the statistical unit) meeting the criteria for coverage by FATS is a basic indicator of the prevalence of control by foreigners in the host economy. That number may be compared with the total number of enterprises (or establishments) in the economy. It may also be assessed in relation to the other FATS variables because it allows the computation of ratios — such as value added or number of employees per enterprise — that may be compared with the corresponding ratios for domestically controlled enterprises, thus giving an indication of the behaviour of foreign affiliates.

4.62. It should be recognized that the data on the number of enterprises alone may not give an accurate picture of the overall importance of foreign-controlled enterprises, because of differences in size between these enterprises and those that are domestically owned. If the foreign-controlled enterprises tend to be larger, for example, then their share in the total number of enterprises will be smaller than their share in the various measures of operations and there would thus be a tendency to understate the role and importance of these enterprises in host economies.

4.63. Typically, information on numbers of enterprises will be a natural by-product of collection of data on other FATS variables, rather than a separate target of the data-collection effort. This being the case, the number is likely to be affected, often significantly, by the level of company consolidation and by thresholds for reporting on surveys. To assist

users in interpreting counts of enterprises (or establishments), compilers are encouraged to indicate in explanatory notes how the numbers were derived.

## 6. Other variables

4.64. Although not included as priority items, there are other FATS variables of significance — perhaps, for certain countries, of equal or greater importance than some of the items previously discussed. As for the priority items, comparisons with the total economy and with specific sectors can be made and used for the purpose of assessing the impact of foreign-controlled enterprises on home and host economies.

4.65. Among such variables, as listed and defined below, are those for which data are already being collected by some countries. (The definitions are drawn from the 2008 SNA, which may be consulted for additional details.)

*Assets*: a store of value representing the benefit or series of benefits accruing to the economic owner by holding or using the entity over a period of time. It is a means of carrying forward value from one accounting period to another. These include both financial assets and non-financial assets, whether produced or non-produced.

*Compensation of employees*: the total remuneration, in cash or in kind, payable by an enterprise to an employee in return for work done by the employee during the accounting period.

*Net worth*: the difference between the value of all assets — produced, non-produced and financial — owned by an institutional unit or sector and all its outstanding liabilities. *Net operating surplus*: measured as value added (gross), less compensation of employees, consumption of fixed capital and taxes on production, plus subsidies receivable.

*Gross fixed capital formation*: measured by the total value of a producer's acquisitions, less disposals, of fixed assets during the accounting period, plus certain specified expenditure on services that adds to the value of non-produced assets. (*Fixed assets*: produced assets that are themselves used for more than one year repeatedly or continuously in processes of production.)

*Taxes on income*: corporate income taxes, corporate profit taxes, and corporate surtaxes, among others, and taxes that accrue to owners of unincorporated enterprises as a result of the production of income by those enterprises. Taxes on income include only taxes in the host country of the affiliate and not any taxes paid by the parent in the home country as a result of income earned or distributed by the affiliate. Taxes on income are usually assessed on the total income of corporations from all sources and not simply on profits generated by production.

*Research and development expenditures*: expenditures on work undertaken on a systematic basis to increase the stock of knowledge, and use of this stock of knowledge for the purpose of discovering or developing new products (goods and services), including improved versions or qualities of existing products, or discovering or developing new or more efficient processes of production.

*Purchases of goods and services* (intermediate consumption): expenditures on goods and services consumed as inputs by a process of production, excluding fixed assets whose consumption is recorded as consumption of fixed capital. It would be of interest for economic analysis to separate local purchases from imports. It would also be of

interest to have information on goods and services that are purchased for resale in the same condition as received.

## J. Compilation issues for FATS

4.66. There are two basic approaches to developing FATS, which are not necessarily mutually exclusive. The first approach entails conducting surveys that request information directly on the operations of resident affiliates of foreign enterprises and foreign affiliates of domestic enterprises. The second approach, which can be used only for inward investment, identifies the subset of existing data on resident enterprises that are foreign-controlled enterprises.

4.67. Whichever of these approaches is taken, there are likely to be links to existing data on FDI. Where there are surveys of foreign affiliates, registers used in collecting FDI data would typically be used to identify foreign-controlled affiliates for which FATS variables should be collected. Alternatively, key FATS variables might be incorporated in existing FDI surveys. However, compilers should note that FDI surveys may need to be conducted more frequently (for example, quarterly), whereas FATS may be needed less frequently (for example, annually). Incorporating FATS-related questions in FDI surveys may also increase the response burden imposed on enterprises that are not part of the FATS population. Where existing domestic statistics are used as the source of information, links to FDI data will often provide the means of determining which resident enterprises are majority foreign-controlled and should be included, as well as the means of identifying the country of the owner. Under this approach, FATS would be obtained as an aggregation of statistical variables across the foreign-controlled statistical population.

4.68. Each approach has its own advantages and drawbacks. Moreover, it is possible to outline some of the intrinsic differences. However, the criteria for deciding whether an enterprise is foreign-controlled would be the same in both cases.

4.69. The FATS data collection can be implemented by adding questions to existing FDI surveys or through the instituting of new surveys covering the foreign-controlled subset of the FDI population. It allows for the compilation of outward as well as inward statistics and provide more options for tailoring the data to specific needs. However, the activity classification used in FDI statistics may be different from that used for FATS. In addition, it appears to be difficult to go beyond basic statistical variables, such as turnover and employment, without having to design completely new surveys, which might raise concerns about resource availability and respondent burden. Further, if such an approach is taken, special care will be necessary to ensure compatibility with the domestic statistics with which the foreign affiliates' statistics may be compared.

4.70. The situation in respect of FATS as a subset of enterprise statistics is quite different. It is not possible to compile outward statistics within that framework. However, the activity classification used may be quite detailed and product detail may be available for sales or turnover. In addition, a comprehensive set of statistical variables can generally be provided.

4.71. In many cases, a mix of the two approaches may work best, with separate surveys (or existing FDI surveys) being used for the compilation of outward FATS and the identification of foreign-controlled companies; and with "enterprise statistics" providing the context for the compilation of inward FATS, having a more detailed activity breakdown and a more comprehensive set of variables. Extended business registers might also be a

<sup>18</sup> In the European Union, the EuroGroups Register (EGR) is considered a potential source for identifying ultimate controlling units.

suitable means of maintaining such information. This approach has already been adopted in some countries which use them to maintain data on foreign ownership.<sup>18</sup> Indeed, in a world of increasingly complex business structures of multinational enterprises, there is a need to encourage bilateral, regional and international cooperation in dealing with the practical difficulties associated with identifying UCIs.

4.72. *MSITS 2010* recognizes the advantages and disadvantages of each approach and the need for compilers to demonstrate flexibility in adapting the recommendations to economies' statistical infrastructures and maximizing the use of existing data.

## K. Summary of the main recommendations for FATS

4.73. This chapter's main recommendations regarding the compilation of foreign affiliates statistics may be summarized as follows:

1. FATS should cover controlled affiliates as defined in the FDIR (control is deemed to exist if there is majority ownership of the voting power at each stage of the chain of ownership). However, countries are encouraged to provide supplemental statistics, covering cases in which foreign control may be deemed to be present, even though no single foreign direct investor holds a majority stake.
2. FATS variables should be compiled for all foreign affiliates, not only those affiliates in services. However, the activity classification to be used for reporting to international organizations provides more detail for services than for goods. This classification particularly serves better the information needs related to GATS and similar agreements in the absence of a product breakdown.
3. For statistics on foreign-controlled affiliates in the compiling economy (inward FATS), the first priority for geographical attribution should be the country of the ultimate controlling institutional unit. However, to facilitate linkages with FDI data, countries are also encouraged to provide some data in which attribution is based on the country of the first foreign parent. Statistics for foreign affiliates of the compiling economy (outward FATS) should be attributed based on the country of location of the affiliate whose operations are being described.
4. It is recommended, as an initial priority, that FATS be compiled on an activity basis, because this is the required basis for the compilation of some variables, as well as the basis on which, in all probability, data are currently most widely available. However, as compilation of data on a product basis is recognized as a longer-term goal, compilers are encouraged to work towards providing product detail for those variables that lend themselves to this basis of attribution (namely, sales (turnover) and/or output, exports and imports). If this level of specificity cannot be achieved, compilers may wish to disaggregate sales in each industry between sales of goods and sales of services, as a first step towards achieving a product basis.



5. For the purpose of reporting to international organizations, FATS variables should be disaggregated according to the ISIC, Rev.4 Categories for Foreign Affiliates in services (see annex II). Any product detail that is developed should be disaggregated on a basis compatible with EBOPS 2010 (see annex I).
6. *MSITS 2010* recommends that the FATS variables to be collected include at least the following basic measures of foreign affiliate activity:
  - Sales (or turnover) and/or output
  - Employment
  - Value added
  - Exports and imports of goods and services
  - Number of enterprises

Additional measures are suggested for countries wishing to expand data collection of FATS beyond this basic set.

7. A variety of sources and methods may be used to collect and compile FATS. Separate surveys may be conducted or links may be established with domestic enterprise statistics that have already been collected. In either case, there are likely to be links with existing FDI data.



## Chapter V

# Statistics on the international supply of services by mode

### A. Introduction

5.1. The outcomes of trade negotiations depend on Governments' policy objectives and constraints, as well as on their negotiators' skills and strategies. In this context, research and analysis are important factors with respect to identifying issues of commercial importance to an economy. The parties involved need to determine their economies' strengths and weaknesses, assess impacts of different policies, and identify opportunities offered by their partners' markets.

5.2. Statistics play an important information-related role in building strategies based on individual performances of domestic services industries and/or the existence of regulatory barriers. While available statistics allow the analysis of trade at the global level, analysis of bilateral flows of individual service sectors by mode of supply is much more difficult, given the lack of adequately disaggregated data.

5.3. As described in paragraphs 2.11-2.25, on the GATS, in addition to fulfilling *general obligations* which apply across all the service sectors of all members of the World Trade Organization, countries undertake *specific commitments* with respect to market access and national treatment in individual services sectors. In this context, members are allowed to limit their commitments with regard to particular modes of supply. Statistical information on these services sectors by mode of supply and origin and destination (partner country) can be used to improve individual countries' negotiation strategies, to monitor developments in general, and to compare and analyse the extent and effects of liberalization over time.

5.4. While Governments need statistics on service sectors and modes of supply in order to negotiate commitments and assess economic impact, in many instances available statistics do not allow for detailed analyses. For example, the balance of payments registers only transactions between residents and non-residents, which means that important aspects of the international supply of services taking place through commercial presence or the presence of natural persons, either are not captured or are difficult to identify separately.<sup>1</sup> In addition, service commitments are structured in line with W/120, which has not been revised since 1991 despite changes in CPC, upon which it was first based. Moreover, the divergences in respect of coverage by the classifications used for available trade in services statistics, and the lack of information on modes of supply, make a proper assessment of the international supply of services difficult. Box V.1 provides, as an example, the information needs regarding tourism services.

5.5. At a disaggregated level, it would be desirable to have information on flows by mode of supply and by partner, which would allow analyses of the origin of the service or service supplier, and its territorial presence at the moment of the transaction.<sup>2</sup> Ideally, statistics on the international supply of services should therefore be available by country

1 See note 3 below for a definition of "natural person".

2 Statistical requirements of GATT and UNCTAD in the area of international trade in services paper prepared jointly by the GATT and UNCTAD secretariats for the eighth meeting of the Voorburg Group on Service Statistics, held in Oslo from 27 September to 1 October 1993.

## Box V.1

**Sector analysis: example using the international supply of tourism and travel-related services**

Tourism and travel-related services (W/120, sector 9) are an important export of many economies. The international supply of tourism services is often associated with mode 2, that is, the second mode of supply identified by the GATS. However, other GATS modes of supply may be involved when tourism services are being supplied to foreign consumers. The establishment abroad of a branch of a hotel chain (Mode 3) may be associated with the presence of a foreign manager (intra-company movement, Mode 4); the sale of services by international tourism operators through computer reservation systems (Mode 1); foreign tourist guides present in the host economy to provide tourist guide services (contractual service supplier, Mode 4), etc.

In W/120, which is generally used by negotiators for making commitments, sector 9 is divided into four subsectors: *Hotels and restaurants (including catering)*; *Travel agencies and tour operator services*; *Tourist guides services*; and *Other*. Negotiations are, in general, conducted with reference to these subsectors (or a breakdown of them) and the four modes of supply, but some World Trade Organization member Governments have suggested that the sectors in the broader tourism satellite accounts classification should also be included.

To develop models for a complete assessment of tourism as a service sector, negotiators and analysts need to use statistics sourced from various statistical frameworks. As a starting point, the analysis of the tourism industries within a given economy could be conducted by using national accounts, business and employment statistics. However, for a more detailed analysis, tourism statistics would be the most relevant source. The tourism satellite accounts will notably provide comparable macroeconomic aggregates on tourism, demand and supply of tourism services, production accounts of national tourism industries and basic information required to link economic data and other non-monetary information (number of trips, duration of stay, purpose of trip). When developed consistently with other frameworks, such as national accounts or balance of payments, this information could also be linked to trade in services data or FATS, and could help improve the quality of all relevant statistics.

To measure trade in tourism services, one should consider the travel item of the balance of payments. However, this item excludes transportation of non-residents provided by non-residents in the visiting economy, as well as international transportation (covered under passenger services in transportation). In addition, the standard breakdown of this balance of payments item (business and personal) does not allow for a correspondence within the scope of W/120. BPM6 and EBOPS suggest an alternative breakdown into goods, local transport, accommodation services, food-serving services and other services. While this breakdown would improve links with the classification used by negotiators, it mainly covers Mode 2, under which the consumer is abroad to consume tourism services. To cover the supply of tourism services through Mode 1 or 4, one should also be considering other balance of payments services items (for example, the cross-border provision of services by tour operators on the Internet or the supplying of tourist guide services by foreigners in a host country). While balance of payments breakdowns may match some needs of trade negotiators, they do not fully correspond to the scope of the negotiating classification. They could therefore be complemented by a further breakdown of these items using the list of tourism characteristic products, as defined in *IRTS 2008* and *TSA-RMF 2008*. International tourism expenditure as defined in tourism statistics could also complement travel data (see para. 3.130, box III.5 and annex V). To measure the supply of services through Mode 3, foreign affiliates' sales of services for activities related to tourism should be considered (see chap. IV).

Provided above is some guidance on how to measure the international supply of tourism services. However, negotiators also need to consider other types of statistics for a more in-depth analysis of this supply as well as of market access commitments. From a Mode 3 perspective, information on FDI flows, income and positions would enable an analysis of

foreign investment in the tourism sector, which could be complemented with FATS on the number of foreign affiliates, employment or gross capital formation. For Mode 2, one could consider data on the number of arrivals of international passengers drawn from tourism statistics. This framework could also be used for collecting information on the number of persons travelling abroad to supply tourism services under Mode 4. As an alternative to this, the non-migrant categories of *RSIM, Rev.1* could be considered.

of origin and of destination, allowing identification of principal suppliers and consumers. A link between trade and output data, whether by activity or by product, would enable a more complete and improved analysis of the international supply of services. Data at volume level would allow complementary analysis for constant price considerations in various statistical frameworks.

5.6. Gaps exist between what a country's trade in services statistics can cover in terms of detail on international transactions by service sector and mode of supply, and the respective needs of trade negotiators. Furthermore, service suppliers and/or consumers may not always be aware of their international supply/consumption of services. Potentially, any individual or economically active entity, whether in the government or in the private sector, profit-making or not, can purchase foreign services, whether directly or through intermediaries.

5.7. The value of some goods is included under services transactions (for example, balance of payments items *maintenance and repair n.i.e., construction and travel*); similarly, the value of some services is included under goods transactions such as training, and installing and maintenance contracts as part of the sale of machinery or ships.

5.8. Overlaps may exist between the two statistical frameworks presented in *MSITS 2010*. For instance, the supply of services may be accounted for twice in the case of the supply of services through foreign affiliates: the first transaction being between a parent enterprise and its affiliate (intra-enterprise trade, which is recorded under trade in services between residents and non-residents) and the second occurring when this affiliate sells services to consumers in its country of location (the foreign affiliate's sales of services). Furthermore, sales of services of foreign affiliates can include exports by the affiliate to third economies or to the economy of the parent enterprise.

5.9. *MSITS 2010* attempts to strike a balance between the constraints of data compilers and user needs. Chapter III dealt with the extension of the breakdown of the services item of the balance of payments classification and chapter IV with the supply of services through foreign affiliates. The present chapter describes measurement issues connected with the international supply of services by mode, and provides a more detailed examination of the supply of services through the presence of natural persons.

5.10. The GATS is an important driving force for the development of statistics on the international supply of services. Paragraphs 5.11-5.26 address the GATS extension of the definition of trade in services to include the four modes of supply, explore links between them and describe information needs. Paragraphs 5.30-5.69 present the conceptual framework for measuring the international supply of services by mode and individual services sector through the use of a country's balance of payments statistics and FATS, using a simplified approach as a starting point. The statistical allocation of the supply of services by mode that is operational within a statistical context and consistent with international standards is described. Particular attention is given to the statistical conceptualization of the supply of services through the presence of persons as defined in the GATS. Paragraphs

5.80-5.112 examine additional indicators that are useful in analysing GATS commitments and other dimensions of flows by mode of supply. *MSITS 2010* provides advice on how to use and possibly extend existing statistical frameworks, and the data derived from them, for the purpose of analysing the international supply of services by mode.

## B. The four modes of supply and information needs under the GATS

### 1. The GATS definition of international trade in services

5.11. As mentioned earlier, the definition of trade in services in the GATS covers four different modes of supply (see annex III).

#### Cross-border supply

5.12. **Mode 1, *cross-border supply***, takes place when a service is supplied “from the territory of one Member into the territory of any other Member”. This is similar to trade in goods where the product is delivered across borders and the consumer and the supplier remain in their respective territories. For example, a law enterprise may deliver legal advice by phone to a consumer, a physician may provide a medical diagnosis to a patient via e-mail or a financial services supplier may supply portfolio management or brokerage services across the border.

#### Consumption abroad

5.13. **Mode 2, *consumption abroad***, takes place when the service is supplied “in the territory of one Member to the service consumer of any other Member”, which means that either the consumer or his property is abroad. Tourist activities such as visits to museums and theatres, and travel abroad to receive medical treatment or follow language courses, are typical examples. Services such as ship repair abroad, where only the property of the consumer moves, or is situated abroad, are also covered. Services suppliers may often not be aware of their international supply under Mode 2.

#### Commercial presence

5.14. **Mode 3, *commercial presence***, takes place through supply of a service “by a service supplier of one Member, through commercial presence in the territory of any other Member”. GATS recognizes that it is often necessary for services suppliers to establish a commercial presence abroad to ensure closer contact with the consumer at the various stages of production, distribution, marketing, sale and delivery as well as into context of after-sales services. Commercial presence in a market abroad covers not only juridical persons in the strict legal sense, but also legal entities that share some of the same characteristics, such as representative offices and branches. Relevant in this context are, for example, financial services provided by a branch or subsidiary of a foreign bank, medical services provided by a foreign-owned hospital and courses offered by a foreign-owned school.

5.15. *Commercial presence* is defined in the GATS as “any type of business or professional establishment” (article XXVIII, para. (d)). This includes “through the constitution, acquisition or maintenance of a juridical person, or the creation or maintenance of a branch or representative office, within the territory of a Member” (article XXVIII, para.

(d) (i) and (d) (ii)) (see chaps. II and IV for further information on the definition of juridical persons and commercial presence). Commercial presence is therefore closely linked to foreign suppliers' objective of obtaining a lasting interest in another economic territory to render services to consumers of that territory or other territories. Direct investment flows are deemed to be associated with such cases. As will be shown below, short-term arrangements (that is, establishing a commercial presence for less than one year with no direct investment relationship) which may be preferred by foreign suppliers (for example, those engaged in some short-term construction projects) will qualify just as well as the supply of services through Mode 3 under the GATS. The associated transactions will be covered by the services account of the balance of payments.

### Presence of natural persons

5.16. **Mode 4, *presence of natural persons***, takes place when an individual is temporarily present in the territory of an economy other than his own to provide a commercial service.<sup>3</sup> The GATS defines Mode 4 as the supply of a service "by a service supplier of one Member, through presence of natural persons of a Member in the territory of any other Member". Mode 4 is generally understood as covering:

- Contractual service suppliers, whether employees of a foreign service supplier or self-employed;<sup>4</sup>
- Intra-corporate transferees and foreign employees directly recruited by foreign established companies;<sup>5</sup>
- Service sellers who enter the host country to establish contractual relationships for a service contract, or persons responsible for setting up commercial presence.

5.17. Mode 4 applies to service suppliers at all skill levels. For example, Mode 4 covers computer services delivered to the consumer either by an employee of a foreign computer enterprise or by a self-employed computer consultant within the context of a services contract. Other examples could encompass a computer programmer who is transferred temporarily to work abroad in the branch of his employer (intra-corporate transferee), a plumber contracted in a host country to work on a building site or a fruit-picker employee of an employment agency contracted to work abroad temporarily on a farm.

5.18. The GATS *Annex on Movement of Natural Persons supplying Services under the Agreement* specifies that the agreement "shall not apply to measures affecting natural persons seeking access to the employment market, nor shall it apply to measures regarding citizenship, residence or employment on a permanent basis".

### Understanding Mode 4

5.19. If the service consumer is defined as being located in member A, and the service supplier is located in B, then GATS Mode 4 may be considered as covering the following major categories of natural persons:<sup>6</sup>

- *Contractual service suppliers — self-employed*: a self-employed person of member B enters member A in the context of a service contract with a service consumer in member A.<sup>7</sup> For example, a self-employed lawyer delivers legal advice to foreign consumers. However, determining if the specialist is a self-employed person or an employee of the "client" may not always be a straightforward matter (see box V.2). If an employer-employee relationship exists, then the individual would not be included in this statistical framework.

3 A natural person of a World Trade Organization member is an individual who is a national of that member (for more information, see chap. II). However, this definition may be extended where a member has specifically indicated that some non-nationals, permanently resident in that member, have the same rights as its nationals in respect of measures affecting trade in services and as notified in its acceptance of or accession to the World Trade Organization Agreement. Only six members have provided notification of this treatment: Armenia; Australia; Canada; Hong Kong, China; New Zealand; and Switzerland.

4 Some self-employed persons may also establish themselves in the host market as per a Mode 3 commitment and supply services from within that territory. Although a Mode 4 commitment guarantees the right of such persons to be present in the territory, *MSITS 2010* considers that the supply of the service is carried out through a commercial presence.

5 The supply of the service to the consumer is through the affiliate. For foreigners directly recruited by the foreign affiliate, there may be ambiguity with respect to their coverage under Mode 4, in particular for foreigners recruited from within the host economy, as they may be seen as seeking to access the employment market of the host economy.

6 These categories are the major groupings of persons moving abroad in the context of Mode 4 established in this statistical framework. Compilers should use the categories identified in this statistical framework and break down information according to more specific needs, where required.

7 Trade negotiators often refer to this category as that of "independent professionals". Some self-employed persons may also establish

- 7 (continued) themselves in the host market and supply services from within this territory as per a relevant Mode 3 commitment. Although a Mode 4 commitment can guarantee the right for such persons to be present in this territory, it is considered in *MSITS 2010* that the supply of the service is carried out through a commercial presence.

<sup>a</sup> BPM6 recommendations for the identification of the self-employed and employees are consistent with those of the 2008 SNA. Those recommendations are also broadly consistent with the recommendations contained in the resolution concerning the International Classification of Status in Employment (ICSE-93), adopted by the fifteenth International Conference of Labour Statisticians (ICLS) in January 1993, and with other resolutions of the Conference concerning the definitions of the economically active population. For more information on ICSE, see <http://www.ilo.org/public/english/bureau/stat/class/icse.htm>.

#### Box V.2

##### Self-employed or employee?

The terms “self-employed” and “independent” as applied to service suppliers are often used interchangeably. BPM6 recommendations describe these individuals (hereafter referred to as “self-employed”) as operating their own unincorporated enterprises, and selling the output they produce.<sup>a</sup> Self-employed persons, who may also employ others, are generally responsible for decisions on markets, scale of operations and finance, and are likely to own or rent the machinery or equipment with which they work.

An employer-employee relationship exists when there is an agreement, which may be formal or informal, between an entity and an individual, normally entered into voluntarily by both parties, whereby the individual works for the entity in return for remuneration in cash or in kind. The remuneration is normally based on either the time spent at work or some other objective indicator of the amount of work undertaken. If an individual is contracted to produce a given result, it suggests a service contract relationship between the entity and a self-employed person.

It may not always be clear whether an employer-employee relationship exists between the individual and the entity or whether the individual is self-employed and is supplying a service to the client entity. Provision of several types of services may pose such problems because entities may choose either to purchase a service from a self-employed worker or to hire an employee to perform the job. The status of the worker has important implications for the international accounts. If an employer-employee relationship exists between the worker and the entity for which the work is being done, the corresponding payment constitutes compensation of employees. If the individual is self-employed, then the payment constitutes a purchase of services.

Several factors may have to be considered in determining whether an employer-employee relationship exists. An important test is that of control. The right to control or to direct, as regards both what shall be done and how it shall be done, is a strong indication of an employer-employee relationship. The method of measuring or arranging for the payment is not important as long as the employer has effective control over both the method and the result of the work undertaken by the individual. However, a certain control over the work being undertaken may also exist for the purchase of a service. Therefore, other criteria should also be used to define more clearly the employer-employee relationship. If the individual is solely responsible for social contributions, this would suggest that he or she is a self-employed service provider. In contrast, payment of social contributions by the employer is an indication that a employer-employee relationship exists. If the individual is entitled to the same kind of benefits (for example, allowances, holidays and sick leave) that the entity generally provides to its employees, this indicates the existence of an employer-employee relationship. Payment of taxes by the individual on the provision of services (such as sales taxes or a value-added tax) is an indication that the individual is a self-employed service provider.

It is often the payment of taxes or social security contributions that will determine the perception of the individuals involved. This will also determine the way in which accounting systems record their remuneration. Consequently, this will define how the distinction is made in available sources for statistics (registration in the client economy of a transaction as compensation of employees or as payment for a service).

- *Contractual service suppliers as employees* of a juridical person: employees of the service supplier in member B are sent to member A in order to supply a service within the context of a contract between their employer and a service consumer in member A. For example, computer services are supplied to consumers of A by an employee of a foreign information technology services enterprise of member B, who is sent to member A to deliver this service.



- *Intra-corporate transferees and foreign employees directly recruited by foreign established companies*: the service supplier of member B has a commercial presence in member A and sends its employee to its affiliate in A or the affiliate recruits directly foreign employees.<sup>8</sup> The supply of the service to the consumer, however, is taking place through the affiliate (Mode 3). For example, a surgeon is transferred temporarily to work in a branch of his employing hospital in a country abroad. The Mode 4 commitment guarantees the right of the supplier in B to send staff to A (or the affiliate to recruit foreign staff) in order to supply a service through its local affiliate.<sup>9</sup> Intra-corporate transferees are a particularly relevant subgroup, as many commitments are made and negotiations carried out with respect to this category of persons.
- *Services sellers* who are attempting to establish contractual relationships for a service contract, and *persons responsible for setting up commercial presence*: these persons enter member A in the context of the negotiation for a service contract or for setting up the establishment of an affiliate in member A.<sup>10</sup> There is no international supply of services in economic terms and consequently no accompanying transaction that is taking place, at least initially. Their movement, in order to conduct negotiations, is guaranteed by commitments under Mode 4. The negotiations will then eventually lead to the future supply of services through either of the modes.

Table V.1 summarizes the coverage of GATS Mode 4.

Table V.1

**Summary of GATS Mode 4 coverage**

	Included	Excluded
<b>Duration of stay</b>	Temporary presence as well as non-specified periods of stay ("temporary" is not defined in the GATS, the period is set by the host country)	Permanent migration (not defined, but the GATS does not apply to measures affecting residence, citizenship or employment on a permanent basis)
<b>Purpose of stay</b>	Presence of natural persons for the supply of commercial services	Persons seeking to access the employment market Presence of natural persons for the production of goods (for example agricultural products and manufactures) Services supplied under governmental authority
<b>Skill level</b>	All skill levels	No skill level is excluded from the GATS
<b>Main categories of natural persons</b>	Self-employed service suppliers ( <i>Contractual services suppliers — self-employed</i> )	Foreign employees of domestically owned juridical persons
	Employees of service suppliers sent abroad to supply a service ( <i>Contractual services suppliers — employees</i> )	
	Employees of foreign service suppliers established in the host country linked to Mode 3 (that is, enterprises established in the host country that have foreign capital participation of at least 50 per cent, or are controlled by a foreigner) ( <i>Intra-corporate transferees and directly recruited foreign staff</i> )	
	<i>Services sellers and persons responsible for setting up commercial presence</i>	

<sup>8</sup> For foreigners directly recruited by the foreign affiliate, there may be ambiguity with respect to their coverage under Mode 4, as one could consider, in particular for foreigners recruited from within the host economy, that these individuals are seeking to access the employment market of the host economy.

<sup>9</sup> Note that services can also be delivered by foreign affiliates without involvement of a Mode 4 component.

<sup>10</sup> Trade negotiators often refer to these categories as encompassing "business visitors". Business visitors as defined in a GATS context are not the same as business visitors or travellers as defined in international statistical frameworks. Those frameworks refer to travellers/visitors who enter in the territory of another economy for any business or professional reason (that is to say, those frameworks cover, in addition to service sellers, many of those covered under the definition of contractual service suppliers).

5.20. The GATS provides for the possibility that commitments, and therefore access conditions, may be scheduled according to different categories of natural persons. Members' commitments in Mode 4 have been undertaken largely on the basis of the above categories. However, a number of World Trade Organization members refer to particular categories such as installers and servicers, artists, sportspersons and other suppliers of services who are taking part in public performances, graduate trainees, etc. For statistical purposes, these categories may be seen as falling under one of the four categories described above (for example, installers and servicers may be regarded as contractual service suppliers or intra-corporate transferees; artists as contractual service suppliers; graduate trainees as intra-corporate transferees, etc.).

5.21. In their commitments, World Trade Organization members have, in general, indicated the length of stay of natural persons by the respective categories.<sup>11</sup> For example, in the case of contractual services suppliers, whether self-employed or employees, the duration ranges between three months and one year, and rarely exceeds two years; for intra-corporate transferees, the duration is generally limited to from two to five years; and for services sellers and persons responsible for setting up commercial presence, the duration is normally limited to three months.

11 In para. 34 of "Guidelines for the scheduling of specific commitments under the General Agreement on Trade in Services (GATS)" (S/L/92 of 28 March 2001), adopted by the WTO Council for Trade in Services on 23 March 2001, members are encouraged to include in their commitments, the duration of temporary stay of natural persons for the purpose of supplying a service. In the absence of a reference to a specific duration for the temporary stay of a foreign service supplier, it could be understood that no binding is being undertaken in respect of the duration of that stay.

## 2. Determining the relevant mode of supply

5.22. Allocating the international supply of services to the different modes is difficult, as a service can often be produced, distributed, marketed, sold and/or delivered through many modes. For example:

- A doctor, providing advice online to a foreign patient (Mode 1), may request his client to travel for an appointment with him (Mode 2), may decide to open a practice abroad (Mode 3), may relocate to work in his practice abroad (Mode 3 with a Mode 4 element) or simply travel abroad temporarily to treat an individual patient (Mode 4).
- A single service contract between an architect and his client abroad may cover the design of the construction project, its delivery to the client through electronic mail (Mode 1) and occasional visits to the country of the client during the implementation phase (Mode 4).
- The operation of an affiliate in a foreign country supplying services under Mode 3 may require the transfer of managers, technicians, etc., from the parent enterprise to the affiliate (guaranteed by Mode 4 commitments), as in the case where a construction enterprise signs a contract with a client abroad involving the establishment of a temporary site office (Mode 3) and/or the transfer of workers (Mode 4) at whatever skill level.
- A lawyer working in a law enterprise travels abroad and establishes a business link with a client (Mode 4 movement, but initially no economic transaction), which may lead to the future supply of advisory work online to the client (Mode 1) and the attraction of new clients, who travel to consult the law enterprise (Mode 2). This direct relationship with the client abroad may also result in the subsequent establishment abroad of an affiliate by the law enterprise (Mode 3).
- A computer services supplier and a consumer are located in two different territories and the supplier has commercial presence in a third territory (Mode 3).

The affiliate may act as an intermediary between the supplier and the client (for example, in marketing or billing (Mode 3)). However, most of the supply of these services may be taking place through Mode 4 (if, for example, the parent enterprise sends a computer specialist to the client's country) and/or Mode 1 (if part of the services are also supplied cross-border (online)). In other cases, this affiliate may also be more closely involved in the supply, either cross-border (online) or by sending an employee.

5.23. As shown in the previous paragraphs, modes of supply are essentially defined on the basis of the location of the service supplier and the consumer, the nationality of the supplier and the way in which the service is provided. Even if these factors are known, it may be difficult in certain cases to determine the allocation of the supply of services by origin and by destination and which individual mode(s) was (were) involved. This ambiguity is particularly noticeable with respect to Modes 1 and 2 when, under both of these Modes, the supplier is not physically present within the territory of the consumer. The distinction between both Modes hinges upon whether the service is supplied within the territory of the consumer from the territory of the supplier, or whether the service is supplied to the consumer outside his or her country of residence. For example, the supply of financial or insurance services often does not require the physical presence of the consumer. Electronic means associated with the globalization of financial markets have made it possible to deliver a financial service almost anywhere in the world. Once the physical presence of the consumer ceases to be an unequivocal benchmark for determining the place to or from which a service is supplied electronically, it becomes difficult to clearly determine whether Mode 1 or Mode 2 or both are involved.

5.24. All of these issues make estimating values of the international supply of services by modes a challenging task. In addition, depending on the point of view adopted (importer or exporter, inward or outward), the way in which compilers allocate transactions to modes of supply may differ, particularly when there is a combination of modes involved (for example, when service supplier and consumer are located in two different countries and commercial presence of the supplier in a third country is acting as an intermediary). This will result in asymmetries with respect to the recording of corresponding transactions. Accounting legislation, conventions and conveniences will also affect the way enterprises, banks and compilers report related payments by services category and modes, and may have implications for the recording of associated payments and receipts in the balance of payments statistics or in the FATS frameworks.

### 3. Information needs for assessing the international supply of services by modes

5.25. Two groups of variables are identified in order to assess international supply of services by mode: first, the value of services supplied (for example, exports and imports, or inward and outward sales/output of services); and second, a number of more specific variables necessary for a more complete assessment. Such variables include FDI transactions and positions in services industries or the number of persons moving (flows) and temporarily present (stocks) abroad in the context of the supply of services. Box V.3 provides an example of the different means that may be available to a computer services supplier for providing his services to foreign consumers and exhibits a number of possible sources of statistics for an assessment of the sector.

5.26. While it is useful to analyse information according to the overall structure of the GATS, it may be difficult to obtain the detailed data needed (for instance, relevant variables may not be readily available in data sources of compilers). Ideally, variables should be broken down according to:

- The type of service product provided (namely, the service that is the subject of the transaction between the supplier and the consumer and for which a payment is made). If a breakdown by product (that is, type of service) is not possible, then a breakdown by type of activity (that is, industry) of the service supplier would constitute the best approximation. More information on appropriate classifications may be found in chapters III and IV.
- The direction of the supply (that is, the destination/origin of the service provided by the service supplier to the consumer). For Mode 4 also, as a lower priority, the origin/destination of persons (for some categories of persons, this may be the only information available). For this mode of supply, there may indeed also be a particular interest in the origin and categories of persons involved.
- The relation between the parties (that is, trade between related or between unrelated enterprises).

Additional breakdowns for Mode 4:

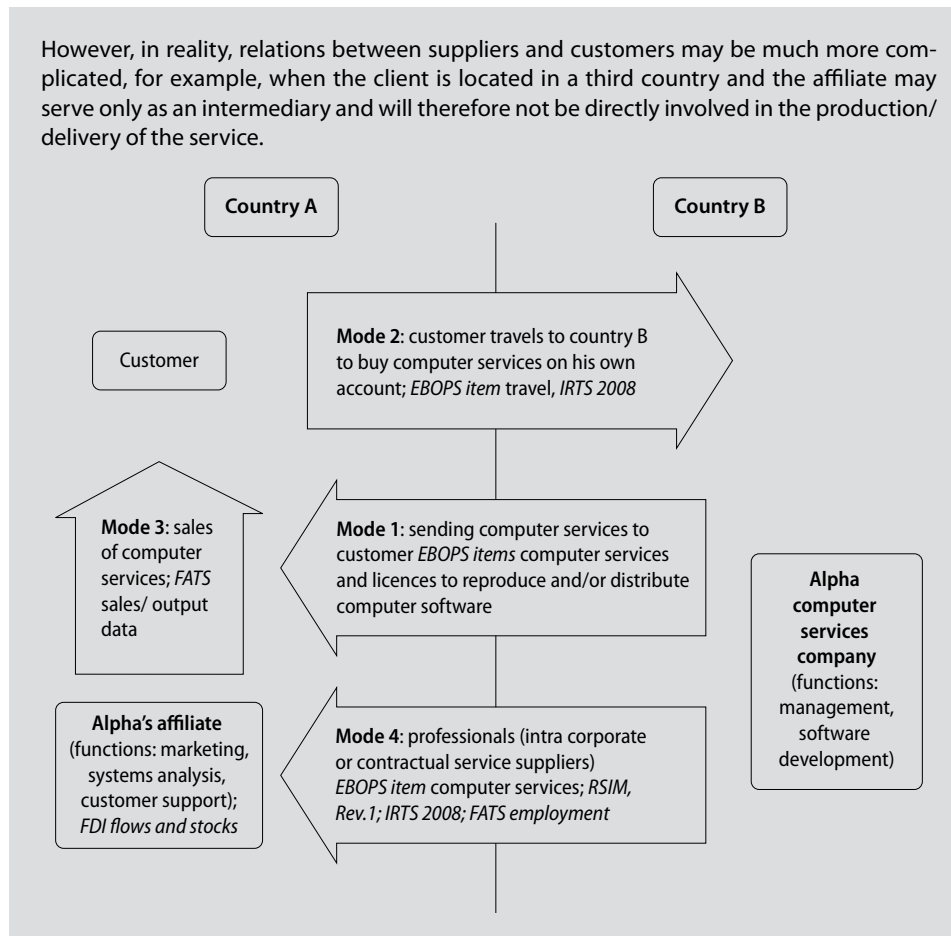
#### Box V.3

##### **An example of different modes of supply of computer services**

The Alpha computer services company in country B has an affiliate and a customer in country A, and its headquarters and research and development activities in country B. The different modes of supply are presented below, along with the kinds of statistics that would be useful for analysing the associated transactions.

1. The computer service was provided to the customer by Alpha's affiliate in country A. This illustrates the Mode 3 (commercial presence) supply of service. The FATS sales/output information would be the statistical source for measuring this (if available for the service product, computer services; however, most probably, it would be available only by activity, that is, *computer programming, consultancy and related services*).
2. Alpha is also providing its services directly to the customer in country A via e-mail and/or by sending its employees directly to the premises of the customer. This would reflect a Mode 1 (cross-border) supply of services (transaction recorded in the balance of payments item *computer services* or *licences to reproduce and/or distribute computer software*) and/or Mode 4 (presence of natural persons, transaction recorded in the balance of payments item *computer services*).
3. The headquarters can send professionals to its affiliate. Although the supply of the service would be through Mode 3, the physical presence of the professionals relates to Mode 4. Migration (or FATS) or tourism statistics could be the source of information regarding these physical flows. If relevant, the value of the intra-enterprise trade would be covered in the balance of payments item *computer services*.
4. Customers from country A can travel to country B to buy computer services on their own account. This flow illustrates Mode 2 (consumption abroad) of service supply. The *travel* item of the balance of payments would cover information relating to this transaction.

However, in reality, relations between suppliers and customers may be much more complicated, for example, when the client is located in a third country and the affiliate may serve only as an intermediary and will therefore not be directly involved in the production/delivery of the service.



- By skills and occupations of persons using the International Standard Classification of Occupations (ISCO-08), defining specific types of occupations and skills of persons involved.<sup>12</sup>
- By length of stay: this is a low priority. Notwithstanding the difficulties involved, *MSITS 2010* proposes that compilers break down relevant statistics between permanent and non-permanent stays according to their national definition of residency, regardless of whether stays may be substantially longer than the one year generally recommended by statistical systems.<sup>13</sup> As a longer-term goal, the breakdown should be of: stays of less than three months; stays of between three months and less than one year; stays of between one and three years; stays of between three and five years; and stays of more than five years. Compilers may also adapt this classification to their national needs and statistical systems (for example, through further breakdowns of time periods).

## C. Value of the supply of services by mode

5.27. *MSITS 2010* conceptualizes the valuation of the supply of services by mode in a statistical context. A comprehensive statistical treatment by mode of supply that would fully mirror the GATS legal definition and other GATS articles is beyond the scope of

<sup>12</sup> Some World Trade Organization members make commitments under Mode 4 defining specific types of occupations and skills. Although this may be difficult to obtain, a breakdown by type of occupations and/or skills would be useful. It may also be worthwhile exploring whether commitments may be "translated" into categories of ISCO, even if the available statistics do not provide these distinctions.

<sup>13</sup> National legislations may determine whether or not a unit and its activities are included as "resident" in the national statistics. The one-year guideline has had very little influence on actual definitions of "residency" as used by national legislation regulating immigration or population registers, and thus on the registrations in the main administrative data sources.

<sup>14</sup> In the case where the employment contract is with the affiliate. The case of those intra-corporate transferees whose employment contract remains with the home enterprise, would correspond in *MSITS 2010* to intra-firm contractual service supply (that is, intra-firm trade in services).

*MSITS 2010*. For Mode 4, the value of the supply of services is relevant only in the case of contractual service suppliers, whether those services are supplied by an employee of the service supplier or the service supplier is self-employed and supplies the service himself. This information is not needed for intra-corporate transferees<sup>14</sup> and foreign employees directly recruited by the foreign affiliate, or for services sellers or persons responsible for setting up commercial presence. For the former, the supply of the service by the service supplier (that is, the juridical person) to the *consumer* is taking place through Mode 3 (the Mode 4 commitment enables the presence of the person in order for the service supplier to supply the service via Mode 3); and for the latter, there is no service transaction (the transaction takes place at a later stage).

5.28. It is often important that several institutions — for example, the central bank; the national statistical office; tax, value-added tax, customs and social security agencies, etc. — cooperate to provide the value of transactions by mode of supply. Drawing on GATS provisions, *MSITS 2010* proposes, as a first approximation, a simplified approach that is operational in a statistical context and consistent with international statistical standards.

5.29. After presenting the basic assumptions underlying the simplified approach, the present section goes on to propose a number of recommendations with respect to the allocation of balance of payments services transactions to the four modes of supply. It also shows how the FATS variables *sales and output* can be used to measure the supply of services through commercial presence. Finally, it explains how to treat the transactions relating to self-employed individuals who have become residents of a host economy. Table V.2 summarizes the simplified allocation of FATS and balance of payments services data to modes of supply, which may serve as a first guidance on presenting estimates by modes of supply (see para. 5.78).

## 1. Statistical treatment of modes for estimating the value of the supply of services: the simplified approach

5.30. To allow the allocation of services transactions to modes of supply in a systematic way, *MSITS 2010* proposes criteria derived from the GATS definitions. *MSITS 2010* acknowledges that this allocation is only a first step in the estimation process and that further research and empirical information will be required to validate and refine the estimates. The simplified criteria that can be used as a starting point are based on the following considerations:

- To the extent that foreign affiliates represent a good approximation of commercial presence entities, FATS provide most information for services supplied through Mode 3.
- Service transactions between residents and non-residents, as captured in the balance of payments accounts, broadly cover Modes 1, 2 and 4.<sup>15</sup>

5.31. It is therefore possible to derive information on services transactions by modes of supply from balance of payments services statistics and FATS.

5.32. The simplified statistical criteria are based on the territorial location of the transactors (consumer and supplier) at the time the service is supplied, and on the type of supplier (individual or business enterprise, termed “natural person” and “juridical person”, respectively, in the GATS). However, it should be stressed that the *MSITS 2010* guidelines on the compilation of statistics by modes of supply are laid out only for statistical purposes and do not

<sup>15</sup> There are some limitations, however, with regard to the assimilation of commercial presence entities to foreign affiliates or to the correspondence between EBOPS 2010 transactions and Modes 1, 2 and 4. These limitations are discussed further below.

imply any attempt to interpret the GATS. These simplified statistical criteria are presented in figure V.1 and are further complemented by the rules discussed in the following paragraphs.

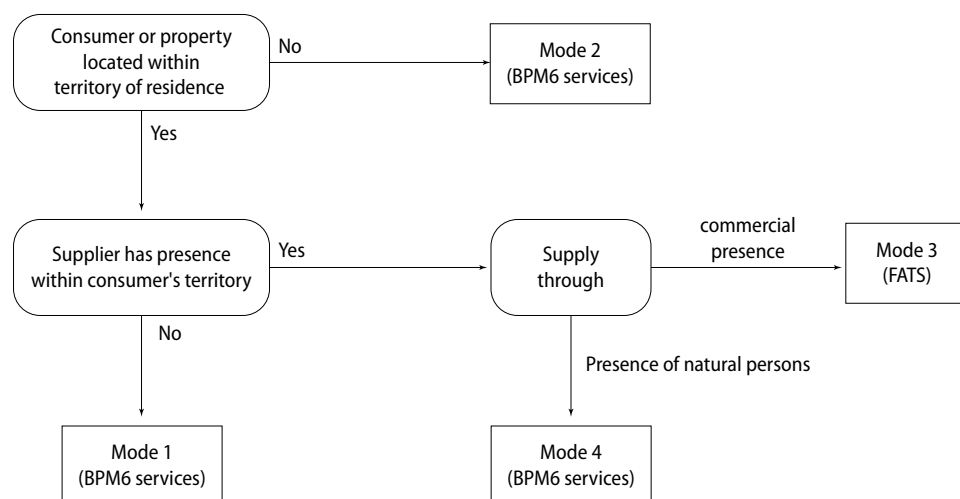
## 2. GATS modes of supply and balance of payments services statistics

5.33. Ideally, each balance of payments services transaction should be allocated to a mode. However, compilers may not be able to make this allocation in the short term. As a starting point it is therefore proposed to allocate the balance of payments services components broken down according to EBOPS 2010, and if this is also not possible, to first concentrate on a less detailed level of EBOPS. Although this would be less desirable, compilers are encouraged to make the allocation at least at the level of the 12 major balance of payments services components (see table V.2). Recognizing the difficulty of allocating balance of payments transactions to modes of supply, *MSITS 2010* identifies a full allocation as a longer-term goal. The discussion should not be limited to main items, but rather linked to the more detailed analysis of balance of payments services items (that is, broken down according to EBOPS 2010).

Figure V.1

**The value of international supply of services by the four modes of supply: simplified statistical criteria**

Territorial presence of transactor	Mode of supply	Major statistical area
Consumer (or his or her property) outside territory of residence	<b>Mode 2.</b> Consumption abroad	BPM6 services
Consumer in the territory of residence:		
Supplier has no presence in the territory of the consumer	<b>Mode 1.</b> Cross-border supply	BPM6 services
Supplier has a presence in the territory of the consumer:		
(a) Commercial presence	<b>Mode 3.</b> Commercial presence	FATS
(b) Presence of natural persons	<b>Mode 4.</b> Presence of natural persons	BPM6 services



5.34. As in many cases a single service transaction may involve more than one mode of supply, *MSITS 2010* acknowledges the difficulty in allocating each balance of payments service transaction to the GATS mode of supply. As a first step, to facilitate the feasibility of data collection, some simplifying assumptions are recommended. In short, each type of service is allocated either to one dominant mode or, where there is no single dominant mode, to the most significant mode of supply.

5.35. Services supplied internationally by government agencies and by government units that are based in diplomatic and other similar enclaves in the host economy (covered under *government goods and services n.i.e.*) are not of interest in this context.

Balance of payments services components largely corresponding to Mode 1

5.36. Mode 1 applies when a service is delivered from a supplier abroad to a consumer in the consumer's territory of residence. This is the case for the majority of balance of payments transactions recorded under *transport* (except supporting and auxiliary services that are provided to domestic carriers in foreign ports or to non-resident carriers in domestic ports), *insurance and pension services*, *financial services*, *telecommunications services* and *information services*. Within *other business services*, *operating leasing services* and *trade-related services* are also deemed to be predominantly supplied through Mode 1.

5.37. With respect to the valuation of *transport* and *insurance and pension services*, it is important to note that, following balance of payments principles, amounts relating to freight correspond to transactions that have been adjusted for f.o.b. (free on board) (see paras. 3.98-3.103) principles. However, from a GATS perspective, the corresponding transactions before any adjustment would be more relevant. More information on these aspects is provided in paragraphs 3.107-3.110.

5.38. Some transactions covered by the balance of payments items listed above may also take place through other modes of supply, for instance:

- Transactions occurring through presence of natural persons (Mode 4), which are presumed to be marginal in these components.
- Transactions that involve elements of both Modes 1 and 4, like that involving an insurance agent travelling to discuss the terms of a contract (the insurance service would, for the most part, be produced in the country where the insurance enterprise is located). In such cases, it might appear reasonable to allocate the entire transaction to Mode 1.
- Transactions involving Mode 2 (like that involving the consumer of financial services who has travelled abroad to the supplier's offices to open a bank account). In general, these transactions are presumed to be marginal in these components. With respect to the determination of the mode of supply (1 or 2) for financial and insurance services, which is discussed in paragraph 5.23, *MSITS 2010* recommends the full allocation of these transactions to Mode 1, unless this is an important issue in the compiling economy.

5.39. Following application of the simplified approach, the balance of payments components considered in paragraphs 5.36-5.37, would be allocated to Mode 1.

5.40. Valuing of the service provided by commission agents, wholesalers and retailers (distribution services) would present a particularly useful complement to services statistics covered in the balance of payments.

5.41. Wholesalers and retailers are treated as supplying services to their customers by offering products in convenient locations for customers to buy. Their output is measured by the total value of trade margins realized on the products that they purchase for



resale. However, the services that are provided by them are not measured within the balance of payments services account, because the value of international wholesaling and retailing services (including merchanting of goods, which covers cases where the products bought and subsequently sold do not enter the merchant's economy) are indistinguishably included in the value of the traded products. Estimating and providing this information on a complementary basis, excluding holding gains and losses, would enable a more complete analysis of the international supply of services.<sup>16</sup> Box V.4 presents the experience of the United States of America in developing experimental estimates of trade in distribution services for merchandise trade. The value of these services (that is, those supplied cross-border) are deemed to be under Mode 1.

5.42. *MSITS 2010*, proposing that there be an aggregate in EBOPS which responds to these information needs, includes a complementary grouping entitled *total trade-related transactions*, which encompasses all transactions relating to the supply of distribution services, whether for the sale of goods or services.

5.43. There is a certain degree of uncertainty with respect to the coverage of *charges for the use of intellectual property n.i.e.* Franchising is clearly identified within W/120 and transactions for distribution and/or reproduction licensing rights for audio-visual and software products are generally regarded as being payments relating to trade in services in these sectors. The same may be said of certain other transactions under *charges for the use of intellectual property n.i.e.*, for example, fees for the use of copyright in relation to audio-visual works. Other transactions, however — for example, payments for the use of patents for pharmaceutical products — may be more difficult to assign to trade in services. Given that distinctions are sometimes hard to draw in the compilation process, it is recommended, if a breakdown is not possible, that all charges for use of intellectual property be considered payments for supply of services through Mode 1. If a breakdown is possible, it is recommended that additional work be conducted to identify *licences for the use of outcomes of research and development* that can be associated with trade in services.

<sup>16</sup> Services provided to customers in the case of goods under merchanting could be approximated by the BPM6 item "net exports of goods under merchanting", excluding holding gains and losses.

#### Box V.4

##### **Experimental estimates, by the United States Bureau of Economic Analysis, of distribution services associated with cross-border trade**

The inclusion of these distribution services in the value of merchandise trade follows the treatment recommended in BPM6 and reflects the fact that data on cross-border trade are collected by product. In this case, the product is an exported or imported good, and its value includes the distribution services used to arrange for its export or import. As a consequence, statistics on cross-border trade in services do not include estimates of distribution services provided by exporters because those services are included in the value of trade in goods.

Nevertheless, services provided by wholesalers and retailers could be important as shown by the estimates of the United States Bureau of Economic Analysis (BEA). BEA constructed these estimates of distribution services associated with merchandise trade by using exports of goods of wholesalers and retailers and the average percentage of distribution services per dollar of sales of goods. For imports, it assumed that the share of United States imports accounted for by foreign wholesalers was the same as the share of United States exports accounted for by United States wholesalers. These 2002 experimental results show that considering these figures for GATS purposes would increase United States exports and imports of services (resident/non-resident trade) by more than 10 and 20 per cent, respectively.

### Balance of payments services components and Mode 2

5.44. Most services transactions recorded in the balance of payments as *travel* are deemed to fall under consumption abroad, or GATS Mode 2. However, the *travel* component of the balance of payments classification also includes the purchase of goods, for their own use or to be given away, by non-residents during visits outside their economy. These goods are outside coverage by GATS Mode 2. Thus, travel expenditure on goods should be separately identified from travel expenditure on services, and only the services portion of travel expenditure should be allocated to Mode 2. The goods portion should not be allocated to any mode of supply. In addition, further refinements of the services share of *travel* would be needed for a better measurement of Mode 2 by type of service.

5.45. Although it does not categorize all the types of services supplied to non-residents while travelling abroad, the EBOPS 2010 classification does provide an alternative breakdown of services consumed by these non-residents. These services comprise: *local transport services*, *accommodation services*, *food-serving services* and *other services*. In response to the particular interest in health and education services, EBOPS 2010 also provides for a distinction within the component *other services* between *education services* and *health services*. As noted in paragraph 3.126, the collection of separate data on specific expenditure on health and education services would be particularly useful for analysing the supply of these services via Mode 2. Finally, countries willing to compile a more detailed breakdown of travel services expenditure may do so on the basis of the list of tourism characteristic products provided in IRTS 2008 (see annex V).

5.46. Supporting and auxiliary services that are provided to resident carriers in non-resident ports, or to non-resident carriers in resident ports (sub-component of transport), should be allocated to Mode 2, if they can be separately identified. Finally *maintenance and repair services n.i.e.* and *manufacturing services on physical inputs owned by others* (that is, the service component of the repair or processing service fee) are also covered by Mode 2, as the property of the consumer is moving in order for the service to be supplied. However, if maintenance, repair, or manufacturing services are supplied through persons moving abroad, then these would fall under Mode 4.

### Balance of payments services components where no single mode is dominant

5.47. For other types of services transactions, the picture may be more complex, as individual transactions might involve significant elements of different modes. Indeed, Mode 4 might be relevant where the supplier (or his or her employee) travels abroad to provide the service at the site of the client. To take a simple example: An information technology consultant resident in the compiling economy providing computer services to a non-resident client may supply the service either on-site (Mode 4, on-site development of software) or from his or her office, by transmitting reports (Mode 1, sending portions of the software to the client by e-mail), or through a combination of both arrangements (sending the software via e-mail and travelling to the client's office for implementation and fine-tuning). For construction, enterprises may want to establish a commercial presence for a couple of months (Mode 3) and/or post their own workers in the host country under Mode 4.

5.48. For the more specific case of Mode 4, as stated above, information is needed about contractual service suppliers who are present in the host economy to supply a service. How the value of the services trade is recorded in the balance of payments depends on the category of person, as illustrated in the following examples:

- Contractual service suppliers as employees of the foreign-based service supplier: A service provider sends his employee to the other country in order to supply the service. The transaction corresponding to the service contract remains between a resident and a non-resident and will be recorded as an export or import in the type of services concerned, regardless of whether that person stays abroad for a year or more or less than a year. In the majority of cases, the presence of contractual service suppliers as employees will not imply substantial operations that can be identified separately from the overall operations of the service supplier. A group of persons per se cannot be considered to constitute a branch or representative office (if this were the case, the supply would fall under Mode 3, commercial presence).<sup>17</sup>
- Self-employed service suppliers: A self-employed person moves abroad in order to supply a service. If the person stays less than a year, the corresponding transaction should be recorded as an export/import of services. If it is possible and if the amounts are believed to be significant, information on self-employed persons under Mode 4 should be provided separately. However, if he or she stays or intends to stay a year or more, then in principle he or she will qualify as a resident of the host economy and the transaction corresponding to the service contract will not be recorded as a service transaction.<sup>18</sup> This particular issue is further discussed in paragraphs 5.68-5.69.

<sup>17</sup> As noted in para. 4.27 of chap. 4 of BPM6, "the identification of branches as separate institutional units requires indications of substantial operations that can be separated from the rest of the entity, to avoid creating numerous artificial units" (see also para. 3.22 of the present publication).

<sup>18</sup> For more information on residency of households, see paras. 3.7-3.16.

## Modes 1 and 4

5.49. Combined Modes 1 and 4 transactions are often found in *computer services, other business services (research and development services, professional and management consulting services, architectural, engineering, scientific and other technical services and other business services n.i.e.)* and *personal, cultural and recreational services*. For the transactions falling under these components, further analysis and empirical information are needed to determine how modes 1 and 4 can be separately identified or estimated. In particular, the knowledge of the location of the supplier at the time when major transactions are delivered would be critical for a proper assessment of the share of modes in these balance of payments transactions. A first proposal on estimating these modes separately within payments (at least for major transactions) is provided in paragraphs 5.56-5.62. If, for certain balance of payments components, a particular mode of supply provides only a small proportion of the total supply, then all supplies should be allocated to the dominant mode.

5.50. If detailed balance of payments services statistics are compiled (that is, according to EBOPS 2010), it may be easier to allocate some of the transactions in cases where Mode 1 is deemed to be the dominant mode and then concentrate subsequently on the remaining transactions.<sup>19</sup> Table V.2 presents the services categories that are believed to be supplied through either dominant mode and those where more refinement is necessary.

## Modes 2 and 4

5.51. Within *other business services*, in respect of *waste treatment and de-pollution, agricultural and mining services*, international transactions can involve significant elements of Modes 2 and 4. For *waste treatment and de-pollution*, Mode 2 (shipment of radioactive and other waste for treatment) and Mode 4 (pollution cleaned up by workers, etc.), will represent important components. *Services incidental to agriculture, forestry and fishing, min-*

<sup>19</sup> Within *other business services, operational leasing services and trade-related services* are deemed to be predominantly supplied through Mode 1.

*ing, oil and gas extraction* transactions are deemed to include significant elements of Mode 4. Maintenance, repair and manufacturing services may include mode 4 elements.

### Modes 3 and 4

5.52. Commercial presence (Mode 3) concerns mostly domestic sales of foreign affiliates (that is, transactions between residents), as described in FATS and as discussed in detail in paragraphs 5.63-5.67.

5.53. There are cases, however, presented in BPM6 and *MSITS 2010*, where a commercial presence is not regarded as being resident in its host country. Foreign entities established for less than one year, or operations based from the home territory to supply services, rather than in a local office (that is, the entity does not qualify as a branch), are considered non-residents in the host country. This is particularly relevant for construction. Corresponding services transactions are thus recorded in the balance of payments. In the GATS, the supplies of foreign established entities are considered to fall under commercial presence, which ignores the one-year residency rule. Therefore, for the GATS, some of these *construction* transactions could be accounted for as Mode 3 (which could or could not include the temporary presence of foreign workers).

5.54. In turn, the balance of payments component *construction* includes transactions related to Mode 4 (that is, cases involving the presence of construction workers where operations are conducted from home territory). Whether or not these Mode 4 transactions are minor relative to the Mode 3 transactions in *construction* will depend on the compiling country's situation and the type of arrangements for the different projects. (For example, does the project necessitate the creation of a site office or can it be considered that the operations are conducted from the home territory?) For the sake of simplification, it is recommended that consideration of this issue of Mode 3/Mode 4 allocation be limited to *construction*, unless the specific situation of a country requires the consideration of other balance of payments services items.

### Modes 1, 2 and 4

<sup>20</sup> The services are provided in extraterritorial government enclaves that are residents of their home territory, rather than of the host territory in which they are physically located. Therefore, the commercial services consumed are supplied cross-border or through the presence of persons.

5.55. Services purchased in host economies by government units that are based in diplomatic and similar enclaves are included in *government goods and services n.i.e.* These services transactions are covered by the GATS (Mode 1 or 4) when provided on a commercial or competitive basis.<sup>20</sup> Unless this is relevant for the compiling country, *MSITS 2010* does not recommend that these purchases of services (irrespective of the supplier) be separately identified from purchases of goods.<sup>21</sup> In addition, services purchased by diplomats, consular staff, and military personnel working in government enclaves and their dependants (considered as GATS Mode 2 if provided on a commercial basis) are also included under *government goods and services n.i.e.* Again, unless this is deemed relevant for the compiling economy, *MSITS 2010* does not recommend a separate identification of these transactions, as their share is believed to be relatively small.

<sup>21</sup> See paras. 3.269-3.273 for a more detailed discussion of these issues.

### Developing practices to separately identify modes of supply information within balance of payments services transactions

5.56. As discussed in paragraph 5.47, a given balance of payments service item generally includes transactions corresponding to several modes. With a view to facilitating the analysis and compilation of service transactions between residents and non-residents by

modes of supply, it is recommended that, if estimates cannot be provided for the subdivision of the transaction value by modes, the transaction be allocated to the most important mode in terms of the time and resources associated with it.

5.57. To allocate transactions to modes, a number of compiling guidelines need to be elaborated on the basis of rules of national legislation and/or accounting conventions. From a general point of view, the possibility of estimating Mode 4 flows within the balance of payments services account would help improve the estimations of the international supply of services by modes. In order that further information may be collected with respect to Mode 4, a clear list of questions needs to be developed to help survey respondents and/or compilers identify whether the payment for a service contract refers to the supply of a service through Mode 1, 2, 3 or 4. The rules applied to compile these estimates by mode of supply, and the list of items for which estimates of Mode 4 are necessary, should be established depending on each country's interest. That list should not necessarily strictly be limited to the services items identified in this chapter.

5.58. Given the complexity of services contracts (that is, the several modes for supplying the service), the allocation should be made on a dominance basis. Compilers should concentrate on services categories relevant in the context of activity (for example, construction, computer, engineering, legal, agricultural services) and not necessarily attempt to differentiate Mode 4 from other modes for services where this mode of supply is not believed to be an important component.

5.59. There are various options that would help determine whether a transaction should be allocated to Mode 4 or not:

- Indicate whether the supply of the service involved the physical presence of foreign individual(s), whether as self-employed or as employee(s), sent to the compiling economy by their non-resident company. If supply of the service did involve the presence of these persons, how was most of the value of the service supplied (in terms, for example, of time and/or resources involved)? In other words, if most of the service was supplied by fax, e-mail, etc., with the supplier remaining in its own country and the person(s) involved going just to supervise a final stage, then the service is mostly Mode 1, but if the embodied knowledge went with the person(s) and was transmitted directly to the client, then the service is mostly Mode 4.
- Define modes of supply in surveys and ask respondents to allocate transactions themselves. If the transaction involves various modes of supply, the questionnaire should suggest allocating the transaction to the most important mode in terms of the time and resources associated with it. While this option will be costly and very burdensome for respondents, it could be used for specific service sectors in which countries have a particular Mode 4 interest.
- Add a question related to the estimated share of the inputs for the related services trade.

5.60. The modes for which questions are formulated under the second and third options need to be clearly determined according to the balance of payments services transaction for which information is being sought. For example, for *construction*, it would be relevant to refer only to Modes 3 and 4, whereas for *computer services*, Modes 1 and 4 would be more appropriate and for *waste treatment and de-pollution*, Modes 2 and 4.

5.61. Compilers should also consider that questions need to be formulated differently depending on whether it is exports or imports that are involved (an importer may have less

information on the shares of different modes in the supply process and/or the breakdown of inputs in the service supply), particularly in respect of the Mode 1/Mode 4 distinction.

5.62. It may be difficult to allocate transactions by mode of supply when a service supplier and a client are located in two different economic territories, and commercial presence of the supplier in a third territory is involved (see para. 5.75). If service payments relating to the service contract are made directly between the client and the supplier, then it will be possible to allocate the transaction to the relevant mode(s). However, if the payment is made by the client to the affiliate and most (or part) of the service is supplied by the parent company, it will be difficult to define the mode of supply and to determine the direction of the flow.

### 3. GATS Mode 3 and foreign affiliates statistics

5.63. FATS, as recommended in *MSITS 2010*, differ from the coverage of the GATS in the following ways:

- Under the GATS, a foreign service supplier is defined on the basis of majority ownership or control, whereas FATS are compiled for the foreign-controlled subset of foreign affiliates, where control is defined in the FDIR (control is deemed to exist if there is majority ownership of the voting power at each stage of the chain of ownership).
- The GATS covers the services (products) and the suppliers of those services, whereas, in practice (see paras. 2.11-2.25), FATS are generally based on activities of affiliates.

5.64. By including commercial presence as a mode of supply, the GATS has created interest in information on foreign affiliates in host economies. Service suppliers may choose to set up affiliates as a means of selling their services in foreign markets as an alternative or complement to exporting through other modes. On the grounds that such sales/output may, to a certain extent, substitute for cross-border exports, *MSITS 2010* chooses to view domestic sales/output of foreign affiliates as the primary statistical indicator of Mode 3.

5.65. Although output is considered a superior and more refined measure of activity for most purposes, in many instances only sales data are compiled, as they are easier to collect and may present more options for disaggregation.<sup>22</sup> For practical reasons, FATS are primarily compiled by activity, which may cause particular problems for certain services industries, such as wholesale and retail trade and financial intermediation. For wholesale and retail trade, most of the value of the sales will be accounted for by the value of the goods that are sold.<sup>23</sup> Output for these particular activities is therefore a more appropriate estimation of the wholesale/retail service provided to the consumer, as it refers to the trade margins realized on goods purchased for resale and therefore excludes the value of the goods that are sold (see para. 4.47). Providing estimates for wholesale and retail services would give a clearer picture of distribution services provided. Similarly, establishing output as a preferred measure for financial intermediaries and insurance is a means of excluding the amounts that pass through the enterprise without being considered a part of its intermediate consumption (see para. 4.47).

5.66. A generalized framework for statistics on affiliates' operations would provide information on domestic sales/output, according to both an activity breakdown (ICFA, Rev.1, categories) and a product breakdown (on a basis compatible with EBOPS 2010). When product breakdowns are not available, the ICFA activity breakdown is used. This

<sup>22</sup> In general, measured output will be identical to sales for most service activities (see paras. 4.46-4.52).

<sup>23</sup> Sales for wholesale and retail trade activities should not be used to measure the international supply of services through commercial presence, as this would result in an important overestimation of Mode 3 trade.

has been aligned with EBOPS for the purpose of approximating products resulting from various industrial activities. There is, however, no intention of establishing a one-to-one correspondence between ISIC, Rev.4, and EBOPS 2010 for the estimation of services produced by foreign affiliates. Such a correspondence might overlook important areas of secondary production by industries (for a further explanation, see <http://unstats.un.org/unsd/tradeserv/TFSITS/msits2010/annexes.htm>).

5.67. Only when compilers are able to classify the output of foreign affiliates on a product basis will it be possible to directly compare the values of specific types of services, delivered to foreign markets through trade between residents and non-residents, with sales/output by foreign affiliates, which comparison would provide a more complete assessment of the international supply of services by modes.

#### 4. The case of resident, foreign, self-employed individuals

5.68. The preceding paragraphs have shown that transactions falling under Mode 4 are covered in balance of payments services components. Self-employed service suppliers staying (or intending to stay) for a year or more in the host economy should, according to international statistical guidelines, become residents of this economy. The transactions corresponding to the services contracts will no longer be international transactions. The only transactions that should, in principle, be recorded in the balance of payments for these self-employed service suppliers will be the amount they remit to their home economy (therefore recorded under personal transfers)<sup>24</sup> and/or the increase in assets in the home economy (if the person is saving in the home economy).

5.69. However, two categories of self-employed persons need to be distinguished: those who are present temporarily in the context of a service contract (Mode 4 supply of services) and those who operate from a base in the host economy (as per a relevant Mode 3 commitment). In general, the former will constitute a small proportion of the Mode 4 contractual service supplier population; therefore *MSITS 2010* does not recommend the compilation of information for this specific group, unless this is deemed necessary.<sup>25</sup> Those who establish themselves in a host country in order to supply services from this base would in many cases represent a small proportion of the overall commercial presence in the host economy. This will not be captured by FATS, as the UCI will be a resident of the host country. However, compiling economies that believe the category of self-employed persons established in an economy other than their own (the compiling economy on the “inward” side or on the abroad “outward” side) is important may wish to estimate the value of sales/output of their services to consumers in the host economy, in the home economy and in third economies.

<sup>24</sup> Although this information cannot be used to measure sales/output of services, it may be used for analytical purposes. Further information is provided in paras. 5.108-5.109 and box V.6.

<sup>25</sup> Moreover, it will be difficult to establish the centre of predominant economic interest for these persons and, in practice, many of the transactions will be recorded in the services account.

#### 5. Issues in the measurement of the international supply of services

5.70. Within economic statistics, and in particular balance of payments transactions, the value of a number of services is often not separately available from the value of goods that are sold. These include distribution services included in the value of merchandise that is traded and the cost of installation, maintenance and training that is part of the sale of machinery, computers, ships, etc. However, this is regarded as trade in services from a GATS perspective. Estimating the value of these services would provide a useful comple-

ment to statistics compiled in the balance of payments (see the example for distribution services provided in box V.4).

5.71. As indicated above, for a complete view of the total value of GATS supply of services, it is necessary to combine statistics drawn from the balance of payments and FATS frameworks. If necessary, additional statistics on sales of services by self-employed service suppliers resident in a host country can be utilized (see para. 5.69). However, compilers and users of the statistics need to keep in mind that a number of difficulties may be encountered. The different sets of statistics cannot be compared precisely because of differences in terms of coverage, measurement and classification.

5.72. For example, sales of services through cross-border trade are generally classified by type of service, whereas, for many countries, sales/output through foreign affiliates, following practices for collecting information from domestic enterprises, is classified by the primary activity of the affiliate. Until more work has been done on the correspondence between the EBOPS 2010 and ICFA, Rev.1 (or ISIC, Rev.4) classifications, or until FATS are compiled on a product basis, any attempt to combine sales/output of foreign affiliates by industry and trade in services data by product should be undertaken with extreme caution.

5.73. Balance of payments services transactions will record sales of services by residents to non-residents and vice versa. FATS will record the total sales/output of services of the affiliate to clients resident in the economy where the affiliate is established, as well as exports of the affiliate outside this economy. For a proper assessment of international sales of services into an economy broken down by mode of supply, it is desirable to separately compile data on sales to residents of this economy where the affiliate is established, and other sales of services of this affiliate, that is, international services exports conducted by this affiliate (which will be considered to be exports of the economy where the affiliate is established) (see para. 4.49).

5.74. There may be some double counting when comparing balance of payments services transactions with sales/output of services by foreign affiliates. Foreign affiliates may be importing services from their parent enterprise or other affiliated enterprises (representing intra-enterprise trade in services) and will themselves sell services to consumers — either the same service, which has not been transformed, or another service. It may therefore be difficult to interpret balance of payments services data in conjunction with FATS. Compiling balance of payments services data separately for transactions with related parties and those with unrelated parties, or more detailed FATS relating to purchases/sales of services based on the relationship between providers and consumers of services and economy of delivery, would help better understand this phenomenon. Compiling statistics on a control basis would also be an interesting alternative, analytically speaking, to the compilation of trade in services statistics on a residence basis.

5.75. Although, in principle, this should not be the case, in practice a number of balance of payments service transactions, or FATS sales/output, could be misreported in cases where a foreign affiliate's main function is to facilitate transactions (for example, marketing or billing). This is often the role of affiliates in the computer services industry where the service supplier establishes a regional base in another economy for transactions with third economies of the region, without necessarily being involved in the production and provision of the service, or in its consumption. However, the associated trade in computer services could be misreported; for example, computer services trade could be recorded as taking place with this intermediary, which would distort the measurement of the economic transactions actually occurring.



## 6. Conclusion

5.76. The simplifying assumptions for the allocation of the supply of services by mode set out in paragraphs 5.30-5.67, should be regarded as a guide to the first steps in the estimation process and subjected to periodic review and empirical testing of their validity and appropriateness. This allocation may vary from country to country and should be adapted to each compiling economy's specific situation and information needs. For particularly important services sectors of an economy, compilers may invest further to improve the estimation of these items by mode of supply.

5.77. Estimation should be improved over time using the information obtained by compilers, notably on the way in which service sectors operate. For instance, the simplified allocation could be amended by the use of partial or anecdotal information on a number of specific sectors. Following their identification as an information need of the compiling economy, these estimates would also be improved for specific services sectors if practices were developed to separately identify modes of supply in relevant services transactions, as presented above (see paras. 5.56-5.62).

5.78. As noted above, table V.2 summarizes the recommended allocation of statistics which can serve as a first guidance on how to estimate the value of the supply of services broken down by modes. It identifies the dominant mode(s) of supply used in resident/non-resident transactions; for FATS, all sales/output in the host economy are supplied through Mode 3 (see the cells containing an "X").<sup>26</sup> If, for a compiling economy, allocation of resident/non-resident transactions does not necessitate the separate identification of modes, or if it has difficulties in implementing the allocation according to this table (because such implementation is too burdensome or costly for compilers or reporters), the rules can be simplified by concentrating on the 12 major balance of payments services transactions, FATS and, if possible, the estimated value for distribution services associated with cross-border trade (see the cells containing a boldface "X"). For example, *telecommunications services* transactions as recorded in the balance of payments are deemed to be provided through Mode 1, whereas *computer services* are deemed to be provided through Mode 1, Mode 4 or a combination of both. However, if a country compiles only the aggregate of *telecommunications, computer, and information services*, then compilers should consider additional information in order to estimate the allocation between modes (1 and 4) or the dominant mode. Sales of telecommunication services or computer services by foreign affiliates should all be allocated to Mode 3.

5.79. The dark shaded rows in table V.2 set out categories regarded as not comprising the supply of services from a GATS perspective. Row items given in italics are not separately identified in the EBOPS 2010 classification, but are presented to improve clarity with respect to the links of existing balance of payments items with modes of supply.

## D. Additional indicators for analysing the international supply of services

5.80. Statistical needs of negotiators and trade analysts are numerous. Such information is needed, inter alia, to further guide negotiations, to support comparison of commitments, and as background for the settling of disputes and for the assessment of the international supply of services, as requested in article XIX, paragraph 3, of the GATS.<sup>27</sup> Additional information is also necessary for a more complete economic analysis and to

<sup>26</sup> For FATS, if sales/output can be broken down by product, this should be presented using the EBOPS classification.

<sup>27</sup> Paragraph 3 of article XIX of the GATS states that, prior to establishing negotiating guidelines for a new round of negotiations, "the Council for Trade in Services shall carry out an assessment of trade in services in overall terms and on a sectoral basis with reference to the objectives of this Agreement".

Table V.2

Simplified allocation of FATS and balance of payments data to modes of supply<sup>a</sup>

	FATS (sales or output) <sup>b</sup>	Balance of payments trade in services						
		Mode 3	Mode(s)					
			1	2	4	1 and 4	2 and 4	3 and 4
Manufacturing services on physical inputs owned by others	<b>X</b>		<b>X</b>					
Maintenance and repair services n.i.e.	<b>X</b>		<b>X</b>					
Transport	<b>X</b>	<b>X</b>						
Passenger	X	X						
Freight	X	X						
Other	X							
– Postal and courier services	X	X						
– <i>Service to domestic carriers in foreign ports (and vice versa)</i>	X		X					
– <i>Other</i>	X	X						
Travel			<b>X</b>					
<b>Goods</b>								
Local transport services	X		X					
Accommodation services	X		X					
Food-serving services	X		X					
Other services	X		X					
Construction	<b>X</b>						<b>X</b>	
<b>Goods</b>								
Services	X						X	
Insurance and pension services	<b>X</b>	<b>X</b>						
Financial services	<b>X</b>	<b>X</b>						
Charges for the use of intellectual property n.i.e. <sup>c</sup>	<b>X</b>	<b>X</b>						
Telecommunications, computer, and information services	<b>X</b>				<b>X</b>			
Telecommunications services	X	X						
Computer services	X				X			
Information services	X	X						
Other business services	<b>X</b>				<b>X</b>			
Research and development services	X				X			
Professional and management consulting services	X				X			
Technical, trade-related and other business services	X							
– Architectural, engineering, scientific and other technical services	X				X			
– Waste treatment and de-pollution, agricultural and mining services	X							
• Waste treatment and de-pollution	X					X		
• Services incidental to agriculture, forestry and fishing	X			X				
• Services incidental to mining, and oil and gas extraction	X			X				
– Operating leasing services	X	X						
– Trade-related services	X	X						
– Other business services n.i.e.	X				X			

	FATS (sales or output) <sup>b</sup>	Balance of payments trade in services					
		Mode(s)					
		Mode 3	1	2	4	1 and 4	2 and 4 3 and 4
Personal, cultural and recreational services	X					X	
Government goods and services n.i.e.							
Government goods n.i.e., credits and debits							
Government services n.i.e. credits							
Government services n.i.e. debits							
– Commercial services purchased in host economies							
• Government units in diplomatic and similar enclaves						X	
• Personnel from home economy and dependents				X			
– Other commercial services n.i.e. purchased by government						X	
– Non-commercial services acquired by government							
Distribution (wholesale, retail trade) services	X	X					

<sup>a</sup> The allocation may vary from country to country (in respect of general needs as well as for specific sectors, data-collection system, resources, etc.).

<sup>b</sup> In the economic territory where the affiliate is established. If it is not possible to break down sales or output by product using EBOPS 2010, then provide sales or output of services, broken down by activity using ICFA, Rev.1.

<sup>c</sup> There is a certain degree of uncertainty with respect to the coverage of certain *charges for the use of intellectual property n.i.e.* (see para. 5.43).

evaluate market access opportunities. To conduct such analyses, it would be useful not only to look at the level and structure of values as presented above, but also to obtain additional information related to individual service sectors by modes of supply.

5.81. Although it may prove difficult to obtain information relating to specific arrangements, it could be useful to obtain aggregated economic statistics in order to estimate, for instance, the level of FDI in individual services sectors of a country, or the number of foreign affiliates established in a country's service industry. Data on the number of persons crossing a border (flows) or present (stocks) in the context of GATS Mode 2 or 4 are one of the additional information needs mentioned directly above. For Mode 4, this type of statistics should be identified for all categories of persons involved in the supply of services, with priority given to contractual service suppliers (either as employees of the service supplier or as self-employed) and employees of foreign service suppliers established in the host country (intra-corporate transferees and foreigners directly recruited).<sup>28</sup> *MSITS 2010* considers that collecting separate information for services sellers and persons responsible for setting up commercial presence is not a priority, as there is in this case, at least initially, no economic transaction.

5.82. Discussed directly below are, in particular, the additional information needs relating to commercial presence and the presence of natural persons. Variables of interest within FDI statistics and FATS frameworks are identified and possible extensions of existing statistical frameworks (tourism and migration), for the purpose of collecting the more detailed information relevant to improving the monitoring and analysis of the supply of services through the presence of persons are explored. This information is then linked to a comprehensive description of the flows that result from this particular way of supplying services (derived from balance of payments or related statistics). Finally, a list of other indicators that would also be relevant in the context of a complete analysis of a service sector are provided, including statistics on national production, current and constant prices estimates, employment data and quantitative indicators.

<sup>28</sup> Intra-corporate transferees are a particularly relevant grouping, as many commitments are made and negotiations carried out with respect to this category of persons.

## 1. GATS Modes 3 and 4, foreign direct investment and foreign affiliates statistics

### Foreign direct investment, foreign affiliates statistics and commercial presence

5.83. This chapter has described how information from the FATS statistical framework can be used to measure the value of the supply of services through Mode 3 (commercial presence). To conduct a more complete analysis of Mode 3, sales (and output) statistics need to be complemented by other statistical variables drawn from FDI statistics and the FATS framework. This supplementary information may be related, for instance, to the categories of limitations on supplies or suppliers as described in schedules of specific commitments, that is, in respect of the number of service suppliers, the total value of assets, the number of natural persons that may be employees of service suppliers, the total value of individual or aggregated foreign investment, etc.

5.84. As stated in chapter IV, although FDI statistics (financial transactions, income and position) do not reflect the operations of foreign affiliates, they should be considered an important complement to FATS. Although they have a broader coverage (FDI considers all foreign affiliates, whereas FATS deals with those that are foreign controlled), FDI statistics can provide useful information when no FATS are available.

5.85. Compiling FDI statistics on stocks and flows, broken down according to services activities and countries of origin and destination of investment, is instrumental in assessing the impacts of commercial presence on economies. This would reflect the interest of foreign service suppliers in establishing affiliates in the host country and would provide useful information with respect to the income on *investment* returning to the home economy.<sup>29</sup> *MSITS 2010* recommends that FDI statistics be compiled as specified by BPM6 and BD4. The guidelines for compiling FDI statistics are summarized in box IV.1.

5.86. FATS variables other than sales or output will provide useful complementary information for assessing the implications of market access commitments (number of enterprises, assets, employment). They also allow for a view of the actual value added originating from the affiliate itself and a more detailed analysis of the impact of commercial presence on a particular services sector of the receiving economy (gross capital formation, research and development expenditure). They also provide information on use by an economy's enterprises of commercial presence for supplying services to different markets.

<sup>29</sup> The FATS sales/output data provide an alternative view of services supplied internationally. Although this information is used to compare the supply of services by modes as defined in the GATS, these sales are not considered international transactions under the residency principle of balance of payments and national accounts. However, the direct investors' shares of the profits earned on these sales are recorded as international transactions (under investment income) and show the income on investment returning to the country of the direct investor (see box V.5).

#### Box V.5

##### The effects of the channels of delivery of services on an economy

The channels of delivery of services typically differ in their effects on an economy. For example, services exports as reflected in data in the balance of payments (for example, under Mode 1 or Mode 4) usually have a greater effect on an economy than the equivalent sales through foreign affiliates, because most, or all, of the income generated by the production generally accrues to domestic supplied labour and capital. In contrast, for sales through foreign affiliates, only the domestic parent enterprise's share in profits accrues to the domestic economy (and is recorded as an international transaction); the other income generated by production, including compensation of employees, typically accrues to foreigners. For Mode 4, the income generated by services production accrues to the home economy in the form of exports of services, but a (smaller) portion may also accrue to the foreign host economy.

### Foreign affiliates statistics and presence of natural persons

5.87. Foreign staff employed in foreign affiliates, in particular intra-corporate transferees, constitute a Mode 4 category of natural persons referred to in countries' commitments. As noted in chapter IV, although data on foreign employment of foreign affiliates would not, in general, appear separately from data on the number of employees, such information could be used for a more in-depth analysis of Mode 4 commitments, including their relationship to the supply of services through Mode 3.

5.88. Although a service is actually sold by the foreign invested company, the presence and movement of foreign staff are covered by Mode 4 commitments. It may therefore still be of analytical interest to have a sense of the contribution of these persons to the sales involved. The intra-corporate transferees and other foreign employees of the services foreign affiliate do not necessarily have to be directly involved in the supply of the service. For instance, in the case of a financial services company, the person that enters a host economy, as an intra-corporate transferee or as a foreign employee of the affiliate located there, may be sent as a financial or computer specialist to work for this company. However, compilers must remember that what is relevant is the financial service provided by the company to the final consumer located in the host economy.

## 2. GATS, tourism and migration statistics

5.89. Other statistical systems may offer sources of information of interest for a more in-depth analysis of the international supply of services. *International Recommendations for Tourism Statistics 2008* (IRTS 2008) and *Tourism Satellite Account: Recommended Methodological Framework 2008* (TSA-RMF 2008), as well as *Recommendations on Statistics of International Migration Revision 1* (RSIM, Rev.1), can assist. The tourism recommendations notably provide information on the W/120 "Tourism and travel related services" sector. Information on flows and stocks of persons is necessary for a more detailed analysis of Mode 2, as well as for categories of persons identified within Mode 4. This information could be derived from the definitions used in IRTS 2008, TSA-RMF 2008 and RSIM, Rev.1. While rough aggregated Mode 4 information may be drawn from these statistical systems, for a more complete picture, compilers will have to identify relevant categories and breakdowns within frameworks. The present section examines how these frameworks could be used and extended in order for relevant additional indicators to be developed. Although such statistics will not perfectly mirror the definitions of the GATS, they would provide a reasonable indication of the flows and stocks of Mode 4 persons crossing borders within the context of the supply of services.

### The GATS, Tourism Satellite Account: Recommended Methodological Framework 2008 and International Recommendations for Tourism Statistics 2008

5.90. IRTS 2008 is a comprehensive methodological framework for the collection and compilation of tourism statistics. This conceptual framework defines tourism and refers to related concepts such as country of residence, place of usual residence, usual environment, etc. It introduces the activity of visitors from the point of view of their expenditure and presents the standard classification of products and productive activities that need to be considered in order to conduct a comparable analysis of the demand and supply related to tourism. An extension of IRTS 2008 is the tourism satellite account, through which tour-

ism statistics are linked with the mainstream of macroeconomic analysis (see TSA-RMF 2008). Statistics compiled according to these frameworks would be a useful complement to an in-depth analysis of the tourism sector covering all modes of supply.

5.91. IRTS 2008 identifies international visitors as those that are on a tourism trip and are non-residents travelling in the country of reference or residents travelling outside of it. They must not be in an employer-employee relationship with an entity resident in the country visited and receive compensation for the labour input provided. This framework proposes to provide a breakdown of the reasons for trips into their main categories, namely, personal (holidays, leisure and recreation, education and training, health and medical care, etc.) and business and professional.

5.92. Although they are highly aggregated, data collected on the flows of visitors whose main purpose for taking the trip is business or profession-related are useful for analysing flows of Mode 4 persons. They include the activities of the self-employed and employees, as long as they do not entail an employer-employee relationship with a resident producer in the country visited, as well as those of investors, businessmen or any other type of persons travelling for professional reasons.

5.93. Although IRTS 2008 recognizes that some countries may experience difficulties in implementing the breakdown as indicated in these recommendations (such as separately identifying business and professional), it suggests that for some others further disaggregation of the information may be of sufficient importance to warrant such a step. ITRS 2008 suggests, although this may not be of direct interest from a GATS perspective, that business and professional purposes could be split into “attending meetings, conferences or congresses, trade fairs and exhibitions” and “other business and professional purposes”. Paragraphs 5.100-5.106 discuss how this framework should be used to derive relevant information for Mode 4. More information on tourism statistics and relevant information for the compilation of GATS-related indicators may be found in IRTS 2008 and TSA-RMF 2008.

### The GATS and United Nations Recommendations on Statistics of International Migration Revision 1 (RSIM, Rev.1)

5.94. RSIM, Rev.1, defines two main groups of internationally mobile persons: non-migrants and international migrants (comprising short-term migrants and long-term migrants). It also provides a framework for the compilation of statistics on inflows and outflows of these groups of persons.

5.95. An international migrant is defined as any person who changes his or her country of usual residence. The country of usual residence is the country in which the person lives, that is to say, the country in which he or she normally spends the daily period of rest. Temporary travel abroad for recreation, holiday, visits to friends and relatives, business, medical treatment or religious pilgrimage does not change a person's country of usual residence.

5.96. The category of short-term migrants comprise persons admitted into a country other than that of their usual residence for a period of at least 3 months but less than 12 months, but excludes persons whose movement is for recreation, holiday, visits to friends and relatives, business, medical treatment or religious pilgrimage. Persons who are on short visits should not be remunerated from within the country visited. For purposes of international migration statistics, the country of usual residence of short-term migrants is considered to be the country of destination during the period they spend in it.

5.97. Long-term migrants are persons who move to a country other than their usual residence for a period of at least a year, so that the country of destination becomes their country of usual residence. From the perspective of the country of departure, the person will be a long-term emigrant and from that of the country of arrival, a long-term immigrant.

5.98. RSIM, Rev.1, suggests a number of definitions of categories of migrants (short- and long-term) and non-migrants that could be used for the compilation of statistics on international inflows and outflows of internationally mobile persons. Although some of these categories cover some persons of interest in the context of the international supply of services, a one-to-one correspondence is not possible. More information may be found in RSIM, Rev.1.

5.99. Statistics collected along the lines of these recommendations would serve to measure the number of persons who are present abroad and, as a consequence, are consuming services, via Mode 2. Within non-migrant categories, these persons should include border workers, tourists, business travellers, etc.; and within migrant categories, they should include various types of nationals who change their place of residence and consume services abroad. For instance, one particular category of migrants that would be of interest encompasses those admitted for education or training. Similar to tourism-related statistical guidelines, recommendations on migration statistics could also be useful for compiling statistics on Mode 4 flows and stocks of persons, notably through examination of the non-migrant category encompassing business travellers (corresponding to the category *business and professional* in IRTS 2008). Identifying persons falling under Mode 4 within other categories proposed in RSIM, Rev.1 (such as foreign migrant workers, migrants for settlement, migrants for free establishment, etc.) is a difficult task, as IRTS 2008, definitions were not designed to enable an analysis of the international supply of services. However, through the adoption of a number of assumptions and simplifying rules, it will be possible to derive more meaningful and detailed Mode 4 estimates from migration statistics.

#### Deriving Mode 4 indicators: links between RSIM, Rev.1 and IRTS 2008

5.100. As indicated above, the IRTS 2008 *business and professional* category for purpose of trip is a category of particular interest in respect of analysing flows of Mode 4 persons. It is recommended that compilers undertake a further disaggregation, if relevant, of this category. On this basis, compilers willing to collect information on the number of Mode 4 persons may further break down the *business and professional* category into contractual service suppliers (comprising self-employed and employees);<sup>30</sup> and services sales persons and investors. However, unless supplementary information is considered, statistics resulting from utilization of this framework will not cover cases where there is a change of usual residence (from one country to another) and intra-corporate transfer and direct recruitment by the foreign affiliate (employer-employee relationship with a producer resident in the host economy).

5.101. Relevant information could also be derived from migration statistics with the help of some simplifying rules:

- The best source of information on Mode 4 persons is the category of *non-migrants*
- Intra-corporate transferees and other foreign employees maintaining an employer-employee relationship with the affiliated entity in the host country fall largely within the migrant categories

<sup>30</sup> This includes intra-corporate transferees for whom the employer-employee relationship remains with the parent company. In *MSITS 2010*, this corresponds to intra-firm contractual services supply.

5.102. *MSITS 2010* therefore recommends that:

- For non-migrants moving for less than one year, the category of *business travellers* (which should cover persons moving abroad for professional reasons, but for whom no employer-employee relationship with an enterprise resident in the host country exists<sup>31</sup>), should be broken down as follows: contractual service suppliers (further broken down into self-employed and employees<sup>32</sup>); services sales persons and persons responsible for the establishment of commercial presence; and other business travellers. If necessary, supplementary statistics (that is, statistics outside the scope of RSIM, Rev.1, and tourism guidelines) could be compiled to include in addition, for the same categories identified, persons who have changed their country of usual residence (that is, who are staying elsewhere for one year or more) but for whom the employer-employee relationship remains with an enterprise located outside the host country, or who are self-employed (and not established in the host economy)
- For migrants, there should be identification, within short-term and long-term migrants in an employer-employee relationship with an entity in the host country, of those persons who have been transferred within the same services company (that is, the intra-corporate transferees who are remunerated from within the economy visited) and those foreign employees who are directly recruited by the foreign affiliate. In cases where there is a need identified, supplementary statistics (beyond the scope of the RSIM, Rev.1, guidelines) could be compiled, covering moves entailing a length of stay of less than three months (of which those involving intra-corporate transferees)
- This information should be broken down according to the type of service supplied (using EBOPS 2010), the service activity of the enterprise employing the person or the activity performed by the self-employed (ICFA, Rev.1), the relation between the employer and the client (i.e. whether intra-firm trade or not), the occupation/skills of the persons moving (ISCO-08) and their length of stay in the host country (see para. 5.26). Information on the number of visits during the latest months could also be collected, as well as an indication of the value of services supplied and/or purchased.

5.103. Although the supply of the service is considered to be taking place through commercial presence, it could also be of interest to collect information on self-employed persons who are established in a host country and are therefore intending to provide services from this base (as per a Mode 3 commitment). These persons will be covered indistinguishably in the category *entrepreneurs and investors*.<sup>33</sup>

### Interpretation of table V.3

5.104. Table V.3 summarizes the links between the coverage of RSIM, Rev.1, and coverage of IRTS 2008 in terms of the purpose of a trip or migration, and duration of stay. It identifies, in bold, the purposes that are relevant for Mode 4. The list of purposes is derived from the categories of RSIM, Rev.1, and the IRTS 2008 classification of tourism trips according to main purpose, and should not be considered to be exhaustive as regards reflecting accurately the categories defined in both these frameworks. The table has been constructed to show how these tourism and migration data sources can be used for the purpose of collecting and compiling information on the number of persons crossing borders in the context of Mode 4 (flows and stocks).

31 The category *business travellers* as defined in RSIM, Rev.1, does not refer explicitly to the employer-employee relationship, but speaks, instead, of persons on short visits related to business or professional activities not remunerated from within the country visited.

32 Those intra-corporate transferees whose employment contract remains with the home enterprise, would come under the *MSITS 2010* rubric of intra-firm contractual service supply (in other words, intra-firm trade in services).

33 *Entrepreneurs and investors* are defined in RSIM, Rev.1, as "[f]oreigners granted the right to long-term settlement in a country on condition that they invest a minimum sum of money or create new productive activities in the receiving country" (see box 4, para. 5 (d) in that publication).



Table V.3

Links between coverage of RSIM, Rev.1 and that of IRTS 2008 in terms of purpose of trip or migration and length of stay: identifying GATS Mode 4

	Purpose of trip or migration	Length of stay		
		Less than 3 months	From 3 to less than 12 months	More than 12 months
RSIM, Rev.1 categories	<b>IRTS 2008 categories</b>			
	Visits/trips			
	Personal			
	Holiday, leisure and recreation			
	Visiting friends and relatives			
	Education and training			
	Health and medical care			
	Religion/pilgrimages			
	Shopping			
	Transit entering economic/legal territory			
	Other			
	Business and professional (no employer-employee relationship with entity established in compiling economy)			
	• <b>Contractual service supply:</b>			
	— <i>By self-employed</i>			
	— <i>By employees</i>			
	<i>Of which intra-corporate</i>			
	• <i>Service sales/commercial presence negotiation</i>			
	— <i>Service sales/commercial presence of service producing company negotiations</i>			
	— <i>Commercial presence of goods producing company negotiations</i>			
	• <i>Other (including attending meetings, conferences, etc.)</i>			
	Migrant work and employment-based settlement (employer-employee relationship with an entity established in compiling economy)			
	• <i>Intra-corporate transfer:</i>			
	— <i>In services producing company</i>			
	— <i>Other</i>			
	• <i>Directly recruited by a foreign established:</i>			
	— <i>Services producing company</i>			
	— <i>Other</i>			
	• International civil servants			
	• <i>Other</i>			
	Training			
	Family reunification/formation			
	Family-based settlement; ancestry-based settlement			
	Retiree settlement			
	<b>Entrepreneurship and investment settlement<sup>a</sup></b>			
	Humanitarian reasons (refugees, etc.)			
	Border work; frequent border crossing; nomads			
	Transit not entering economic/legal territory			
	Diplomatic/consular; military			

Note:  : non-migrant categories.  : migrant categories.  : visits.

Entries in "purpose of trip or migration" column in boldface signify a Mode 4 purpose.

Entries in italics in "purpose of trip or migration" column signify items that are not available in RSIM, Rev.1/IRTS 2008; additional breakdowns possible.

"X" signifies first rough approximation of Mode 4.

"X" signifies Mode 4 information requirement.

<sup>a</sup> Only in the services sector; see para. 5.103.

5.105. Entries presented in italics are not separately available in RSIM, Rev.1 and IRTS 2008 but are represented in table V.3 as components of a possible breakdown that would better serve the information needs of the GATS. All purposes of stay are covered by RSIM, Rev.1, as it deals with migrant as well as non-migrant categories. The table is broken down into the non-migrant subcategory (light grey cells), and the migrant subcategory (dark grey cells). In RSIM, Rev.1, the migrant categories are further broken down into the short-term migrant subcategory (entailing stays of between 3 and 12 months) and the long-term migrant subcategory (entailing stays of 12 months or more). Visits as defined by IRTS 2008 are grouped in table V.3 in the box with boldface borders. As shown these statistical systems have two overlapping items. The first covers personal visits for less than 12 months but more than 3, for education and training, and the second covers personal visits for less than 12 months but more than 3 for other reasons.

5.106. “X” indicates the minimum Mode 4 information requirements. Bold-face “X” signifies that, in the absence of a further disaggregation, the category “business and professional” stays (corresponding to *business travellers* in RSIM, Rev.1) could be used as a first approximation for total flows and/or stocks of persons staying abroad in the context of Mode 4 supply of services (but excluding most of the Mode 4 movements and presence related to the supply of services through Mode 3).

### 3. GATS Mode 4 and supplementary information from balance of payments statistics

5.107. Identifying relevant transactions in relation to Mode 4 (presence of natural persons), within BPM6 items *travel*, *compensation of employees* or *personal transfers* — although they do not reflect the value of the services contract and hence cannot be used to measure Mode 4 supply of services — will provide additional analytical information (see box V.6).

5.108. For a contractual service supplier, if the person (as either an employee or self-employed) stays less than one year in the host economy, his or her related expenditure will be recorded under the item *travel*. If the employee stays or intends to stay one year or more, as he or she becomes a resident and continues to be remunerated by a non-resident entity, the compensation received by the employee from his or her employer will be recorded as compensation of employees, and subsequent personal transfer flows and/or increases in assets in the home economy should be recorded. For self-employed persons staying more than one year, personal transfer flows and/or increases in assets in the home economy could be recorded. See box V.6 for more information.

5.109. BPM6 statistics can also provide supplementary information of interest for analysing the transactions associated with the movement of intra-corporate transferees working for service suppliers that have established a commercial presence abroad. In this regard:

- If the employer-employee relationship is with the affiliate, and the intra-corporate transferee stays less than one year, then wages, etc., will be recorded under *compensation of employees*. If he or she stays one year or more, any personal transfer flows and/or increases in assets in the home economy may be recorded.
- If the employer-employee relationship remains with the parent company and the intra-corporate transferee stays less than one year, then the affiliate will pay for the service rendered by the parent company.<sup>34</sup> If he or she stays one year or more, then wages, etc., paid by the parent company will be recorded under

<sup>34</sup> This is considered intra-firm contractual service supply.

*compensation of employees* and, subsequently, any personal transfer flows and/or increases in assets will be recorded in the home economy.

- Whatever the nature of the employee-employer relationship, if the intra-corporate transferee stays less than one year, then his or her related expenditure will be recorded under the item *travel*.

5.110. The expenditure of services sellers and persons responsible for setting up commercial presence will be recorded under the item *travel*, unless they become residents of the host economy (which, in theory, will not occur given the nature of their activity while present in the economy visited).

#### Box V.6

#### Remittances are not a measure of Mode 4

For many countries, remittances represent an important source of income that exceeds official aid flows or financial inflows from foreign direct investment. The two standard items that relate to remittances, as defined in BPM6, are compensation of employees and personal transfers.

Compensation of employees represents "remuneration in return for the labour input to the production process contributed by an individual in an employer-employee relationship with the enterprise" (BPM6, para. 11.10). It refers to the income of border, seasonal and other short-term workers who are in an employer-employee relationship in an economy where they are not resident and of residents in an employer-employee relationship with a non-resident entity.

Personal transfers consist of "all current transfers in cash or in kind, made or received, by resident households to or from non-resident households" (BPM6, para. 12.21). This includes all current transfers from resident to non-resident households, independent of (a) the sources of income of the sender (whether he or she receives income from labour, entrepreneurial or property income, social benefits, or any other types of transfers; or disposes assets); (b) the relationship between the households (whether it be between related or between unrelated persons); and (c) the purpose for which the transfer is made (whether it entails inheritance, alimony, the lottery, etc.). BPM6 recommends the recording of a supplementary item entitled *workers' remittances* (current transfers made by employees to residents of another economy).

Information of BPM6 on compensation of employees and personal transfers broken down by relevant categories of persons (for example, intra-corporate transferees or persons directly employed by a foreign affiliate in services) could provide additional information on Mode 4. However, these flows will not reflect the value of the service contract (or sales of services) and cannot be used to measure the international supply of services. According to the definition of compensation of employees and personal transfers, as well as other remittances indicators, a majority of contractual service suppliers are not covered in the universe of persons to which these balance of payments items refer.

In addition, in the (rare) cases where some Mode 4 persons were covered, double counting would occur, as the value of the supply of services would be included implicitly, either within the value of trade in services statistics (between residents and non-residents) for Mode 4, or in FATS for Mode 3. In some instances, however, compilers might use this information to extract a Mode 4 estimate for some contractual service suppliers from appropriate balance of payments services items. While this additional information could not be tracked to specific transactions, it might probably be used as a reality check. However, it will often be difficult to identify specific compensation of employees/personal transfers for categories of interest for Mode 4 (that is, categories of those who have become residents of the host economy), as related transactions will often represent a small proportion of the relevant total income and transfer transactions.

## 4. Other indicators

5.111. As regards complementing information so as to achieve more global analysis of services industries and/or an assessment of individual services sectors or market opportunities, there exist a number of additional useful statistics which can be derived from various frameworks. These include indicators on prices, production and employment (for example, national accounts, business and employment statistics, and performance indicators that trace the quantitative development of a service sector). National accounts statistics provide information on an industry's activity such as output, value added, capital formation and employment. These aggregates are useful, as they are available in both current and constant prices. Compiling export and import price indices for services as well as international trade in services at constant prices would be particularly useful. Further quantitative information that can be used to supplement information on international services trade flows is also obtainable from sectoral performance indicators, including those covering international tourist arrivals, international freight or passengers carried, international telephone traffic, etc. While these indicators allow analysis of the sector's developments over time, they are not suitable for cross-sector comparisons.

5.112. Recent developments in linking trade and business registers have resulted in significant additions to statistical information at a microeconomic level. Such a linkage would improve the compatibility of trade and business statistics with respect to analysing trade flows characteristics of enterprises, inter alia, by economic sector, between enterprise groups (intra-enterprise trade), size class (employment), or a country's regional disaggregation, or analysing offshoring or trade in value added terms.

## E. Data collection

5.113. The differences in methodology, definition and level of aggregation of the various data sources necessary for compiling international supply of services information according to the four modes pose formidable challenges to data compilers. Although not exhaustive, the list of data sources in the present section provides an indication of how existing sources, or new ones, could be developed to enable the collection of relevant information for trade negotiators and analysts.

5.114. Data-collection methods for balance of payments services transactions and foreign affiliates statistics were described in chapters III and IV respectively, while the present chapter provides guidelines for using these statistics for a full assessment of the international supply of services by mode, in particular the allocation of transactions to modes of supply. This would require adjustments of survey forms.

5.115. A number of complementary sources could be used for collecting other statistics relevant for analysing the international supply of services, in particular for the variable number of Mode 4 persons. Various data sources exist for collecting this information, such as migration authorities and other administrative sources (population registers, permit data, visas, etc.) and censuses (whose data could be used as a benchmark), household, enterprise and labour-force surveys and border/ passenger surveys. However, appropriate questions would need to be developed in order to identify the information of interest.

5.116. In this regard, the World Tourism Organization developed a model border survey that combines administrative data (entry/exit cards) and statistical data obtained from surveys conducted when travellers leave the country visited. Some simple questions could be added in order to identify Mode 4 categories within the grouping of persons travel-

ling internationally for business and professional reasons. In order to be operative, such a proposal would require as for other types of data collection, clear-cut cooperation between national tourism administrations and migration and trade authorities.

5.117. Another possibility would be to use labour-force surveys, which are conducted on a regular basis by many major economies supplying services through Mode 4. A limited number of questions on (recent) visits abroad by household members for the purpose of work could be added, including questions about the contracting parties, the duration and forms of payment. Such questions would also enable the identification of Mode 4 types of visits separately from that of international labour mobility.

5.118. If information could be broken down into other categories (reasons for settlement, industry of employment and/or occupation of workers, length of stay), this would greatly enhance its usefulness for analysis of the international supply of services. While it has a different focus than *MSITS 2010*, the International Monetary Fund (IMF) publication entitled *International Transactions in Remittances: Guide for Compilers and Users*,<sup>35</sup> suggests that household surveys could be used to collect details on the people moving for employment or migration purposes by including a number of specialized modules or questions in existing surveys, or that specialized surveys could be conducted through which relevant households would be identified. Including relevant mode 4 modules/questions would help analysts understand the relations among the supply of services, employment status, etc.

35 Washington, D.C., 2009.

5.119. However, it must be noted that collecting information on the supply of services according to modes using the sources identified is a difficult task. These sources were not developed to enable the collection of specific information of interest from a GATS perspective; but as described above, some sources could prove to be useful, in particular if appropriate questions are included.

## F. Summary of recommendations

5.120. The simplified statistical approach to modes of supply does not strictly adhere to GATS provisions. Rather, it has been designed as a first guidance designed to provide information relevant for the GATS, while ensuring feasibility and consistency with statistical frameworks. Utilizing simplification criteria and rules, this chapter, in particular, paragraphs 5.30-5.67, describes the allocation of balance of payments services transactions and FATS by mode of supply. However, such an allocation should be adapted by compilers according to their economy's information needs, the situation of data-collection systems and resource constraints. These data should be complemented by other types of statistics that could be useful from an analytical perspective, and appropriate guidance thereon is provided in paragraphs 5.80-5.112. In order to develop these statistics, all parties (such as statistical offices, central banks, tax authorities, relevant ministries, export promotion agencies and business associations, etc.) need to cooperate and to be made aware of data requirements.

5.121. *MSITS 2010* recommends that:

1. Transactions between residents and non-residents and FATS be allocated over the GATS modes of supply. Where a full breakdown of statistics by modes of supply is considered a longer-term goal, compilers may choose to concentrate in the short-term on the simplified approach as described below.

2. As a starting point, the table V.2 summary of simplified allocations according to the dominant mode of transactions can be followed, but should be adapted to each country's situation with respect to the most relevant mode of supply for services items. If compilers encounter difficulties in implementing the allocation for detailed EBOPS 2010 items as indicated in table V.2, the allocation may be limited to the higher level of aggregation of service transactions (that is, the one using the 12 major services items and, if possible, an estimation of distribution services). The simplified allocation of FATS and balance of payments services components is summarized below:
  - As a general rule, FATS sales (turnover) and/or output provide(s) information on Mode 3. Balance of payments services statistics generally correspond to Modes 1, 2 and 4. The exception is the balance of payments construction component, which may be allocated to Mode 3 or broken down between Modes 3 and 4.
  - Each balance of payments services component (broken down according to EBOPS 2010) should be allocated either to one dominant mode or, where there is no single dominant mode, to the most significant mode(s) of supply as suggested in table V.2.
  - While trade in distribution services (that is, wholesaling and retailing) is included within the value of goods traded, separate estimation of trade margins would improve the estimation of the supply of services through Mode 1.
  - For services sectors that are important for compiling economies, the practice of separately identifying information on the modes of supply within specific balance of payments services items could be developed, as shown in paragraphs 5.56-5.62.
3. It is recommended that compilers collect additional information to improve and extend the knowledge of the international supply of services beyond the economic transactions involved. This should be achieved using the frameworks described in paragraphs 5.80-5.112.
4. Given that the number of persons crossing borders and staying abroad is a particularly important indicator within the context of Mode 4, *MSITS 2010* recommends, in particular, that such information be collected following the recommendations of IRTS 2008, TSA-RMF 2008 and RSIM, Rev.1. However, these recommendations should be expanded, if necessary, following the guidelines contained in paragraphs 5.89-5.106.

## Annex I

# 2010 Extended Balance of Payments Services Classification (EBOPS 2010)

The present annex sets out the components of EBOPS 2010. Supplementary items are presented in italics and complementary groupings appear at the end of the EBOPS 2010 classification.

## 1 Manufacturing services on physical inputs owned by others

- 1.1 *Goods for processing in reporting economy* — Goods returned (credits), Goods received (debits) (see para. 3.71)
- 1.2 *Goods for processing abroad* — Goods sent (credits), Goods returned (debits) (see para. 3.71)

## 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: 3.1.1.a 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: 3.2.1.a Payable by border, seasonal, and other short-term workers*
  - 3.2.2 Freight
  - 3.3.3 Other
- 3.3 Other modes of transport
  - 3.3.1 Passenger
    - Of which: 3.3.1.a Payable by border, seasonal, and other short-term workers*
  - 3.3.2 Freight
  - 3.3.3 Other
- 3.4 Postal 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 transport services

**For all modes of transport****Alternative 2: What is carried**

- 3a.1 Passenger
  - Of which:*
    - 3a.1.1 Payable by border, seasonal, and other short-term workers
- 3a.2 Freight
- 3a.3 Other
  - 3a.31 Postal and courier services
  - 3a.32 Other

**4 Travel**

- 4.1 Business
  - 4.1.1 Acquisition of goods and services by border, seasonal, and other short-term workers
  - 4.1.2 Other
- 4.2 Personal
  - 4.2.1 Health-related
  - 4.2.2 Education-related
  - 4.2.3 Other

**Alternative presentation for travel (for both business and personal travel)**

- 4a.1 Goods
- 4a.2 Local transport services
- 4a.3 Accommodation services
- 4a.4 Food-serving services
- 4a.5 Other services
  - Of which:*
    - 4a.5.1 Health services
    - 4a.5.2 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
    - 6.1.1 a Gross life insurance premiums receivable (credits) and payable (debits)
    - 6.1.1 b Gross life insurance claims receivable (credits) and payable (debits) (see para. 3.189)
  - 6.1.2 Freight insurance
    - 6.1.2 a Gross freight insurance premiums receivable (credits) and payable (debits)
    - 6.1.2 b Gross freight insurance claims receivable (credits) and payable (debits) (see para. 3.189)
  - 6.1.3 Other direct insurance
    - 6.1.3 a Gross other direct insurance premiums receivable (credits) and payable (debits)
    - 6.1.3 b Gross other direct insurance claims receivable (credits) and payable (debits) (see para. 3.189)
- 6.2 Reinsurance
- 6.3 Auxiliary insurance services
- 6.4 Pension and standardized guarantee services
  - 6.4.1 Pension services
  - 6.4.2 Standardized guarantee services

**7 Financial services**

- 7.1 Explicitly charged and other financial services



- 7.2 Financial intermediation services indirectly measured (FISIM)
- 8 Charges for the use of intellectual property n.i.e.**
  - 8.1 Franchises and trademarks licensing fees
  - 8.2 Licences for the use of outcomes of research and development
  - 8.3 Licences to reproduce and/or distribute computer software
  - 8.4 Licences to reproduce and/or distribute audio-visual and related products
    - 8.4.1 Licences to reproduce and/or distribute audio-visual products
    - 8.4.2 Licences to reproduce and/or distribute other products
- 9 Telecommunications, computer, and information services**
  - 9.1 Telecommunications services
  - 9.2 Computer services
    - 9.2.1 Computer software
      - Of which: 9.2.1.a Software 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 non-customized research and development services
      - 10.1.1.2 Sale of proprietary rights arising from research and development
        - 10.1.1.2.1 Patents
        - 10.1.1.2.2 Copyrights arising from research and development
        - 10.1.1.2.3 Industrial processes and designs
        - 10.1.1.2.4 Other
    - 10.1.2 Other
  - 10.2 Professional and management consulting services
    - 10.2.1 Legal, accounting, management consulting, and public relations services
      - 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 services
      - Of which: 10.2.2.1 Convention, trade-fair and exhibition organization services*
  - 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
      - 10.3.1.2 Engineering services
      - 10.3.1.3 Scientific and other technical services
    - 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
      - 10.3.2.3 Services incidental to mining, and oil and gas extraction
    - 10.3.3 Operating leasing services
    - 10.3.4 Trade-related services
    - 10.3.5 Other business services n.i.e.
      - Of which: 10.3.5.1 Employment services, i.e., search, placement and supply services of personnel*
- 11 Personal, cultural, and recreational services**
  - 11.1 Audio-visual and related services
    - 11.1.1 Audio-visual services
      - Of which: 11.1.1.a Audio-visual originals*

- 11.1.2 Artistic 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 goods and services n.i.e.

**4.0 Tourism-related services in travel and passenger transport**

**EBOPS 2010 complementary groupings**

- C.1 Audio-visual transactions  
*Of which: C.1.1 Licences to use audio-visual products*
- C.2 Cultural transactions
- C.3 Computer software transactions  
*Of which: C.3.1 Licences to use computer software products*
- C.4 Call-centre services
- C.5 Total services transactions between related enterprises
- C.6 Total trade-related transactions
- C.7 Environmental transactions
- C.8 Total health services
- C.9 Total education services

Annex II<sup>1</sup>

# ISIC, Rev.4 Categories for Foreign Affiliates in services (ICFA, Rev.1)

1 The present annex places emphasis on activities related to services with potentially prominent foreign direct investment (FDI) activity and introduces a closer link to EBOPS 2010.

ICFA headings/elements		ISIC Rev. 4 code
<b>1</b>	<b>AGRICULTURE, FORESTRY AND FISHING</b>	<b>Section A</b>
1.1	Crop and animal production, hunting and related service activities	div. 01
1.1.1	<i>Support activities to agriculture and post-harvest crop activities</i>	<i>group 01.6</i>
1.1.2	<i>Hunting, trapping and related service activities</i>	<i>group 01.7</i>
1.2	Forestry and logging	div. 02
1.2.1	<i>Support services to forestry</i>	<i>group 02.4</i>
1.3	Fishing and aquaculture	div. 03
<b>2</b>	<b>MINING AND QUARRING</b>	<b>Section B</b>
2.1	Mining support service activities	div. 09
<b>3</b>	<b>MANUFACTURING</b>	<b>Section C</b>
3.1	Repair and installation of machinery equipment	div. 33
<b>4</b>	<b>ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY</b>	<b>Section D</b>
4.1	<i>Electric power generation, transmission and distribution</i>	<i>class 35.10</i>
<b>5</b>	<b>WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES</b>	<b>Section E</b>
5.1	Water collection, treatment and supply	div. 36
5.2	Sewerage	div. 37
5.3	Waste collection, treatment and disposal activities; materials recovery	div. 38
5.4	Remediation activities and other waste management services	div. 39
<b>6</b>	<b>CONSTRUCTION</b>	<b>Section F</b>
<b>7</b>	<b>WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES</b>	<b>Section G</b>
7.1	Wholesale and retail trade and repair of motor vehicles and motorcycles	div. 45
7.2	Wholesale trade, except of motor vehicles and motorcycles	div. 46
7.3	Retail trade, except of motor vehicles and motorcycles	div. 47
<b>8</b>	<b>TRANSPORTATION AND STORAGE</b>	<b>Section H</b>
8.1	Land transport and transport via pipelines	div. 49
8.1.1	<i>Passenger rail transport, interurban</i>	<i>class 49.11</i>
8.1.2	<i>Freight rail transport</i>	<i>class 49.12</i>
8.1.3	<i>Other passenger land transport</i>	<i>class 49.22</i>
8.1.4	<i>Freight transport by road</i>	<i>class 49.23</i>
8.1.5	<i>Transport via pipeline</i>	<i>class 49.30</i>
8.2	Water transport	div. 50
8.2.1	<i>Sea and coastal water transport</i>	<i>group 50.1</i>

ICFA headings/elements		ISIC Rev. 4 code
8.2.2	<i>Inland water transport</i>	<i>group 50.2</i>
8.3	Air transport	div. 51
8.4	Warehousing and support activities for transportation	div. 52
8.5	Postal and courier activities	div. 53
<b>9</b>	<b>ACCOMMODATION AND FOOD SERVICE ACTIVITIES</b>	<b>Section I</b>
9.1	Accommodation	div. 55
9.2	Food and beverage service activities	div. 56
<b>10</b>	<b>INFORMATION AND COMMUNICATION</b>	<b>Section J</b>
10.1	Publishing activities	div. 58
10.1.1	<i>Publishing of books, periodicals and other publishing activities</i>	<i>group 58.1</i>
10.1.2	<i>Software publishing</i>	<i>group 58.2</i>
10.2	Motion picture, video and television programme production, sound recording and music publishing activities	div. 59
10.3	Programming and broadcasting activities	div. 60
10.4	Telecommunications	div. 61
10.5	Computer programming, consultancy and related activities	div. 62
10.5.1	<i>Computer programming activities</i>	<i>class 62.01</i>
10.5.2	<i>Computer consultancy and computer facilities management activities</i>	<i>class 62.02</i>
10.5.3	<i>Other information technology and computer service activities</i>	<i>class 62.09</i>
10.6	Information service activities	div. 63
10.6.1	<i>Data processing, hosting and related activities; web portals</i>	<i>group 63.1</i>
10.6.2	<i>Other information service activities</i>	<i>group 63.9</i>
10.6.2.1	<i>News agencies activities</i>	<i>class 63.91</i>
10.6.2.2	<i>Other information service activities n.e.c.</i>	<i>class 63.99</i>
<b>11</b>	<b>FINANCIAL AND INSURANCE ACTIVITIES</b>	<b>Section K</b>
11.1	<i>Financial service activities, except insurance and pension funding</i>	<i>div. 64</i>
11.2	<i>Insurance, reinsurance and pension funding, except compulsory social security</i>	<i>div. 65</i>
11.2.1	<i>Life insurance</i>	<i>class 65.11</i>
11.2.2	<i>Non-life insurance</i>	<i>class 65.12</i>
11.2.3	<i>Reinsurance</i>	<i>class 65.20</i>
11.2.4	<i>Pension funding</i>	<i>class 65.30</i>
11.3	Activities auxiliary to financial services and insurance activities	div. 66
11.3.1	<i>Activities auxiliary to financial service activities, except insurance and pension funding</i>	<i>group 66.1</i>
11.3.2	<i>Activities auxiliary to insurance and pension funding</i>	<i>group 66.2</i>
11.3.3	<i>Fund management activities</i>	<i>group 66.3</i>
<b>12</b>	<b>REAL ESTATE ACTIVITIES</b>	<b>Section L</b>
<b>13</b>	<b>PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES</b>	<b>Section M</b>
13.1	Legal and accounting activities	div. 69
13.1.1	<i>Legal activities</i>	<i>group 69.1</i>
13.1.2	<i>Accounting, bookkeeping and auditing activities; tax consultancy</i>	<i>group 69.2</i>

ICFA headings/elements		ISIC Rev. 4 code
13.2	Activities of head offices, management consultancy activities	div. 70
13.2.1	<i>Activities of head offices</i>	<i>group 70.1</i>
13.2.2	<i>Management consulting activities</i>	<i>group 70.2</i>
13.3	Architectural and engineering activities; technical testing and analysis	div. 71
13.4	Scientific research and development	div. 72
13.5	Advertising and market research	div. 73
13.5.1	<i>Advertising</i>	<i>group 73.1</i>
13.5.2	<i>Market research and public opinion polling</i>	<i>group 73.2</i>
13.6	Other professional, scientific and technical activities	div. 74
13.7	Veterinary activities	div. 75
<b>14</b>	<b>ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES</b>	<b>Section N</b>
14.1	Rental and leasing activities	div. 77
14.2	Employment activities	div. 78
14.3	Travel agency, tour operator reservation service and related activities	div. 79
14.4	Security and investigation activities	div. 80
14.5	Services to buildings and landscape activities	div. 81
14.6	Office administrative, office support and other business support activities	div. 82
<b>15</b>	<b>EDUCATION</b>	<b>Section P</b>
<b>16</b>	<b>HUMAN HEALTH AND SOCIAL WORK ACTIVITIES</b>	<b>Section Q</b>
16.1	Human health activities	div. 86
16.2	Residential care and social work activities	div. 87, 88
<b>17</b>	<b>ARTS, ENTERTAINMENT AND RECREATION</b>	<b>Section R</b>
17.1	Creative, arts and entertainment activities	div 90
17.2	Libraries, archives, museums and other cultural activities	div 91
17.3	Sporting and other recreational activities; gambling and betting activities	div 92, 93
<b>18</b>	<b>OTHER SERVICE ACTIVITIES</b>	<b>Section S</b>
18.1	Activities of membership organizations	div 94
18.2	Repair of computers and personal and household goods, other personal service activities	div 95, 96

**Note:** The following ISIC categories have been excluded from ICFA because they are not relevant to FDI or FATS: Public administration and defence; compulsory social security (sect. O), Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use (sect. T) and Activities of extraterritorial organizations and bodies (sect. U). All other ISIC categories are included.



## Annex III

# Extract from the General Agreement on Trade in Services

Reproduced below are the preamble and part I of the text of the General Agreement on Trade in Services,<sup>1</sup> which defines the scope of the agreement as concerns trade in services.

*“Members,*

*Recognizing* the growing importance of trade in services for the growth and development of the world economy;

*Wishing* to establish a multilateral framework of principles and rules for trade in services with a view to the expansion of such trade under conditions of transparency and progressive liberalization and as a means of promoting the economic growth of all trading partners and the development of developing countries;

*Desiring* the early achievement of progressively higher levels of liberalization of trade in services through successive rounds of multilateral negotiations aimed at promoting the interests of all participants on a mutually advantageous basis and at securing an overall balance of rights and obligations, while giving due respect to national policy objectives;

*Recognizing* the right of Members to regulate, and to introduce new regulations, on the supply of services within their territories in order to meet national policy objectives and, given asymmetries existing with respect to the degree of development of services regulations in different countries, the particular need of developing countries to exercise this right;

*Desiring* to facilitate the increasing participation of developing countries in trade in services and the expansion of their service exports including, inter alia, through the strengthening of their domestic services capacity and its efficiency and competitiveness;

*Taking particular account of* the serious difficulty of the least-developed countries in view of their special economic situation and their development, trade and financial needs;

Hereby *agree* as follows:

### **Part I: Scope and definition**

#### **Article I: Scope and definition**

1. This Agreement applies to measures by Members affecting trade in services.
2. For the purposes of this Agreement, trade in services is defined as the supply of a service:

<sup>1</sup> See *Final Act Embodying the results of the Uruguay Round of Multilateral Trade Negotiations, done at Marrakesh on 15 April 1994* (GATT secretariat publication, Sales No. GATT/1994-4), annex 1.B.

- (a) from the territory of one Member into the territory of any other Member;
  - (b) in the territory of one Member to the service consumer of any other Member;
  - (c) by a service supplier of one Member, through commercial presence in the territory of any other Member;
  - (d) by a service supplier of one Member, through presence of natural persons of a Member in the territory of any other Member.
3. For the purposes of this Agreement:
- a. “measures by Members” means measures taken by:
    - (i) central, regional or local governments and authorities; and
    - (ii) non-governmental bodies in the exercise of powers delegated by central, regional or local governments or authorities;In fulfilling its obligations and commitments under the Agreement, each Member shall take such reasonable measures as may be available to it to ensure their observance by regional and local governments and authorities and non-governmental bodies within its territory;
  - b. “services” includes any service in any sector except services supplied in the exercise of governmental authority;
  - c. “a service supplied in the exercise of governmental authority” means any service which is supplied neither on a commercial basis, nor in competition with one or more service suppliers.”



## Annex IV

# Services Sectoral Classification List (MTN.GNS/W/120)

Sectors and subsectors		Corresponding Provisional CPC category
1.	Business services	
A.	Professional services	
a.	Legal services	861
b.	Accounting, auditing and bookkeeping services	862
c.	Taxation services	863
d.	Architectural services	8671
e.	Engineering services	8672
f.	Integrated engineering services	8673
g.	Urban planning and landscape architectural services	8674
h.	Medical and dental services	9312
i.	Veterinary services	932
j.	Services provided by midwives, nurses, physiotherapists and para-medical personnel	93191
k.	Other	
B.	Computer and related services	
a.	Consultancy services related to the installation of computer hardware	841
b.	Software implementation services	842
c.	Data processing services	843
d.	Database services	844
e.	Other	845+849
C.	Research and development services	
a.	R&D services on natural sciences	851
b.	R&D services on social sciences and humanities	852
c.	Interdisciplinary R&D services	853
D.	Real estate services	
a.	Involving own or leased property	821
b.	On a fee or contract basis	822
E.	Rental/leasing services without operators	
a.	Relating to ships	83103
b.	Relating to aircraft	83104
c.	Relating to other transport equipment	83101+83102+83105
d.	Relating to other machinery and equipment	83106-83109
e.	Other	832

Sectors and subsectors		Corresponding Provisional CPC category
<b>F.</b>	<b>Other business services</b>	
a.	Advertising services	871
b.	Market research and public opinion polling services	864
c.	Management consulting services	865
d.	Services related to management consulting	866
e.	Technical testing and analysis services	8676
f.	Services incidental to agriculture, hunting and forestry	881
g.	Services incidental to fishing	882
h.	Services incidental to mining	883+5115
i.	Services incidental to manufacturing	884+885 (except for 88442)
j.	Services incidental to energy distribution	887
k.	Placement and supply services of Personnel	872
l.	Investigation and security	873
m.	Related scientific and technical consulting services	8675
n.	Maintenance and repair of equipment (not including maritime vessels, aircraft or other transport equipment)	633+8861-8866
o.	Building-cleaning services	874
p.	Photographic services	875
q.	Packaging services	876
r.	Printing, publishing	88442
s.	Convention services	87909*
t.	Other	8790
<b>2.</b>	<b>Communication services</b>	
A.	Postal services	7511
B.	Courier services	7512
C.	Telecommunication services	
a.	Voice telephone services	7521
b.	Packet-switched data transmission services	7523**
c.	Circuit-switched data transmission services	7523**
d.	Telex services	7523**
e.	Telegraph services	7522
f.	Facsimile services	7521**+7529**
g.	Private leased circuit services	7522**+7523**
h.	Electronic mail	7523**
i.	Voice mail	7523**
j.	On-line information and data base retrieval	7523**
k.	Electronic data interchange (EDI)	7523**
l.	Enhanced/value added facsimile services, including store and forward, store and retrieve	7523**
m.	Code and protocol conversion	n.a.
n.	On-line information and/or data processing (including transaction processing)	843**
o.	Other	

Sectors and subsectors		Corresponding Provisional CPC category
D.	Audio-visual services	
a.	Motion picture and video tape production and distribution services	9611
b.	Motion picture projection services	9612
c.	Radio and television services	9613
d.	Radio and television transmission services	7524
e.	Sound recording	n.a.
f.	Other	
E.	Other	
3.	<b>Construction and related engineering services</b>	
A.	General construction work for buildings	512
B.	General construction work for civil engineering	513
C.	Installation and assembly work	514+516
D.	Building completion and finishing work	517
E.	Other	511+515+518
4.	<b>Distribution services</b>	
A.	Commission agents' services	621
B.	Wholesale trade services	622
C.	Retailing services	631+632+6111+6113+6121
D.	Franchising	8929
E.	Other	
5.	<b>Educational services</b>	
A.	Primary education services	921
B.	Secondary education services	922
C.	Higher education services	923
D.	Adult education	924
E.	Other education services	929
6.	<b>Environmental services</b>	
A.	Sewage services	9401
B.	Refuse disposal services	9402
C.	Sanitation and similar services	9403
D.	Other	
7.	<b>Financial services</b>	
A.	All insurance and insurance-related services	812**
a.	Life, accident and health insurance services	8121
b.	Non-life insurance services	8129
c.	Reinsurance and retrocession	81299*
d.	Services auxiliary to insurance (including broking and agency services)	8140
B.	Banking and other financial services (excluding insurance)	
a.	Acceptance of deposits and other repayable funds from the public	81115-81119
b.	Lending of all types, including, inter alia, consumer credit, mortgage credit, factoring and financing of commercial transaction	8113

Sectors and subsectors		Corresponding Provisional CPC category
c.	Financial leasing	8112
d.	All payment and money transmission services	81339**
e.	Guarantees and commitments	81199**
f.	Trading for own account or for account of customers, whether on an exchange, in an over-the-counter market or otherwise, the following:	
	• Money market instruments (cheques, bills, certificate of deposits, etc.)	81339**
	• Foreign exchange	81333
	• Derivative products including, but not limited to, futures and options	81339**
	• Exchange rate and interest rate instruments, including products such as swaps, forward rate agreements, etc.	81339**
	• Transferable securities	81321*
	• Other negotiable instruments and financial assets, including bullion	81339**
g.	Participation in issues of all kinds of securities, including underwriting and placement as agent (whether publicly or privately) and provision of service related to such issues	8132
h.	Money broking	81339**
i.	Asset management, such as cash or portfolio management, all forms of collective investment management, pension fund management, custodial depository and trust services	8119**+81323*
j.	Settlement and clearing services for financial assets, including securities, derivative products, and other negotiable instruments	81339** or 81319**
k.	Advisory and other auxiliary financial services on all the activities listed in Article 1B of MTN.TNC/W/50, including credit reference and analysis, investment and portfolio research and advice, advice on acquisitions and on corporate restructuring and strategy	8131 or 8133
l.	Provision and transfer of financial information, and financial data processing and related software by providers of other financial services	8131
C.	Other	
8.	<b>Health related and social services (other than those listed under 1.A.h-j)</b>	
A.	Hospital services	9311
B.	Other human health services	9319 (other than 93191)
C.	Social services	933
D.	Other	
9.	<b>Tourism and travel-related services</b>	
A.	Hotels and restaurants (including catering)	641-643
B.	Travel agencies and tour operators services	7471
C.	Tourist guides services	7472
D.	Other	
10.	<b>Recreational, cultural and sporting services (other than audio-visual services)</b>	

Sectors and subsectors		Corresponding Provisional CPC category
A.	Entertainment services (including theatre, live bands and circus services)	9619
B.	News agency services	962
C.	Libraries, archives, museums and other cultural services	963
D.	Sporting and other recreational services	964
E.	Other	
11.	<b>Transport services</b>	
A.	Maritime transport services	
a.	Passenger transportation	7211
b.	Freight transportation	7212
c.	Rental of vessels with crew	7213
d.	Maintenance and repair of vessels	8868**
e.	Pushing and towing services	7214
f.	Supporting services for maritime transport	745**
B.	Internal waterways transport	
a.	Passenger transportation	7221
b.	Freight transportation	7222
c.	Rental of vessels with crew	7223
d.	Maintenance and repair of vessels	8868**
e.	Pushing and towing services	7224
f.	Supporting services for internal waterway transport	745**
C.	Air transport services	
a.	Passenger transportation	731
b.	Freight transportation	732
c.	Rental of aircraft with crew	734
d.	Maintenance and repair of aircraft	8868**
e.	Supporting services for air transport	746
D.	Space transport	733
E.	Rail transport services	
a.	Passenger transportation	7111
b.	Freight transportation	7112
c.	Pushing and towing services	7113
d.	Maintenance and repair of rail transport equipment	8868**
e.	Supporting services for rail transport services	743
F.	Road transport services	
a.	Passenger transportation	7121+7122
b.	Freight transportation	7123
c.	Rental of commercial vehicles with operator	7124
d.	Maintenance and repair of road transport equipment	6112+8867
e.	Supporting services for road transport services	744
G.	Pipeline transport	
a.	Transportation of fuels	7131

**Note:** An asterisk (\*) indicates that the service specified is a component of a more aggregated CPC item specified elsewhere in the present classification list; two asterisks (\*\*) indicate that the service specified constitutes only a part of the total range of activities covered by the CPC concordance (for example, voice mail is only one component of CPC class 7523). The abbreviation "n.a." signifies that the corresponding code is not available.

Sectors and subsectors		Corresponding Provisional CPC category
b.	Transportation of other goods	7139
H.	Services auxiliary to all modes of transport	
a.	Cargo-handling services	741
b.	Storage and warehouse services	742
c.	Freight transport agency services	748
d.	Other	749
I.	Other transport services	
12.	<b>Other services not included elsewhere</b>	95+97+98+99

## Annex V

# Clarifying the relationship between *MSITS 2010* and tourism statistics international recommendations

1. The present annex briefly outlines the nature and purpose of the tourism satellite account, as referred to in the publication *Tourism Satellite Account: Recommended Methodological Framework 2008*<sup>1</sup> (TSA-RMF 2008), which has been jointly developed by Eurostat, the Organisation for Economic Co-operation and Development (OECD), the United Nations Statistics Division of the Department of Economic and Social Affairs of the United Nations Secretariat and the World Tourism Organization and which describes the relationship between the travel component of EBOPS 2010 as defined in *MSITS 2010* and the concept of tourism expenditure as defined in the *International Recommendations for Tourism Statistics 2008*<sup>2</sup> (IRTS 2008). It also discusses breakdowns of tourism expenditure and their potential relevance to trade agreements. In the context of *MSITS 2010*, the tourism satellite account provides an alternative potential source of data which might be used to partly estimate a more detailed breakdown of travel, as presented in chapter III of *MSITS 2010*.

1 United Nations publication, Sales No. E.08.XVII.27.

2 Studies in Methods, Series M., No. 83/Rev.1 (United Nations publication, Sales No. E.08.XVII.28).

## A. Tourism statistics and the tourism satellite account: an overview

2. The present section, which draws from the introduction to IRTS 2008 and TSA-RMF 2008, offers a brief overview of the nature and purpose of tourism statistics and of a tourism satellite account, which provide a greater level of detail and insight than can be provided by any necessarily aggregate measurement of tourism expenditure derived from the balance of payments or from *MSITS 2010*.

3. Statistical information on the nature, progress and consequences of tourism has often been based on arrivals and overnight-stay statistics as well as other balance of payments data that do not fully capture the economic phenomenon of tourism in its entirety. Consequently, Governments, businesses and citizens may not receive the most accurate information necessary for the conduct of effective public policies and efficient business operations. In general, the information on the role that tourism plays in national economies throughout the world tends to be deficient, and more credible data concerning the scale and significance of tourism are needed.

4. In the past, the description of tourism focused on the characteristics of visitors, the conditions in which they travelled and stayed, the purpose of the trip, etc. Now, there is an increasing awareness of the role that tourism is playing and can play, directly, indirectly or through induced effects, in the economy in terms of generation of value added, employment, personal income and government income. This awareness has led to the

development of techniques for measuring tourism's economic importance. Those developments have now been pulled together in the internationally comparable framework of the tourism satellite account.

3 European Commission, International Monetary Fund, Organisation for Economic Co-operation and Development, United Nations and World Bank, *System of National Accounts 2008* (United Nations publication, Sales No. E.08.XVII.29).

5. The 2008 SNA<sup>3</sup> provides concepts, definitions, classifications, accounting rules, accounts and tables for the purpose of presenting a comprehensive, integrated framework for the estimation of production, consumption, capital investment, income, stocks, flows of financial and non-financial capital, and other related economic variables. Within that framework, a detailed analysis of a specific type of demand such as that related to tourism can be presented in an interface with the supply of these tourism-related goods and services within an economy.

6. The tourism satellite account focuses on the concept of *visitor* and on measuring his or her demand for goods and services. However, *visitor* expenditure is not restricted to a set of predefined goods and services produced by a predefined set of industries. What makes tourism special is not so much what is acquired but rather the temporary situation in which the consumer finds him- or herself. The visitor is taking a trip to or visiting a place outside his or her usual environment for less than a year and for a purpose other than to be employed by a resident entity there, which differentiates a visitor from the other categories of consumers. These specific characteristics of the visitor cannot be made explicit within the central framework of national accounts, where the transactors are classified according to (relatively) permanent characteristics, one of them being the country or place of residence.

4 See chap. 29.

7. In order to deal with such situations, the 2008 SNA<sup>4</sup> suggests the use of satellite accounts, which are annexed to the core of the System of National Accounts and which to a greater or lesser extent share with this core system its basic concepts, definitions, classifications and accounting rules. While they may exhibit some differences from the central system, they do not entail a change in the underlying concepts of the SNA in a fundamental way. The main reason for developing such satellite accounts stems from the fact that any attempt to encompass all the details for all sectors of interest within the standard system would simply overburden it and possibly distract attention from the main features of the System of National Accounts as a whole.

8. The function of the Tourism Satellite Account, once set up, comprises analysing in detail all aspects of demand for goods and services that might be associated with tourism, establishing the actual interface with the supply of such goods and services within the economy of reference, or outside, and describing how this supply (of domestic or imported origin) interacts with other economic activities, using the supply and use table of the 2008 SNA as a reference.

9. The complete tourism satellite account for a country will provide:

- (a) Macroeconomic aggregates for describing the size and the economic contribution of tourism, consistent with similar aggregates for the total economy and for other productive economic activities and functional areas of interest;
- (b) Detailed data on tourism consumption and a description of how this demand is met by domestic supply and imports, integrated within tables derived from general supply and use tables of the national accounts, which can be compiled at both current and constant prices;
- (c) Detailed production accounts of the tourism industries, including data on employment, linkages with other productive economic activities and gross fixed capital formation;



- (d) Basic information that might be needed for the development of models of the economic impact of tourism (at the national and supranational levels), as required for the preparation, for example, of tourism market-oriented analysis;
  - (e) A link between economic data and other, non-monetary information on tourism, such as number of trips (or visits), duration of the stay, purpose of trip, modes of transport, etc., which are required to specify the characteristics of the economic variables.
10. A tourism satellite account should be seen from two different perspectives:
- (a) As a statistical tool that complements the concepts, definitions, aggregates and classifications already presented in the IRTS 2008 and adapts them to the design of analytical tables. Those tables will contain elements that allow for valid comparisons of estimates among regions, countries or groups of countries and that are comparable with other internationally recognized macroeconomic aggregates and compilations;
  - (b) As the framework for guiding countries in their development of a system of tourism statistics, with the main objective being the completion of the tourism satellite account, which could be viewed as a synthesis of all the components of such a system.

## B. Relationship between travel in EBOPS 2010 and tourism statistics

11. In *MSITS 2010* (and in BPM6<sup>5</sup>), the *travel* component covers, on the credit side, goods and services for own use or to be given away that are acquired from an economy by non-residents during visits to that economy; and on the debit side, goods and services for own use or to be given away that are acquired from other economies by residents during visits to other economies. Other transactions in services related to these visits are included in *transport, passenger*. Travel covers stays of any length provided that there is no change of residence. The residence of households is determined according to the centre of predominant economic interest of its members, which is determined by the economic territory in which those members maintain a dwelling or a succession of dwellings that are treated and used by members of the household as their principal dwelling. It is sufficient to be present for one year or more in a territory or to intend to be so in order to qualify as having a principal dwelling there. Nevertheless, this one-year guideline does not apply to students or to patients receiving health care abroad, who, except in some particular cases, remain resident in the territory in which they were resident prior to studying or being treated abroad, even if the length of stay in another economy is greater than one year.

12. Table AV.1 which follows (see *International Recommendations for Tourism Statistics 2008*, para. 8.19) illustrates the relationship between the “travel” and “passenger transport services” items of the balance of payments and tourism statistics. It separates two basic issues: (a) the range of individuals encompassed by the balance of payments, and visitors; and (b) the scope of expenditure considered within “travel” and tourism consumption.

13. The EBOPS component of *transport, passenger* includes international transportation services provided by resident transport operators to non-resident travellers and those provided by non-resident transport operators to resident travellers, as well as transportation

<sup>5</sup> International Monetary Fund, *Balance of Payments and International Investment Position Manual*, 6th ed. (BPM6) (Washington, D.C., 2009).

Table AV.1

**Bridge table between the “travel” and “passenger international transport services” items of balance of payments and inbound/outbound tourism expenditure**

	Balance of payments	Tourism statistics
<b>Definition</b>	<p><i>“Travel” item of balance of payments</i></p> <p>Travel credits cover goods and services for own use or to be given away acquired from an economy by non-residents during visits to that economy. Travel debits cover goods and services for own use or to be given away acquired from other economies by residents during visits to these other economies.</p> <p><i>Passenger international transport item</i></p> <p>Passenger services cover the transport of people. It covers all services provided in the international transport of non-residents by resident carriers (credit) and that of residents by non-resident carriers (debit). Also included are passenger services performed within a territory 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. Passenger services provided within a territory by residents to non-residents and provided/purchased separately from international transport are excluded from passenger transport; these services are included in travel.</p>	<p><i>Inbound/outbound tourism expenditure</i></p> <p><i>Tourism expenditure</i> refers to the amount paid for the acquisition of consumption goods and services, as well as valuables, for own use or to be given away, for and during tourism trips. It includes expenditures by visitors themselves, as well as expenses that are paid for or reimbursed by others.</p> <p>(a) Inbound tourism expenditure is the tourism expenditure of a non-resident visitor within the economy of reference;</p> <p>(b) Outbound tourism expenditure is the expenditure of a resident visitor outside the economy of reference.</p>
	<i>Scope</i>	
	Arriving non-residents/leaving residents	International visitors: non-resident travellers taking tourism trips outside their usual environment for less than one year, for a purpose other than to be employed by a resident entity in the country visited.
<b>Persons</b>		
Diplomats, consular staff, military personnel (other than locally engaged staff) and their dependants	No	No
Border workers	Yes	No
Seasonal workers	Yes	No
Other short-term workers*	Yes	No
Crews	Yes	Considered visitors except regular as well as occasional crews on public modes of transport
Students	Short-term and long-term	Only those taking courses for less than one year (short-term)
Patients	Short-term and long-term	Only those under treatment for less than one year (short-term)
Nomads, refugees and displaced persons	Yes, if for stay of less than one year	No
<b>Travel</b>		
Transactions on goods and services that do not imply a monetary transaction and represent social transfers in kind or require imputations	Yes	Not included in tourism expenditure but in the more inclusive concept of tourism consumption used in the tourism satellite account approach
Acquisition of consumption goods and services other than international transport	Yes	Yes

	Balance of payments	Tourism statistics
<b>Travel (continued)</b>		
Acquisition of valuables	Yes if under the customs' threshold	All, if acquired on trips
Acquisition of consumer durable goods	Yes if under the customs' threshold	All, if acquired on trips
Expenditure on education for those whose main purpose is education	Yes	Yes, if course for less than one year (short-term)
Expenditure on health for those whose main purpose is health	Yes	Yes, if treatment for less than one year (short-term)
Expenditure other than acquisition of goods and services	No in principle. Nevertheless the BPM5 Textbook** (p. 337) recommends that fees such as airport taxes or traffic violations be included under travel, although they should be considered current transfers	No
<b>International transport</b>		
Transport to and from the country of reference in a resident to non-resident transaction	Yes	Yes
Transport between two points outside the country of reference as a resident to non-resident transaction	Yes	For the country of residence of the carrier, the traveller is not a visitor to, from or within that country; for the country of residence of the traveller, part of outbound tourism expenditure, if the traveller is an outbound visitor.
Transport within an economy by non-resident carriers as a resident to non-resident transaction	Yes	Part of outbound tourism expenditure for the country of residence of the traveller if he or she is a visitor; not in tourism statistics for the country of residence of the carrier.
Intermediation of travel agencies	If remunerated by a fee or commission paid by the carrier, whatever the country of residence of the travel agency, its service is included in the valuation of international passenger transport and included or excluded whether the purchase of international passenger transport is a resident to non-resident transaction or not. Or, if a separate fee is paid by the traveller, it is included under travel but only if it represents a resident to non-resident transaction.	In all cases, the service is valued using the gross margin: it is acquired by the visitor. It is included in inbound, outbound or domestic tourism expenditure depending on the country of residence of the travel agency and the visitor.
Package tours	The fee or commission of a tour operator is part of the value of the package. For the fee or commission paid by the service provider, the treatment is similar to that of the intermediation of travel agencies. The value of the service of the tour operator on top of the services purchased from providers will be included under travel only if it represents a resident to non-resident transaction.	In all cases, the service is valued using the gross margin: it is acquired by the visitor. It is included in inbound, outbound or domestic tourism expenditure depending on the country of residence of the tour operator, the travel agency and the visitor.

\* Not including persons travelling for business purposes with no employer-employee relationship in the economy visited. These are covered in both sets of statistics.

\*\* International Monetary Fund, *Balance of Payments Textbook*, 5th ed. (Washington, D.C., 1996).

services provided to travellers within the economies they are visiting, where such services are provided by carriers non-resident in those economies.

14. Tourism statistics identify *tourism* as “the activities of travellers taking trips to a main destination outside their usual environment for less than one year for any main purpose (business, leisure and other personal) other than to be employed by a resident entity in the place visited”, where *usual environment* is defined as the geographical area (though not necessarily a contiguous one) within which an individual conducts his or her regular life routines. Such travellers are called visitors. Visitors are further classified in two ways:

- (a) Either, according to length of stay, as *tourists*, who stay for at least one night in the place visited, or as *same-day visitors*, whose visit does not include an overnight stay;
- (b) Or, according to the country visited, as *international visitors*, when their country of residence is different from the country visited, or as *domestic visitors*, when their country of residence is the country visited.

15. In terms of *MSITS 2010*, the focus is on international visitors. Military personnel on active duty and diplomats and their dependants are excluded from the category of visitors in tourism statistics and their consumption is excluded from international tourism consumption in the same way as in *MSITS 2010*. As regards individuals whose expenditure is included in *MSITS 2010* but excluded from tourism statistics:

- (a) BPM6 and *MSITS 2010* regard students and medical patients as residents of their home economies, even when they are staying in another country for one year or more. In contrast, tourism statistics, in those cases where they are staying in another country for one year or more, consider that they are within their usual environment and are thus no longer to be viewed as visitors;
- (b) Tourism statistics exclude from the category of visitors all individuals who move to another economy primarily for the purpose of being employed by a resident entity in the place visited, and thus those statistics do not include their expenditure in tourism expenditure. By contrast, *MSITS 2010* includes in *travel* goods and services acquired by non-residents in the economies in which they undertake a productive activity, and whose primary purpose of travel is for business irrespective of the residence of the employer — in other words, it includes 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. However, the EBOPS component *acquisition of goods and services by border, seasonal, and other short-term workers* separately identifies their expenditure.

16. *MSITS 2010* excludes migrants from its definition of travellers and tourism statistics similarly exclude migrants from its definition of visitors. However, following the “one year rule”, *MSITS 2010* may consider refugees either as travellers or as migrants whereas tourism statistics exclude refugees in all cases, as they are considered to be within their usual environment (see chap. III for a more detailed discussion).

## C. Tourism characteristic products and EBOPS components

17. Trade negotiators and trade policymakers need to be able to identify and quantify trade in services within a product breakdown. The tourism satellite account undertakes such a breakdown of visitor expenditure within the framework of 12 groupings of tourism characteristic products of a set of tourism industries. This is designed to ensure the international comparability of tourism satellite account data and of other products considered non-tourism characteristic which visitors may also acquire. With the exception of international passenger transport, products acquired by non-residents relating to their visits abroad are included indistinguishably under EBOPS travel.

18. The revised EBOPS suggests a separate supplementary breakdown of travel into types of goods and service, which would allow for closer links with the tourism satellite account as well as supply and use tables:

- (a) Goods;
- (b) Local transport services;
- (c) Accommodation services;
- (d) Food-serving services;
- (e) Other services, of which:
  - (i) Health services;
  - (ii) Education services.

In addition to this supplementary breakdown, and in order to highlight the link between travel and passenger transport services and tourism statistics, *MSITS 2010* proposes a supplementary item, *tourism-related services in travel and passenger transport*, as allowing an estimate of tourism as an international traded service.

19. All tourism characteristic products that are identified in the tourism satellite account are linked to CPC, Version 2, and may be identified in *MSITS 2010*, although, in some cases, the relationships are only partial (see table AV.2).<sup>6</sup> For example, the tourism characteristic product relating to passenger transport is partly described by EBOPS components relating to *passenger transport services*, whose coverage also includes passengers being transported by the carrier of a third-country, i.e., a country different from that of the country of origin or of destination (see chap. III for the definition of *passenger transport services*).

20. If statistics compiled on trade in services are to be used for compiling the tourism satellite account, or vice versa, adjustments will be needed for these differences in coverage. However, the data sources used for compiling the tourism satellite account are also likely to be relevant for balance of payments statistics.

6 See online annexes to *MSITS 2010* at <http://unstats.un.org/unsd/tradeserv/TFSITS/msits/2010/annexes.htm>; and annex 4 of IRTS 2008.

Table AV.2

**List of tourism characteristic products and groupings by main categories, according to CPC, Version 2**

1. Accommodation services for visitors	
63111	Room or unit accommodation for visitors, with daily housekeeping services
63112	Room or unit accommodation for visitors, without daily housekeeping services
63113	Room or unit accommodation services for visitors in timeshare properties
63114	Accommodation services for visitors, in rooms with multiple occupancy
63120	Campsite services
63130	Recreational vacation camp services
63210	Room or unit accommodation services for students in student residences
63290	All other room or unit accommodation services
72111	Renting or leasing services involving own or leased residential property
72123	Trade services of timeshare properties
72211	Residential property management services on a fee or contract basis except of timeshare ownership properties
72213	Timeshare (ownership-type) property management services on a fee or contract basis
72221	Residential building sales on a fee or contract basis, except of timeshare ownership properties
72223	Sale of timeshare properties on a fee or contract basis

Table AV.2

**List of tourism characteristic products and groupings by main categories, according to CPC, Version 2 (continued)**

<b>2. Food and beverage services</b>	
63310	Meal-serving services with full restaurant services
63320	Meal-serving services with limited services
63399	Other food-serving services
63400	Beverage-serving services
<b>3. Railway passenger transport services</b>	
64131	Sightseeing services by rail
64210	Inter-urban railway transport services of passengers
<b>4. Road passenger transport services</b>	
64115	Taxi services
64116	Rental services of passenger cars with operator
64117	Road transport services of passengers by man- or animal-drawn vehicles
64118	Non-scheduled local bus and coach services
64119	Other land transportation services of passengers n.e.c.
64132	Sightseeing services by land, except rail
64221	Inter-urban scheduled road transport services of passengers
64222	Inter-urban special-purpose scheduled road transport services of passengers
64223	Non-scheduled long-distance bus and coach services
<b>5. Water passenger transport services</b>	
64121	Inland water transport services of passengers by ferries
64122	Inland water transport services of passengers on cruises
64129	All other inland water transport services of passengers
64133	Sightseeing services by water
64231	Coastal and transoceanic water transport services of passengers by ferries
64232	Coastal and transoceanic water transport services of passengers on cruise ships
64239	All other coastal and transoceanic water transport services of passengers
<b>6. Air passenger transport services</b>	
64134	Sightseeing services by air
64241	Domestic scheduled air transport services of passengers
64242	Domestic non-scheduled air transport services of passengers
64243	International scheduled air transport services of passengers
64244	International non-scheduled air transport services of passengers
64250	Space transport services of passengers
<b>7. Transport equipment rental</b>	
73111	Leasing or rental services concerning cars and light vans without operator
<b>8. Travel agencies and other reservation services</b>	
85511	Reservation services for air transport
85512	Reservation services for rail transportation
85513	Reservation services for bus transportation
85514	Reservation services for vehicle rental
85519	Other transportation arrangement and reservation services n.e.c.
85521	Reservation services for accommodation

85522	Timeshare exchange services
85523	Reservation services for cruises
85524	Reservation services for package tours
85539	Reservation services for event tickets and other entertainment and recreational services
85540	Tour operator services
85550	Tourist guide services
85562	Visitor information services
<b>9. Cultural services</b>	
96220	Performing arts event production and presentation services
96310	Services of performing artists
96411	Museum services except for historical sites and buildings
96412	Preservation services of historical sites and buildings
96421	Botanical and zoological garden services
96422	Nature reserve services including wildlife preservation services
<b>10. Sports and recreational services</b>	
96520	Sports and recreational sports facility operation services
96590	Other sports and recreational sports services
96910	Amusement park and similar attraction services
96929	Other gambling and betting services
96930	Coin-operated amusement machine services
96990	Other recreation and amusement services n.e.c.
<b>11. Country-specific tourism characteristic goods</b>	
<b>12. Country-specific tourism characteristic services</b>	





# Glossary\*

Asset	An asset is a store of value representing a benefit or series of benefits accruing to the economic owner by holding or using the entity over the period of time. It is a means of carrying forward value from one accounting period to another. These include both financial assets and non-financial assets, whether produced or non-produced ( <b>2008 SNA, p. 617 and para. 3.5</b> ).
Balance of payments	The balance of payments is a statistical statement that summarizes transactions between residents and non-residents during a period. It consists of the goods and services account, the primary income account, the secondary income account, the capital account, and the financial account ( <b>BPM6, p. 9, para. 2.12</b> ).
<i>Balance of Payments and International Investment Position Manual</i>	The sixth edition of the <i>Balance of Payments and International Investment Position Manual</i> (BPM6) serves as the standard framework for statistics on the transactions and positions between an economy and the rest of the world ( <b>BPM6, p. 1, para. 1.1</b> ).
Central Product Classification	The Central Product Classification (CPC) constitutes a complete product classification covering goods and services. It is intended to serve as an international standard for assembling and tabulating all kinds of data requiring product detail, including industrial production, national accounts, service industries, domestic and foreign commodity trade, international trade in services, balance of payments, consumption and price statistics. Other basic aims are to provide a framework for international comparison and promote harmonization of various types of statistics dealing with goods and services. The primary purpose of CPC, Version 2, is to classify the goods and services that are the result of production in any economy. CPC, Version 2, is useful in studying transactions in goods and services in detail ( <b>CPC, Ver. 2</b> ).
Compensation of employees	Compensation of employees is the total remuneration, comprising wages, salaries and employers' social contributions, in cash or in kind, payable by an enterprise to an employee in return for work done by the employee during the accounting period. Also included are all forms of bonuses and allowances ( <b>2008 SNA, p. 618 and para. 7.5</b> ).
Corporation	2008 SNA distinguishes between two types of corporations: non-financial corporations are institutional units that are principally engaged in the production of market goods and non-financial services; financial corporations are institutional units that are principally engaged in financial services including financial intermediation ( <b>2008 SNA, p. 17, para. 2.17 a and b</b> ). A corporation is a legal entity, created for the purpose of producing goods or services for the market, that may be a source of profit or other financial gain to its owner(s); it is collectively owned by shareholders who have the authority to appoint directors responsible for its general management ( <b>OECD GST, p. 106</b> ).
Employees	Employees are persons who, by agreement, work for a resident institutional unit and receive remuneration for their labour ( <b>2008 SNA, p. 621</b> ).
Employment	Persons in employment are all persons above a specified age who, during a specified brief period, either one week or one day, were in paid employment or self-employment ( <b>OECD GST, p. 170</b> ).
Enterprise	An enterprise is an institutional unit engaged in production of goods and/or services. It may be a corporation, a non-profit institution, or an unincorporated enterprise. Corporate enterprises and non-profit institutions are complete institutional units. An unincorporated enterprise, however, refers to an institutional unit — a household or government unit — only in its capacity as a producer of goods and services ( <b>OECD BD4, p. 232</b> ).
Establishment	An establishment is an enterprise, or part of an enterprise, that is situated in a single location and in which only a single (non-ancillary) productive activity is carried out or in which the principal productive activity accounts for most of the value added ( <b>OECD BD4, p. 233</b> ).
Exports of goods and services	Exports of goods and services consist of sales, barter, or gifts or grants, of goods and services from residents to non-residents ( <b>OECD GST, p. 194</b> ).
Fellow enterprises	An enterprise in one economy may be related through the Framework for Direct Investment Relationships (FDIR) to another enterprise in the same economy, or in a different economy, without either being a direct investor in the other, but through both being directly or indirectly influenced by the same enterprise in the ownership hierarchy ( <b>OECD BD4, p. 233</b> ).

\* The definitions provided for each of the terms in the present glossary are referenced according to their source:

**BMP6:** *Balance of Payments and International Investment Position Manual*, 6th ed., 2009, International Monetary Fund, Washington, D.C.

**CPC, Ver. 2:** *Central Product Classification (CPC), Version 2*, 2006, United Nations, New York.

**MSITS 2002:** *Manual on Statistics of International Trade in Services*, 2002, United Nations, New York.

**ISIC, Rev 4:** *International Standard Industrial Classification of All Economic Activities (ISIC), Revision 4*, 2008, United Nations, New York.

**IRTS 2008:** *International Recommendations for Tourism Statistics*, 2008, Madrid and New York, 2008.

**OECD BD4:** *OECD Benchmark Definition of Foreign Direct Investment: Fourth Edition 2008*, OECD, Paris.

**OECD GST:** *OECD Glossary of Statistical Terms*, 2008, OECD, Paris.

**2008 SNA :** *System of National Accounts 2008*, 2009, United Nations, New York.

**GATS:** *General Agreement on Trade in Services. Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, done at Marrakesh on 15 April 1994. Annex 1 B*, 1994, World Trade Organization, Geneva.

Where no source is noted, the present *Manual* is the source of the definition provided.

Foreign affiliate	<i>MSITS 2010</i> makes recommendations on the collection of statistics that focus on the activity of foreign affiliates that are foreign direct investment enterprises controlled through majority ownership of voting power by a direct investor. The definition of affiliated enterprises (as opposed to foreign affiliates) is broader in OECD BD4 and BPM6 and cover enterprises in a direct investment relationship. Thus, a given direct investor, its direct investors, its subsidiaries, its associates, and its branches, including all fellow enterprises, are affiliated enterprises. It is possible for a given enterprise to be a member of two or more groups of affiliated enterprises. (OECD BD4, p. 227).
Foreign direct investment	Foreign direct investment (FDI) is a category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor (OECD BD4, p. 234).
Foreign direct investment enterprise	A foreign direct investment enterprise is an enterprise resident in one economy wherein an investor resident in another economy owns, either directly or indirectly, 10 per cent or more of its voting power if it is incorporated or the equivalent for an unincorporated enterprise (OECD BD4, p. 234).
Foreign direct investor	A foreign direct investor is an entity (an institutional unit) resident in one economy that has acquired, either directly or indirectly, at least 10 per cent of the voting power of a corporation (enterprise) or the equivalent for an unincorporated enterprise, resident in another economy (OECD BD4, p. 235).
Framework for Direct Investment Relationships (FDIR)	The Framework for Direct Investment Relationships (FDIR) is a generalized methodology for identifying and determining the extent and type of direct investment relationships. The FDIR allows compilers to determine the population of direct investors and direct investment enterprises to be included in FDI statistics (OECD BD4, p. 235).
General Agreement on Trade in Services (GATS)	The General Agreement on Trade in Services (GATS) is one of the principal agreements of the World Trade Organization. As the first multilaterally agreed framework for trade in services, it provides a system of legally binding obligations and commitments for services trade, applying to all members of the World Trade Organization. It came into force in January 1995. The GATS comprises: the text of the agreement, including a set of general obligations, many of which apply directly and automatically to all World Trade Organization members for virtually all services; several annexes covering specific sectors (for example, air transport services and financial services) or trade-related policy matters; and members' schedules of specific commitments defining the sectors and modes of supply in which a member has undertaken access obligations to its domestic markets vis-à-vis foreign services and foreign service suppliers.
Goods	Goods are physical, produced objects for which a demand exists, over which ownership rights can be established and whose ownership can be transferred from one institutional unit to another by engaging in transactions on markets (2008 SNA, p. 623).
Gross fixed capital formation	Gross fixed capital formation is defined as the value of institutional units' acquisitions less disposals of fixed assets. Fixed assets are produced assets (such as machinery, equipment, buildings or other structures) that are used repeatedly or continuously in production over several accounting periods (more than one year) (2008 SNA, p. 8, para. 1.52).
Institutional unit	An institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities (2008 SNA, p. 624).
International Standard Industrial Classification of All Economic Activities	The International Standard Industrial Classification of All Economic Activities (ISIC) consists of a coherent and consistent classification structure of economic activities based on a set of internationally agreed concepts, definitions, principles and classification rules. It provides a comprehensive framework within which economic data can be collected and reported in a format that is designed for purposes of economic analysis, decision-taking and policymaking. The classification structure represents a standard format to organize detailed information about the state of an economy according to economic principles and perceptions (ISIC, Rev.4, para. 1).
International transactions reporting system	An international transactions reporting system (ITRS) measures individual balance of payments cash transactions passing through the domestic banks and foreign bank accounts of enterprises, and non-cash transactions and stock positions. Statistics are compiled from forms submitted by domestic banks to the compilers and from forms submitted by enterprises to the compiler (OECD GST, p. 285).
Juridical person	A juridical person, in the GATS, is any legal entity duly constituted or otherwise organized under applicable law, whether for profit or otherwise, and whether privately owned or governmentally owned, including any corporation, trust, partnership, joint venture, sole proprietorship or association (GATS, article XXVIII, para. (m)).

Mirror statistics	Mirror statistics are used to conduct bilateral comparisons of two basic measures of a trade flow and are a traditional tool for detecting the causes of asymmetries in statistics ( <b>OECD GST, p. 335</b> ).
Modes of services supply	The GATS defines trade in services as covering four modes of supplying services, as follows: cross-border supply (Mode 1); consumption abroad (Mode 2); commercial presence (Mode 3); and presence of natural persons (Mode 4).
Natural person	A natural person, in GATS terminology, is an individual. A natural person of a Member means a national of that Member or a natural person who, under the law of that Member, has a right to permanent residence in it in the case where it does not have nationals or accords substantially the same treatment to its permanent residents as it does to its nationals ( <b>GATS, article XXVIII, para. (k)</b> ).
Offshoring	Generally, offshoring is used to describe a business's (or a Government's) decision to replace domestically supplied service functions with imported services produced offshore ( <b>OECD GST, p. 377</b> ).
Personal transfers	Personal transfers consist of all current transfers in cash or in kind, made or received, by resident households to or from non-resident households ( <b>BPM6, p. 210, para. 12.21</b> ).
Output	Output is defined as the goods and services produced by an establishment, excluding the value of any goods and services used in an activity for which the establishment does not assume the risk of using the products in production, and excluding the value of goods and services consumed by the same establishment, except for goods and services used for capital formation (fixed capital or changes in inventories) or own final consumption ( <b>2008 SNA, p. 629</b> ).
Resident	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. Individuals and institutional units changing countries are normally considered resident in the new country only after one year, although the one-year guideline may be interpreted flexibly ( <b>BPM6, p. 70</b> ). The residents of a country are individuals whose centre of predominant economic interest is located in its economic territory. For a country, the non-residents are individuals whose centre of predominant economic interest is located outside its economic territory ( <b>IRTS 2008, p. 98</b> ).
Services	Services are the result of a production activity that changes the conditions of the consuming units, or facilitates the exchange of products or financial assets. They cannot be traded separately from their production. By the time their production is completed, they must have been provided to the consumers ( <b>2008 SNA, p. 96, para. 6.17</b> ).
Special-purpose entities	Special-purpose entities are all legal entities that have little or no employment, or operations, or physical presence in the jurisdiction in which they are created by their parent enterprises, which are typically located in other jurisdictions (economies). They are often used as devices to raise capital or to hold assets and liabilities and usually do not undertake significant production ( <b>OECD BD4, annex 13, p. 241</b> ).
System of National Accounts	The System of National Accounts (SNA) is the internationally agreed standard set of recommendations on how to compile measures of economic activity in accordance with strict accounting conventions based on economic principles. The recommendations are expressed in terms of a set of concepts, definitions, classifications and accounting rules that comprise the internationally agreed standard for measuring indicators of economic performance. The accounting framework of the SNA allows economic data to be compiled and presented in a format that is designed for purposes of economic analysis, decision-taking and policymaking ( <b>2008 SNA, p. 1, para. 1.1</b> ).
Tourism	Tourism refers to the activity of visitors ( <b>IRTS 2008, para. 2.9</b> ).
Tourism Satellite Account	The Tourism Satellite Account is an international standard on tourism statistics that has been developed in order to present economic data relative to tourism within a framework of internal and external consistency with the rest of the statistical system through its link to the System of National Accounts ( <b>IRTS 2008, p. 99</b> ).
Transaction	A transaction is an economic flow that reflects the creation, transformation exchange, transfer or extinction of economic value and involves changes in ownership of goods and/or financial assets, the provision of services, or the provision of labour and capital. Transactions between residents and non-residents consist of those involving goods, services and income; those involving financial claims on and liabilities to the rest of the world; and those classified as transfers, which involve offsetting entries to balance — in an accounting sense — one-side transaction ( <b>OECD GST, 2008, p. 550</b> ).

Travel	In the balance of payments context, travel refers to the acquisition of goods and services in an economy by individuals who are visiting but not resident in that economy. Acquisitions of goods and services by border, seasonal, and other short-term workers in their economy of employment are also included in travel. However, travel excludes the acquisition of valuables, consumer durables, and other consumer purchases that are included in general merchandise ( <b>BPM6, p. 275, para. A5.19</b> ).
Value added (gross)	Gross value added is the value of output less the value of intermediate consumption; it is a measure of the contribution to gross domestic product (GDP) made by an individual producer, industry or sector. The 2008 SNA offers a more detailed discussion of the concept ( <b>2008 SNA, pp. 103-104</b> ).
Voting power	Generally, ordinary shares provide voting power. While voting power is generally obtained through the purchase of equity, it is possible to have voting power that is not in the same proportion as the equity ownership (for example, "golden shares" have greater voting power than other shares). It is also possible to obtain voting power without purchasing equity (for example, through swaps and repurchase agreements) ( <b>OECD BD4, annex 13, p. 243</b> ).
Workers' remittances	Workers' remittances are current transfers made by employees to residents of another economy ( <b>BPM6, p. 210, para. 12.22</b> ).

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