

## **Selected Outstanding Issues in Services, Trade and Development**

### **BPM6 and MSITS 2010: Main recommendations affecting the coverage of trade in services between residents and non-residents**

**Manila, 3-5 May 2011**



## **Why a revised Manual?**

- **Incorporate BPM6 and SNA revisions  
+ ISIC, CPC, Tourism statistics....**
- **New recommendations relating to activities of  
foreign affiliates:**
  - **OECD Handbook on Economic Globalisation  
Indicators**
  - **OECD Benchmark Definition of FDI**
  - **Eurostat recommendations Manual**
- **Need for guidance for mode 4 and modes of  
supply generally**

**... 1<sup>st</sup> worldwide consultation in 2006**





## Interagency Task Force on Statistics of International Trade in Services



Published in **2011**  
(Unedited version)

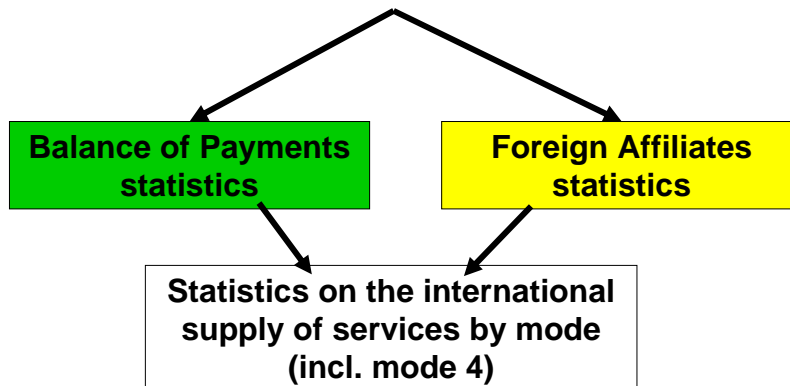


© WTO/OMC

3

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

**Guidelines and recommendations on the measurement of trade in services**



© WTO/OMC

4

## Main revisions for FATS

No large change

Name change: FATS = Foreign Affiliates Statistics

Alignment with HEGI, BD4 and Eurostat FA regulation

“Control”

Link with international delivery of services and trade negotiations

Revised ICFA proposal following ISIC Rev 4



## « Control »

- FATS compiled, as a first priority, for foreign-**controlled** subset of foreign affiliates
- Control defined in Framework for Direct Investment Relationships (FDIR) – BPM6
- Control deemed to exist if majority ownership (i.e. control of **more than 50%**) of the voting power at each stage of ownership chain.



## Concepts on services transactions in Chapter 10 of BPM6

Close cooperation with the  
Interagency Task Force on Statistics of  
International Trade in Services (TFSITS)



Consistent with chapter 3 of MSITS 2010



© WTO/OMC

7

## International Trade in Services in MSITS 2010

BPM6: between residents and non-residents  
(= conventional trade statistics).

But.....

- Not always clear separation with trade in goods
- Often need for proximity between producer and consumer for services to be supplied
- Extension generally referred to “supply of services”



© WTO/OMC

8

## Services in SNA 2008 .... and MSITS 2010

Result of production activity that ....

**Changes conditions  
of consuming units:  
Transformation services  
(temporary or permanent)**

- Consumer's goods
- Physical condition of persons
- Mental condition of persons

**Facilitates exchange of  
products or financial assets:  
Margin services**

- Goods
- Knowledge-capturing products
- Some services
- Financial assets between institutional units

Not separate entities with ownership rights  
Not traded separately from production



© WTO/OMC

9

## Balance of Payments Manual 6<sup>th</sup> edition (BPM6) - General observations

Basic BPM5 framework retained.  
*BPM6 double in length than BPM5!*

Less changes than from BPM4 to BPM5.

More elaborated  
...on **services** in particular



© WTO/OMC

10

## BPM6 – Why a revision of services?

Strict application of the  
**change of ownership criterion in SNA 2008**



**Reclassification of goods and services items**

Some items moved in Services Account  
from Goods Account and viceversa

**Clarifications in terms of coverage and compilation**

**Need for more information on international  
trade in services compared to 1993**

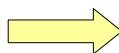


© WTO/OMC

11

## Service provision or provision of labour?

Person works for a  
remuneration  
in cash or kind  
(employment relationship)

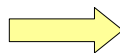


**Provision of labour**



Compensation of employees  
(in primary income)

Person contracted  
to produce a given  
result



**Service provision**



Services transactions  
(in current account)



© WTO/OMC

12



## Self-employed service supplier... or employee?

**Who controls the work and how it should be done?**

- Operates own enterprise
- Makes own decisions
- Owns or rent machinery or work equipment
- Pays own social security contribution
- Pays taxes on the provision of service
- Remuneration depends on the profits made



## Identification of branches

**Substantial international operations can be identified?**

**Criteria:**

**Do complete set of accounts exist or is it possible and meaningful economically and legally to compile these?**

+ following factors tend to be present for a branch:

- a) If physical presence: renting premises, acquiring capital equipment, recruiting local staff. If no physical presence: registration or legal domicile of operations.
- b) Entity being subject to income tax system where located (at least in principle)



## Revised recommendations deal with *new issues*



### Outsourcing



Relevant service  
category



### Electronic commerce



Goods ordered into "goods"

Charges only in services



© WTO/OMC

15

## What the BOP Services Classification and EBOPS Represent?

- **EBOPS 2010 completely in line with the BPM6 services classification**  
**but provides further breakdowns**
- **What are they?**
  - **Mainly product-based classifications (link with services in CPC Ver. 2, but not all.....)**
  - **Except for travel, construction and government goods and services n.i.e.: focus on transactor or mode of consumption of goods and services**
  - **Including additional memorandum items and complementary groupings (for EBOPS)**
- **Analytical usefulness (e.g. GATS), but for all needs?**



© WTO/OMC

16



## EBOPS 2010/BPM6 Main Components

### Commercial services:

1. Manufacturing services on physical inputs owned by others

2. Maintenance and repair services

3. Transport

4. Travel

5. - 11. Other commercial services

12. Government goods and services

5. Construction

6. Insurance and pension services

7. Financial services

8. Charges for the use of intellectual property

9. Telecommunications, computer and information services

10. Other business services

11. Personal, cultural and recreational services



© WTO/OMC

## 3. Transport

**Alternative 1:**  
Classification by  
**mode of transport**

**Alternative 2:**  
**What is carried**

- Passenger
- Freight
- Other
  - Post and courier
  - Other

- Sea transport
  - Passenger
  - Freight
  - Other
- Air transport (passenger, freight, other)
- Other modes of transport (passenger, freight, other)

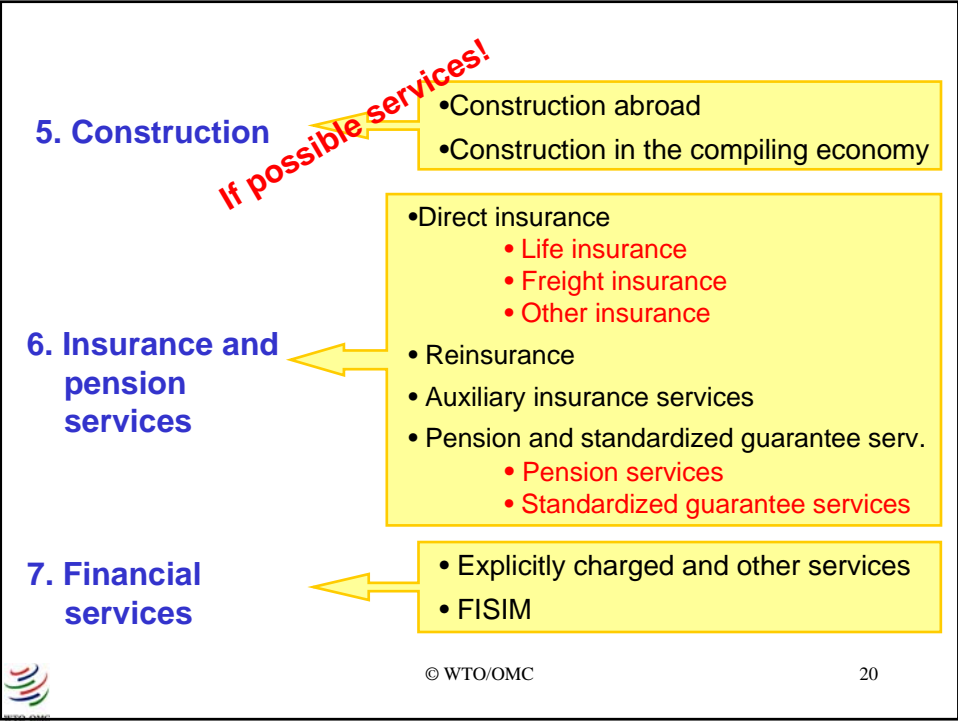
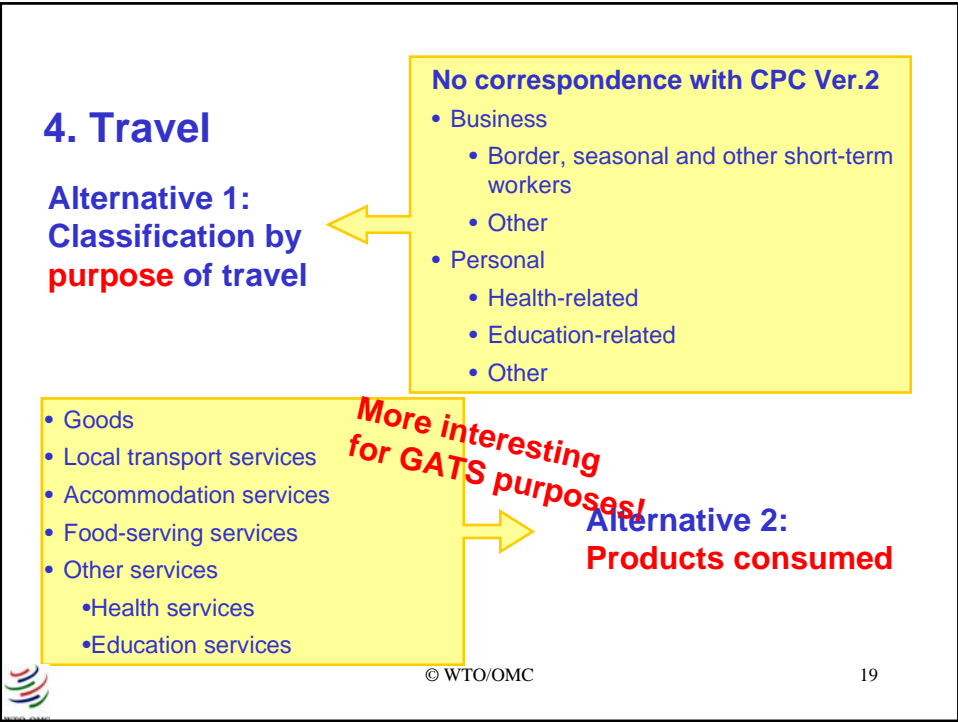
### *Extended classification of other modes of transport*

- Space transport
- Rail transport (passenger, freight, other)
- Road transport (passenger, freight, other)
- Inland waterways transport (passenger, freight, other)
- Pipeline transport
- Electricity transmission
- Other supporting and auxiliary services
- Post and courier services

© WTO/OMC

18





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

- Franchises, trademarks licensing fees
- Licenses for the use of outcomes of research and development
- Licenses to **reproduce and/or distribute** computer software
- Licenses to **reproduce and/or distribute** audiovisual and related products
  - Licenses to reproduce and or distribute audiovisual products
  - Licenses to reproduce and/or distribute other products



9. Telecommunications, computer and information services

- Telecommunications services
- Computer services
  - Computer software (of which originals)
  - Other computer services
- Information services
  - News agency services
  - Other information services



**10. Other  
business  
services**

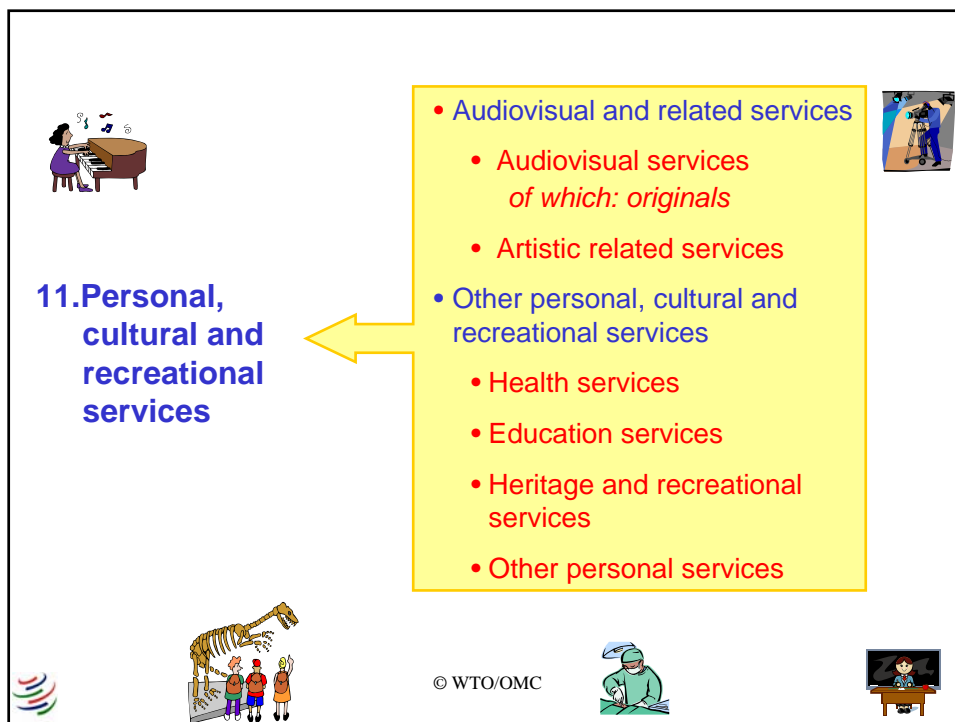
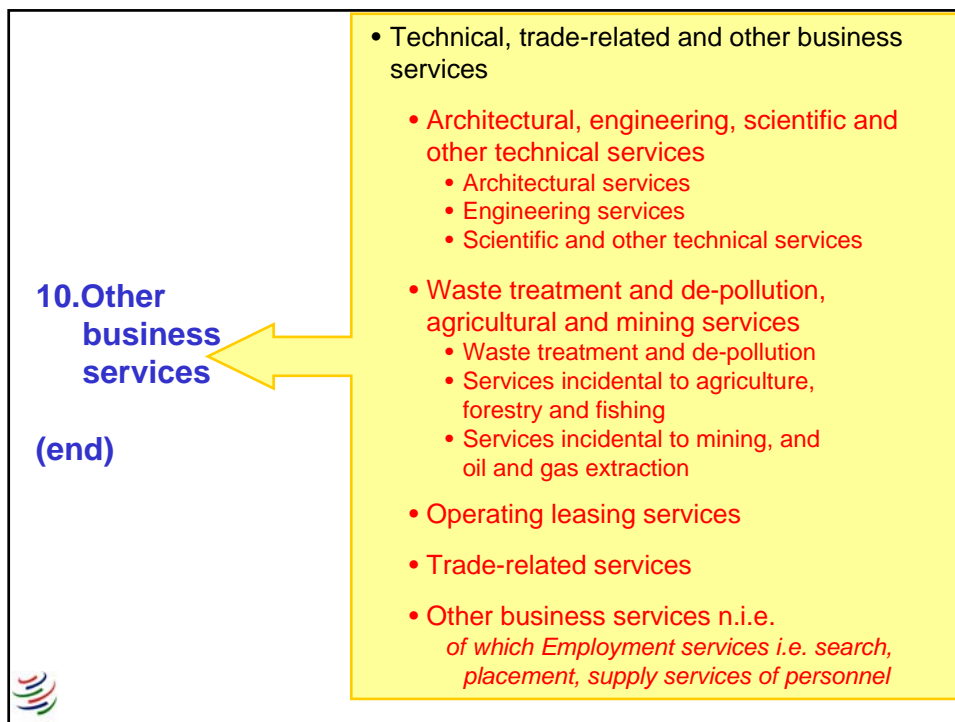
- **Research and development services**
  - Work undertaken on a systematic basis to increase the stock of knowledge
  - Provision of customized and noncustomized R&D services
  - Sale of proprietary rights arising from R&D
    - Patents
    - Copyrights arising from R&D
    - Industrial processes and design (including trade secrets)
    - Other
  - Other (testing and other products/process development activities)



**10. Other  
business  
services  
(continued)**

- **Professional and management consulting services**
  - Legal, accounting, management, consulting and public relations
    - Legal services
    - Accounting, auditing, bookkeeping, and tax consulting services
    - Business and management consulting and public relations services
  - Advertising, market research, public opinion polling  
*of which Convention, trade-fair and exhibition organization services*





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

Covers:

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

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

Other services supplied by and to governments n.i.e.



© WTO/OMC

## Supplementary Items and Complementary Groupings

- **Supplementary items: useful additional information:**

*Example*

Life  
Freight insurance  
Other

- Gross insurance premiums receivable
- Gross insurance claims payable

- **Complementary groupings of services (and non-services)**

*Example*

Audiovisual transactions

Audiovisual services

Licenses to reproduce and or distribute audiovisual products

Audiovisual goods

*Computer software, Trade-related, Environmental, Cultural transactions; Call-centre services, Tourism, etc.*



© WTO/OMC

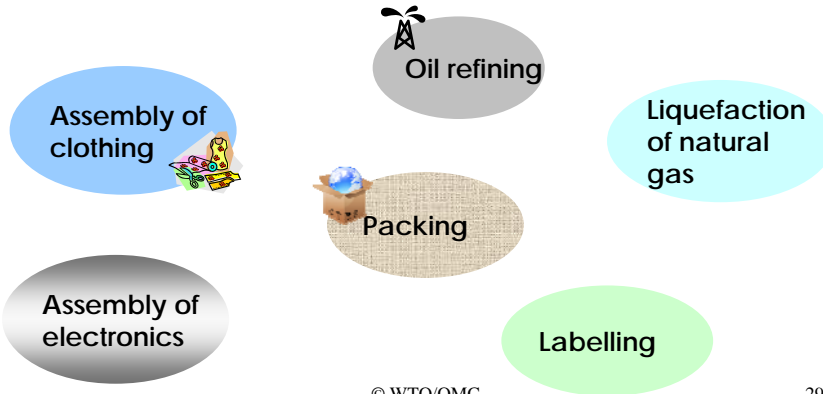
28



# 1. Manufacturing services on physical inputs owned by others

Goods for processing

Services undertaken by enterprises that do not own the goods



© WTO/OMC

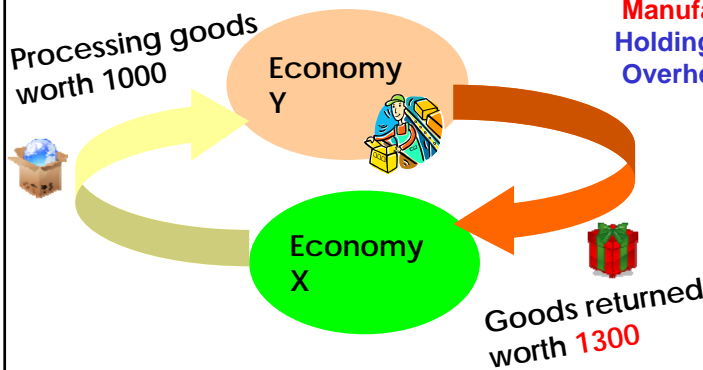
29

## How do we calculate the manufacturing fee?



### Example 1

Processing goods worth 1000



Difference	300
Manufacturing fee	120
Holding gains	80
Overheads	100

*Not a simple subtraction...*

X imports manufacturing services for 120 from Y

Y exports manufacturing services for 120 to X



© WTO/OMC

30

For economies heavily engaged in processing....

### In BPM6

#### Processing abroad

- Goods sent
- Goods returned

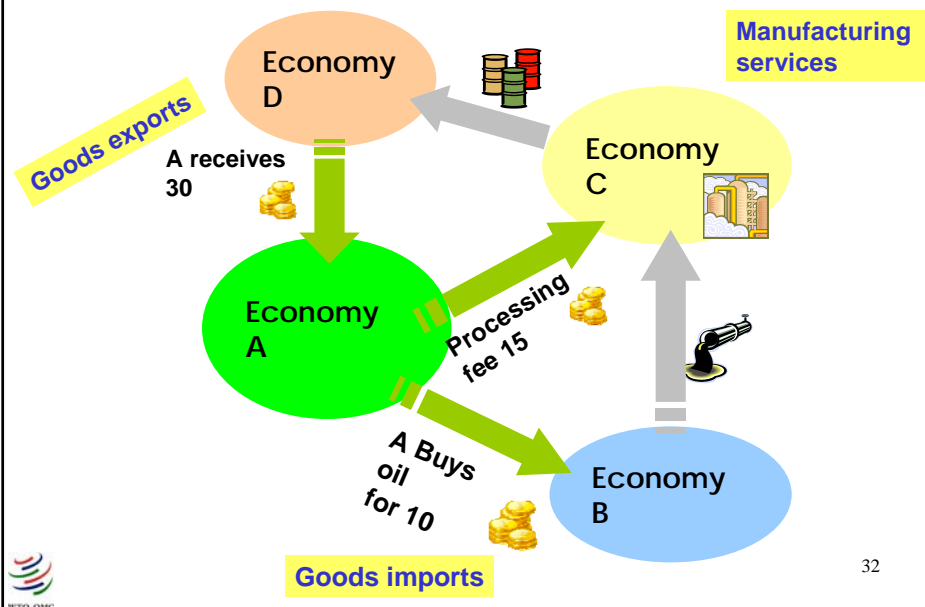
#### Processing in the compiling economy

- Goods received
- Goods sent

Recorded as *supplementary groupings*



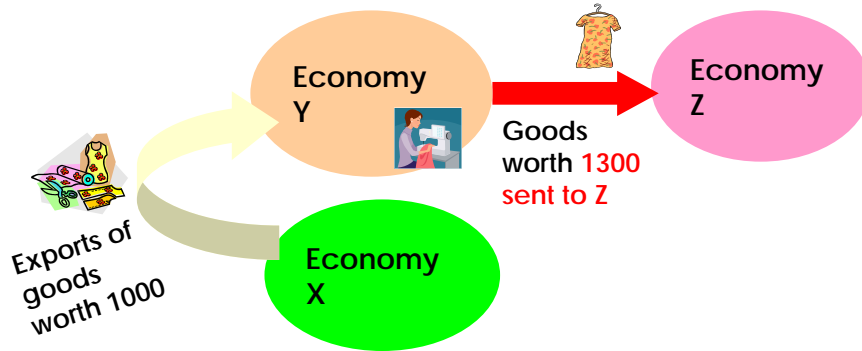
### Example 2 Manufacturing services that change the condition of the goods





**By contrast... Manufacturing on own account**

**Example 3**



**....Gross value in goods exports of X to Y and Y to Z (and viceversa)**



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

Services performed by residents on goods that are owned by non-residents (and vice versa).



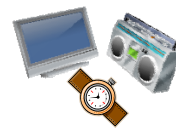
**Ships**



**Aircrafts**



**Other transport equipment**



**Other...**



## 5. Construction



Site preparation  
creation, extension,  
renovation, and  
repair of buildings



Painting



Plumbing



Demolition



Management of  
construction  
projects.

and other specialized  
services....



Land  
improvements  
of an engineering  
nature



Engineering  
constructions



Installation  
and assembly



Goods and  
services bought  
in construction  
economy



© WTO/OMC

35

## Does international construction project qualify as trade in services in the balance of payments?

Construction may be carried out without  
creation of a local legal entity

- Major projects (those lasting a year or more)  
usually satisfy the criteria for creation of a branch.  
Work will be classified as trade in services in  
BOP (S.2) (ATS)
- Short-term projects or projects conducted from  
home economy: the work provided to customers  
will be classified as trade in services

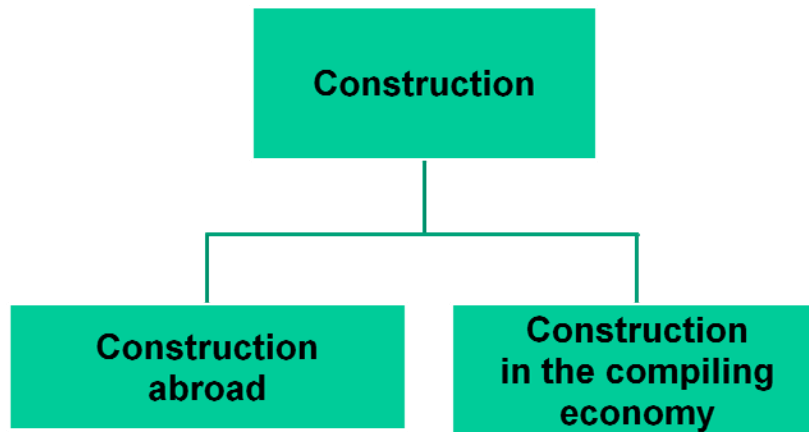
**Boundary?**



© WTO/OMC

36

In the BOP construction can be disaggregated into...



**Total construction credits = construction abroad credits + construction in the compiling economy credits**  
**And the same for debits.....**



© WTO/OMC

37



## 6. Insurance and pension services

Provision of insurance to non-residents by resident insurance enterprises, and vice versa.

### *Main BPM6 aggregates*

Insurance and Pension services

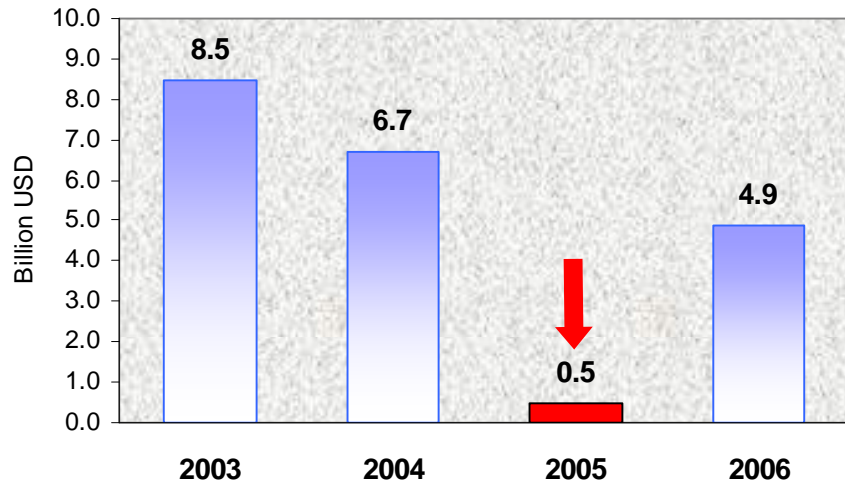
- Direct Insurance
- Reinsurance
- Auxiliary insurance services
- Pension services
- Standardized guarantee services



© WTO/OMC



## EU (25) - Exports of insurance services to the U.S. 2003-2006



Hurricane Katrina  
hits New Orleans



© WTO/OMC

39

## New estimate for estimating values of non-life insurance services

Gross premiums earned - expected claims  
(including premium supplements)



Claims payable  
+  
Adjustments for claims  
volatility,  
if necessary



© WTO/OMC

40



## 7. Financial services

Trade in financial services is difficult to measure!

Very technical field

Part of financial services can be measured only indirectly (FISIM)

BPM6: expanded coverage compared to BPM5



© WTO/OMC



## Financial services in BPM6

7. Financial Services  
in BPM6

- Explicitly charged and other financial services
- Financial intermediation service charges indirectly measured (FISIM)

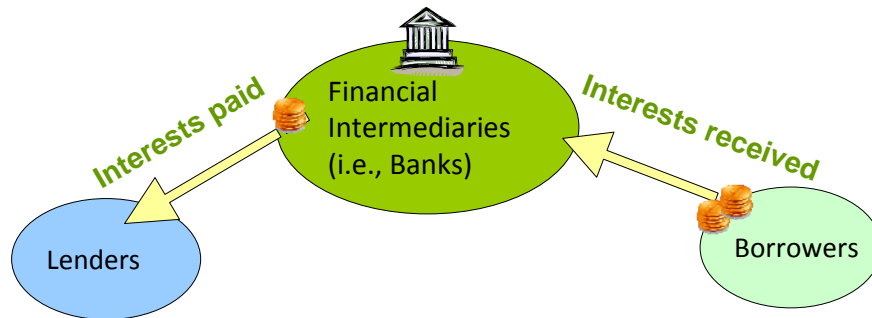
FISIM and other implicit financial services are included, with a *method for calculation based on the reference rate*.

**Stronger concordance with 2008 SNA**



© WTO/OMC

## What is FISIM?

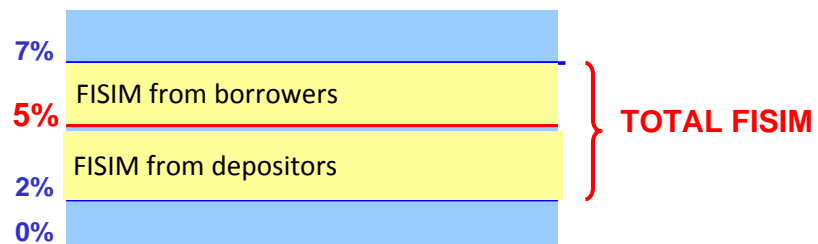


Financial intermediation services  
indirectly measured



## Interest rate

Example:

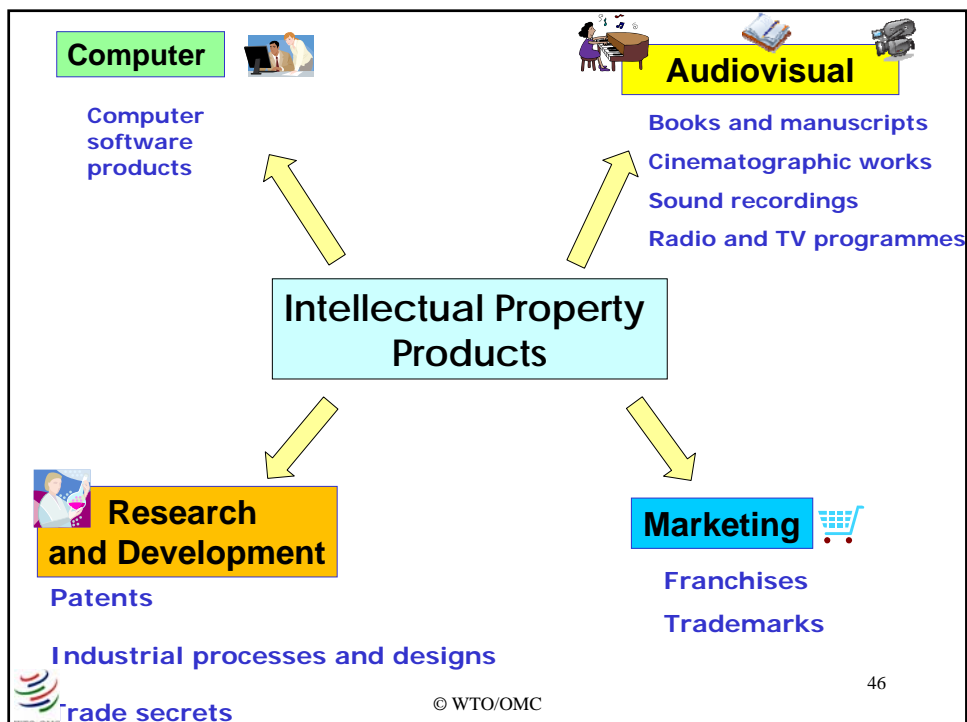
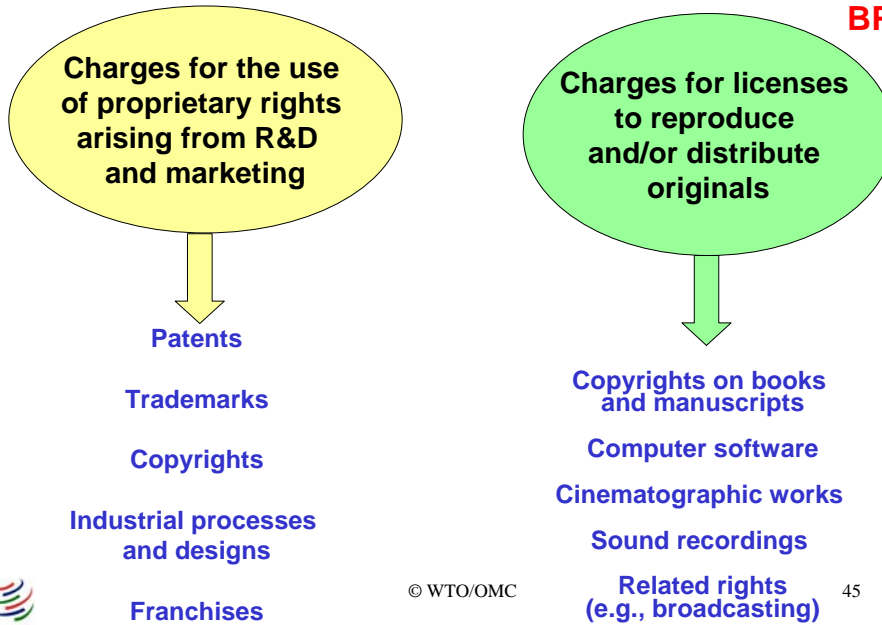


Revenue from financial intermediation activities

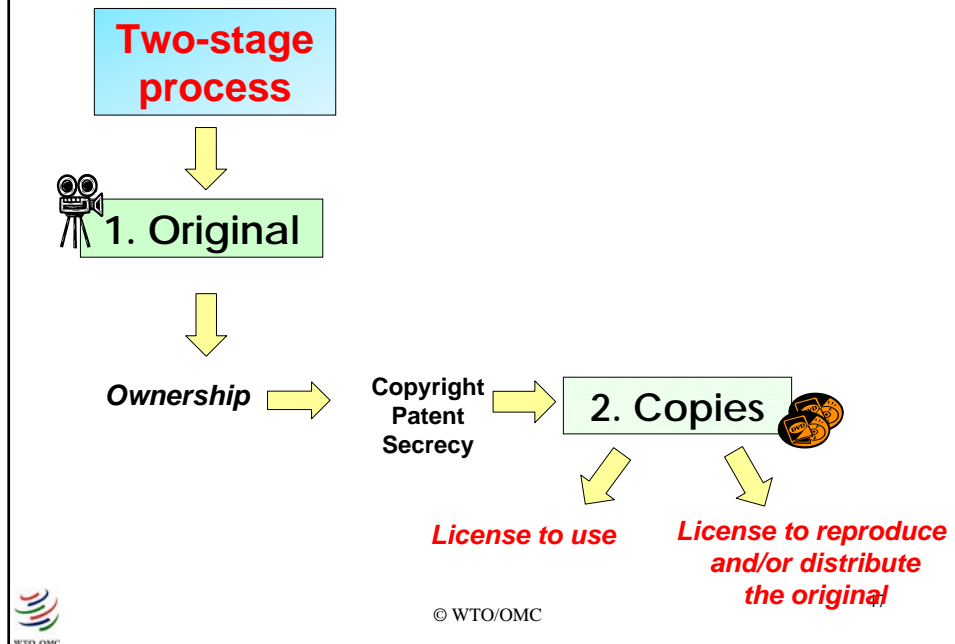


## 8. Charges for the use of intellectual property n.i.e.

BPM6



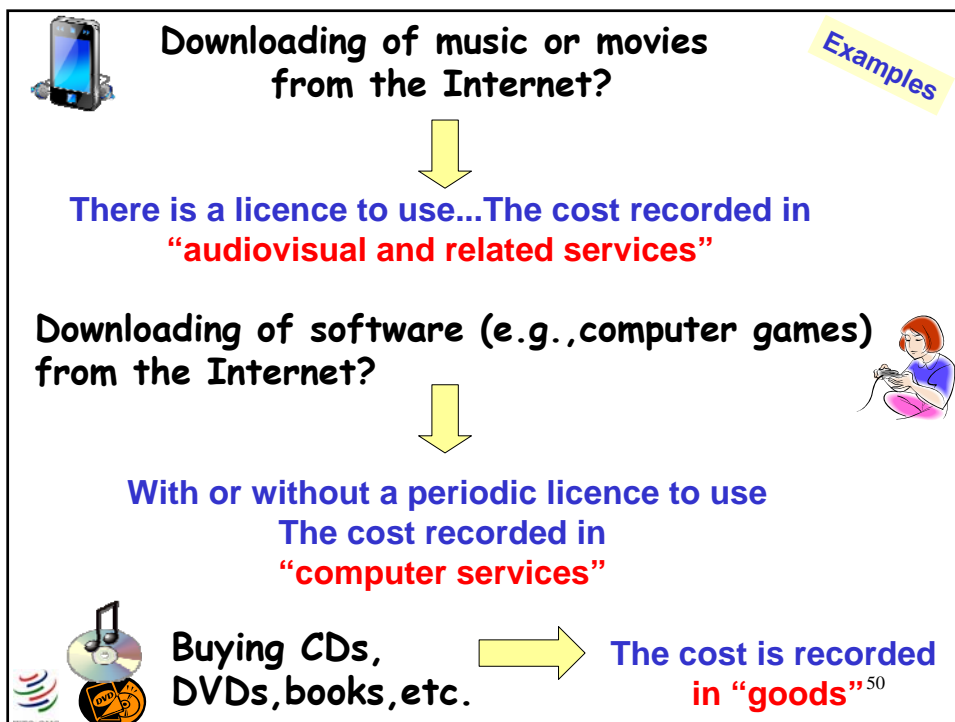
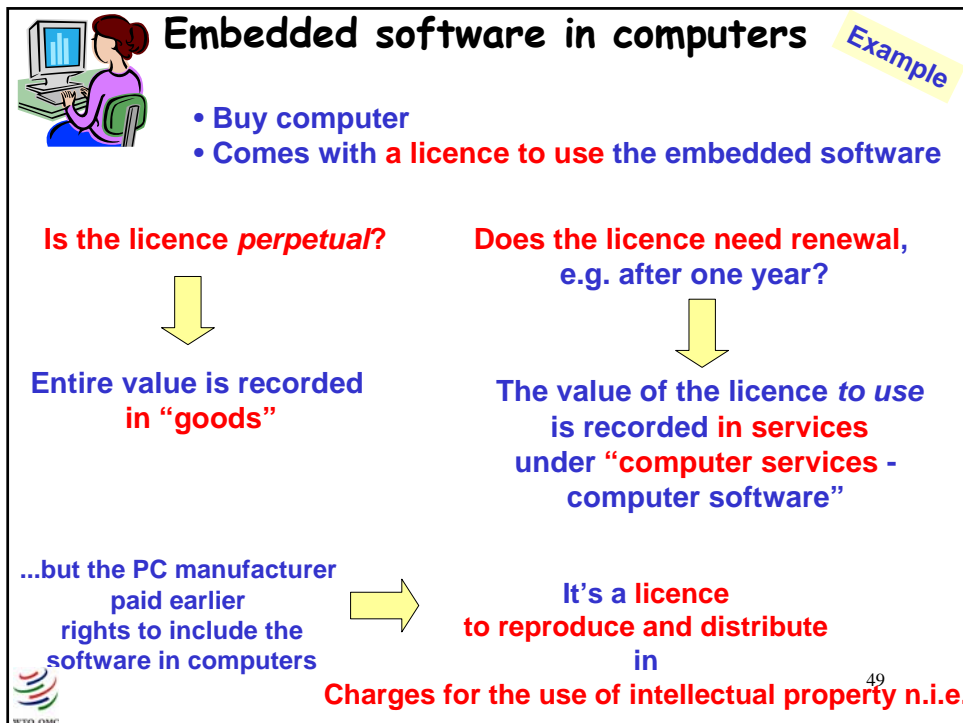
## Production of intellectual property products



## Treatment of Intellectual Property Products in BPM6

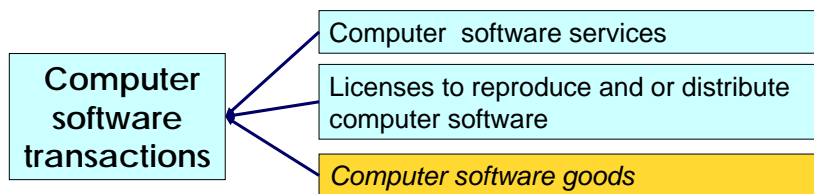
	Use of intellectual property		Sale/purchase of ownership rights*3
<b>Franchises and trademarks</b>	charges for the use of intellectual property n.i.e.		Balance of payments capital account
<b>Outcomes of research and development</b>	charges for the use of intellectual property n.i.e		R&D services
<b>Computer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





## EBOPS Complementary Groupings relating to Intellectual Property Products

- *Complementary groupings of services (and non-services)*
  - *Computer software transactions*
  - *Audiovisual transactions*



## Future Work...

### *Interagency Task Force on Statistics of International Trade in Services*

- need for further development of **technical assistance** in the area of services statistics
- some areas (e.g., manufacturing services, research and development) still require clarifications for compilation
- prepare **compilation guidance**
- concentrate on further methodological work



## Keys for Improvement of Statistics

- Efforts by **national agencies** in charge of statistics
- Governments' willingness to allocate **resources to statistics**
- **Co-operation** between national institutions
- Co-operation between international and regional institutions, and support to national initiatives
- Effective **technical assistance**
- **Compilation guidance**

