

Paris, drafted: 19th October 1987

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and Statistics

dist:

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REPLIES TO THE QUESTIONNAIRE (TD/87.316)
ON THE OECD NOTE "STANDARDISING MEMBER COUNTRIES'
BALANCE OF PAYMENTS STATISTICS ON TRADE IN SERVICES"
[TC/WP(87)17(1st Revision)]

1. This note presents a summary of the replies received by 13th October 1987 from the following Members: United States, Japan, Germany, the United Kingdom, Canada, Belgium-Luxembourg, Finland, Netherlands, Norway, Sweden, Turkey, Australia and New Zealand. It will be revised after reception of other Members' replies. It is understood that Members' views expressed in their replies are provisional and do not commit them.

2. This summary is organised in the same way as the document to which it is related; it consists of:

- Part I: General comments
- Part II: The general definition of services and of trade in services
- Part III: The delimitation of services
- Part IV: The classification of services

The paragraphs indicated below refer to the note TC/WP(87)17(1st Rev) and the questions to note TD/87.316.

3. From available replies the following tentative conclusions can be drawn:

- a. The general definition of services and of trade in services is acceptable for most Members, with some of them expressing qualifications and reservations.
- b. There is a consensus on the necessity of separating factor income from services and also on the definition of factor income as opposed to services (factor income would comprise labour income, investment income and property income).

- c. By contrast there are divergent view on the treatment of certain other borderline cases, particularly processing, repair, construction and capital gains (losses) of professional dealers.
- d. There is agreement that present data constraints should not be a major factor in devising a new services classification, that this classification should be linked, with some flexibility, to the UN Central Product Classification, and that the two balance-of-payments categories not directly compatible with the CPC (travel and government services) should be maintained.
- e. By and large, most Members agree with the structure of the proposed classification.

I. General comments

4. General comments were offered by the United States, Japan, Germany and Belgium-Luxembourg.

5. The United States general comments read as follows:

- "a. Since the current draft of the subject paper was prepared, the IMF has released a report on the Expert Group Meeting on External Sector Transactions for the Revision of the System of National Accounts that was held in Washington 1st March. It addresses many of the questions raised in the paper. It is felt that, in general, the paper should be in agreement with the conclusions of that group, and that any differences should be noted and explained.
- b. It should be noted that the classifications and methods recommended by the paper are of use in the context of an analysis of a number of questions relating to trade in services, but may not be universally applicable to all types of questions that might be addressed using the data. For example, a consideration of sales of services made through foreign affiliates is necessary for the purposes of the paper, although the major portion of such sales (those to customers in the country of the affiliate) would not be recorded in balance of payments accounts. Similarly, the groupings proposed here would not necessarily meet the needs of information for, say, input-output analysis, due to the classification of some transactions (e.g., those involving tourism) by type of consumer rather than by type of service.
- c. Some of the questions may require the expertise and perspective of specialized groups. For example, the report on the Expert Group meeting note that certain technical questions involving insurance had been forwarded to specialized bodies for study. It may be that some of the questions raised in this questionnaire can also benefit from attention by such specialized groups.
- d. It is assumed that all the relevant portions of the Central Product Classification are shown in the proposed classification given in Appendix II, and that checking has been done to make sure that this is the case."

6. Japan's reply indicated that answers are given on a tentative basis to contribute to the work in the OECD and do not represent yet the final view of the Japanese Government nor do they prejudge Japan's position in other fora.

7. Germany's comments are analogous to Japan's:

- "a. We do not yet feel able to make conclusive comments on some of the questions, firstly, because they are being discussed in parallel at present in a number of groups and, secondly, because they are complex and could therefore not be checked thoroughly in the short period which was available for reply.
- b. This applies particularly to part I; since the practical work (collection and classification of information for the GATT negotiations, etc.) can continue without final agreement on the general concepts (definition of services, etc.), these questions should be left open for the time being and discussed in detail by all those involved.
- c. Where we have answered the questions in part II and III with "yes" or "no", this is the result of our current deliberations and our present knowledge. It is quite conceivable that in individual cases additional facts and points of view will come to light in the course of the discussions which will then lead to different decisions.
- d. This should not hamper the completion of the OECD work on the classification of services. The OECD should make it clear, however, that the result is at best one of many possible solutions on which the working party members have agreed tentatively, but to which the member countries are not obliged to commit themselves irrevocably now."

8. Belgium-Luxembourg states that their comments are essentially of a theoretical nature because they refer to a classification that can be applied by them only in a distant future and possibly only in a simplified form.

II. The general definition of services and of trade in services

II.1 The general definition of services (paragraphs 5 to 7, questions 1 and 2)

9. The general definition of services is agreed to by the United States, Japan, the United Kingdom, Belgium-Luxembourg, the Netherlands, Norway, Turkey and Australia with the following qualifications.

10. The United States observed that the general definition, "if not read in connection with the remainder of the paragraph, which notes that value is being added to the person or property of another person (than the producer), it could be interpreted to include goods-producing activity. Also, from the standpoint of uses of the statistics, there may be activities, such as

manufacturing done under contract, that meet the requirements of the definition but that it is not useful to regard as "services". (See later discussions of "processing".) Finally, the definition is very abstract, and alternative definitions, such as those given in paragraphs 5 and 7, are also needed to give a more definite idea of the activities that might fall under "services".

11. Japan and the United Kingdom consider it as a useful working definition.

12. Belgium-Luxembourg find a precise definition and delimitation of each service item more important than a general definition; they suggest to elaborate on the differences between ISIC and CPC and to explain the reasons for preferring the latter to the former system.

13. The Australian comments are as follows:

- "a. While we have no objection to the general thrust of paragraph 6, we do not find the definition to be of much practical value. It seems to us that services should be defined as strictly consistent with the national accounting system and the definition of services should conform with the United Nations System of National Accounts (SNA) (this would mean incorporating any revisions which result from the current review process).
- b. With regard to paragraph 6, we have the following specific comments to make. The word 'financial' could be added to 'physical or mental' in the fourth sentence. The nature of the production process, generally, can be a distinguishing feature of service activity as the input characteristics of services production are quite different from those of goods production. Sentences six, seven, nine, and twelve are not applicable to services generally; insurance, banking, communications and real estate services, for example, usually display these characteristics, particularly in international trade. Sentence eight is more appropriately placed in paragraph 8 rather than in paragraph 6. Sentences ten and eleven are not required and place undue emphasis on goods.
- c. For most practical purposes a (negative) definition, which delineates services from goods, factor income and transfers, is sufficient for balance of payments purposes. This is essentially the approach adopted in the SNA and the IMF's Balance of Payments Manual (BPM). In addition to this delineation we agree with the approach adopted by the UNSO and expressed in the paper entitled WORK IN OTHER INTERNATIONAL ORGANISATIONS ON DATA IN TRADE IN SERVICES published by the GATT Secretariat (MTN.GNS/W/9 19 June 1987). This approach proposes a further delineation between goods and services, namely, (i) whether the input of the activity has typically service input characteristics, and (ii) whether the conditions of the observation of the end result are more similar to the observation of goods or to the observation of services".

14. On the other hand, Canada, Finland and New Zealand disagree with the general definition; Germany and Sweden do not express a view; Canada and New

Zealand elaborate on their disagreement. Finland proposes an alternative definition.

15. Canada's comments are: "The criterion does not seem to be clear enough and excludes products such as consulting services which do not necessarily involve an improvement in the condition of our economic unit by another economic unit. Non-transferability seems to us to be an attractive criterion. We recognize, however, that there may not be an all encompassing criterion and that conventions may need to be adopted for border-line cases."

16. New Zealand's disagreement is motivated as follows: "Arriving at a definition of services is difficult given the diversity of the area. Paragraph 6 tends towards a description of services, rather than a statement of principles which would enable a clear distinction between service and non-service transactions to be made. The working of paragraph 6 complicates this problem at some points. For example, the reference to 'producer adds value' does not take account of the fact that the quantification of that added value depends not only upon the provider of the service but also the action of the recipient and the circumstances of the market. We also find the statement that 'services cannot be produced in isolation, and that production and consumption cannot be separated...' misleading in the context of a general rule, given the possibility of both temporal and geographical separation in services trade".

17. Finland's proposals read as follows: "The characteristics of services vary by type of service as follows:

- services in the form of goods (films, documents, magnetic tapes)
- services in connection with commodities trade (transportation, handling, storage, financing, insurance, advertising)
- substitutes for goods (repair, maintenance, renting, trademarks)
- independent services (travel, communications, consulting, know-how/expertise, banking and insurance activity other than that dependent on foreign trade)."

II.2 The General Definition of Trade in Services (paragraphs 8 to 10, questions 3 and 4)

18. This definition is acceptable to the United States, Japan, Canada, Belgium-Luxembourg, Finland, Sweden, Turkey and New Zealand, with the following qualifications:

19. The United States insist on the understanding that, by bringing in the sales through foreign affiliates, "trade" is being defined more broadly than it is in a balance of payments context.

20. Japan would like to see the term "affiliates" (in paragraph 10) classified in terms of its coverage.

21. Canada notes that paragraphs 8 to 10 relate to classification rather than definition, and that a general definition of services should also apply to trade in services, although conventions may be required for certain cases.

22. Belgium-Luxembourg and Finland stress the importance of sales through foreign affiliates; since balance-of-payments data only provide a partial picture, efforts have to be made to enlarge them to include sales through affiliates.

23. The Netherlands, Norway and Australia propose to limit the coverage of "trade in services" to paragraphs 8 and 9, thus excluding sales through foreign affiliates.

24. Australia comments its proposal in the following way: "We believe international trade in services should be defined by the international conventions for balance of payments and national accounts statistics. That is, international trade is confined to transactions between residents and non-residents and services are confined to non-factor services. We suggest the three groups of transactions specified in paragraph 8 be replaced by the six categories specified by the UNSO in the previously mentioned GATT paper. (We would broadly define the first category as relating to 'direct purchase or sale' transactions and the remaining five as relating to 'cross border' transactions.) Transactions in rights to use intellectual property, technology, etc. (i.e. royalties) should be defined as outside the scope of international trade in services. In addition, while we recognise that there is value in information on sales abroad by affiliates, we believe that such transactions should be defined as outside the scope of international trade in services but supplementary to it. We suggest that the first priority for data collection in this field should be directed towards the needs of the balance of payments statistics. If information on sales of services abroad by affiliates is considered necessary, then information on similar transactions in goods might also be considered necessary. Of course, information on activity of affiliates abroad is already provided in the 'investment income' item of the balance of payments."

25. The United Kingdom rejects the definition because "the paragraphs do not give a definition of trade in services. Paragraphs 8 and 9 seem to suggest a classification of trade in services - by mode of delivery. This is an interesting way of classifying trade in services, but it would not be appropriate for more general classifications of services and must be rejected. For balance of payments purposes we need to cover all goods and services not included under "merchandise". This includes the expenditure of travelers, and fuel and supplies for ships and aircraft."

II.3 Analytical Classification of Services (paragraph 11, questions 5 and 6)

26. This classification is agreed to by the United States, Germany, Belgium-Luxembourg, Finland, the Netherlands, Norway, Sweden, Turkey, Australia and New Zealand, with the following qualifications.

27. The United States comments are the following: "On a conceptual level, the classification provides a useful framework for analysis of trade in services. (As noted earlier, other frameworks may be more appropriate for

other purposes.) However, its purpose should be related to, or differentiated from, that of the 'Proposed Classification of Services Transactions' contained in Appendix 11. The 'Proposed Classification' takes into account a variety of practical considerations, listed in paragraph 27, that do not appear to have influenced the design of the 'analytical classification'. Yet it too is 'analytical', in that it regroups a number of proposed CPC categories in order to meet the needs of those interested in international trade in services. Is the idea that the 'analytical' classification is the model, whereas the 'proposed' classification is the best practical alternative? If so, could that be stated?"

28. Germany and Finland propose to add travel to the classification, and the Netherlands to replace the item "Business services" by "Other business services"; New Zealand suggests to include education and tourism in "personal services" and Australia to add some brokerage services to "financial services".

29. In addition, Australia noted: "The purpose of this classification has not been described in the document. If it is intended to displace the existing services categories in the BPM, we consider that further justification should be provided. We note, for example, that some of the categories cut across existing boundaries, e.g. "Goods related services" and "Personal Services"; New Zealand made a similar remark: "It would be useful to include in paragraph 11 reasons why this particular classification has been adopted (i.e. the guiding principle should be made explicit)."

30. In contrast, Japan, the United Kingdom and Canada disagree with the analytical classification.

31. Japan proposes to treat information services as an independent item in view of the characteristics of the products which make such services equivalent to goods, and of their importance in the coming era.

32. The United Kingdom proposes the following alternative classification:

- a. Transportation (including port services);
- b. Other Communication (i.e. transmission of letters, parcels, data and voice);
- c. Intermediation (including insurance underwriting and margin gains on foreign exchange dealing);
- d. Brokerage (i.e. bringing buyer and seller together - including for physical goods, transport, foreign exchange, securities, futures contracts, insurance and advertising);
- e. Consultancy, design and advisory services (including software writing, engineering and management consultancy, production of advertising material, architects, surveyors and legal advice);
- f. Rental (without operator) and operating leasing (including of advertising space and satellite capacity);

- g. Financial services nie (issuing securities, portfolio management, commitment fees, fees for credit and bill facilities, management of financial markets);
- h. Governmental services (defense, administration);
- i. Other services

- Supply and processing of data
- Processing of goods
- Repair of goods
- (Construction)
- Agricultural and mining services
- Production of non-advertising film and TV material (including income from showing rights)
- Other

- j. Travel.

"Brokerage, advisory services, intermediation and rental have been separated because of the different relationships between the supplier and customer of the service; a difference that is of interest in its own right, and which is of great importance to the trade negotiator."

33. Canada has some problems with this classification on the grounds that it is based on several criteria leading to overlapping, e.g. insurance on exports.

III. The delimitation of services

III.1 Recording of merchanting (paragraph 14, question 7)

34. All countries agree with the proposal to record merchanting as a services category. Germany proposes to clearly state in the definition of this item that changes in the stocks of goods owned by the trader (goods purchased but not yet resold) should not be recorded under services but under merchandise trade; in addition, gross figures should be available for bilateral balance of payments comparisons. The United Kingdom raises the question of "whether to allow differences between the start-period and the end-period stock levels to affect the current balance". Canada remarks that there might be elements of capital gain or losses. The Netherlands point to problems of geographical breakdown.

III.2 Recording of processing and repair (paragraphs 15 and 16, questions 8 to 10)

35. All countries opt for the separation of processing and repair in the balance of payments. As regards the recording of them, views are divided into four groups:

- a. Japan, Germany, Finland and Sweden propose to record them in totals as service transactions.
- b. Canada, Belgium-Luxembourg, Norway, Turkey and New Zealand opt for recording them as service transactions with subdivision of processing into (i) transactions that imply a substantial physical change in the goods processed reflecting a change in their characteristics and (ii) other processing, and of repairs into (i) repairing investment goods and (ii) other repairs.
- c. The United States, the United Kingdom and Australia agree with the suggestions of the expert group on external sector transactions which breaks processing and repair into two components each; for processing it suggests to record as merchandise transactions all processing that implies a substantial physical change in the goods processed reflecting a change in their characteristics and to record as services only the remainder; for repairing it suggests to record as merchandise transactions all repairs of investment goods, and as service transactions all other repairs.
- d. The Netherlands propose to record processing as a whole under merchandise.

III.3 Recording of construction (paragraphs 17 and 18, questions 11 to 14)

36. The United States, Germany, Belgium-Luxembourg, Norway, Turkey, Australia and New Zealand are in favour of a distinction between constructions and construction services; Canada, Finland, the Netherlands and Sweden are opposed to it. Sweden commented its refusal as follow: "The distinction between construction and construction services needs more information about each transaction to make a correct statistical treatment. How do we know, when statistically recorded, that the transaction is connected to a project of more or less than one years length? That information is normally not available for statistical purposes. Practical problems will appear."

37. The methods of recording construction and construction services proposed in paragraphs 17 and 18 are acceptable to Finland, the Netherlands, Norway, Turkey, Australia and New Zealand. Australia made the following qualification: "Enterprises engaged in installation abroad of equipment that have been exported should be considered residents of their economy of origin. This modification was agreed to by the expert group meeting on external sector transactions."

38. Disagreement with the proposed recording was expressed by the United States, Germany, the United Kingdom and Belgium-Luxembourg; the United States, Germany and Belgium-Luxembourg prefer to treat all construction and constructions services as services, whereas the United Kingdom opts for recording all earnings in this area as direct investment income.

39. The United States explained their disagreement with the proposals in paragraphs 17 and 18 as follows: "It is not clear that the SNA and IMF recommendations for treatment of construction as direct investment are as stated. Also, it is not always possible to account for a construction

activity as direct investment because records are not always kept in the form required.

As a point of information, current U.S. guidelines for distinguishing between foreign construction activities of a U.S. company and activities of a foreign affiliate focus on the nature of the operation. For example, if the foreign activity or operation in construction (or another industry) is incorporated abroad, it is considered a foreign affiliate. If it is not incorporated abroad, its status is determined after considering a number of factors.

Factors that would tend to lead to a determination that an unincorporated foreign activity or operation constitutes a foreign affiliate include: (a) the payment of foreign income taxes, (b) a substantial physical presence (e.g., plant and equipment or employees) abroad, (c) the maintenance of separate financial records that would permit financial statements, including an income statement and balance sheet (not just a record of disbursements and receipts) to be prepared for the activity or operation, (d) the taking of title by the foreign activity or operation to, and its receipt of revenues for, the goods it sells, and (e) the receipt by the activity or operation of funds for its own account for services it performs.

An unincorporated foreign activity or operation of a U.S. company generally would not be considered a foreign affiliate if it: (a) conducts business abroad only for the U.S. company's account and not for its own account (e.g., sales promotion or public relations-type activities), (b) has no separate financial statements, (c) receives funds to cover its expenses only from the U.S. company, (d) pays no foreign income taxes, and (e) has only limited physical assets, or employees, permanently located abroad."

40. Germany made the following comments: "'Construction' is not explicitly mentioned in the IMF Manual but is probably to be treated analogously to 'Installation' (paragraph 73), i.e. as a rule it is to be imputed that the project will be realised by an enterprise in the country concerned, whereas the country of the general contractor has a direct investment there. In practice it has been found, however, that this procedure - ascertaining direct investment income - is almost impossible to carry out, so that we plead for recording 'construction' under services."

41. The United Kingdom's position reads as follows: "Overseas work carried out by UK construction firms (including activities falling under CPC 71) should generally be regarded as carried out by a direct investment enterprise. However, this may be broadly consistent with more than one worldwide convention. In money terms, most overseas work by UK construction firms is on contracts lasting for more than one year, and in situations where, if necessary, it is reasonable to impute a notional enterprise. This may not be true for non-island economies."

42. The proposal to include architectural and engineering services in the construction category is agreed to by the United States, Japan, Canada, Sweden, Turkey and New Zealand; it is opposed by Germany, the United Kingdom, Finland, Norway and Australia. Australia's motive is that "architectural services are predominantly provided independently of construction activity and many engineering services are unrelated to construction activity".

III.4 Distinction between services and factor income (paragraphs 19 and 20, questions 15 to 17)

43. All countries agree with the idea that services should be distinguished from factor income, and all agree with the definition of factor income as opposed to services which is set out in paragraph 19. Canada notes that there still might be border-line cases such as franchises which involve both income from property and provision of expertise.

III.5 Recording of income from property other than financial assets (paragraph 22, question 18)

44. All countries agree with the exclusion of income from property other than financial assets from services. The United States stresses the importance of such income for analysis of "trade in services", irrespective of its status as "services" or "factor income".

III.6 Recording of revenue of self-employed (paragraph 23, question 19)

45. All countries are in favour of including revenue of self-employed in services.

III.7 Recording of revenue from the use of tangible assets (paragraph 24, questions 20 to 21)

46. All members agree with the breakdown of revenue from the use of tangible assets (rentals, leasing) into the three components described in paragraph 24. The proposed recording methods for these components are acceptable to all, with the following qualifications. The United Kingdom and Canada propose to include under "operational leasing of carries" only chartering without crew, and New Zealand emphasizes the importance of sub-divisions of "other operational leasing".

III.8 Recording of capital gains and losses of professional dealers (paragraph 26, question 22)

47. The United States, Germany, the United Kingdom, Canada and Sweden agree to the proposal of paragraph 26 to treat capital gains and losses of professional dealers as services fees, with the following qualifications. The United States suggests to explain the rationale for the proposed treatment, viz that rather than charging an explicit fee, the charge for the service may take the form of a differential between buying and selling rates; thus, what appears nominally as a capital gain or loss is more meaningfully interpreted as a fee for services rendered. Germany comments on this question in the following terms: "In principle, we think this idea interesting; in fact, the earnings of professional dealers in the widest sense are an increase in a country's real income. The institutional delimitation is probably not an easy task. The main problem will be to obtain the figures, particularly as many of these dealers often act of behalf of third parties (who are not professional dealers). Thus we are very sceptical about the suggestion but would propose that the national accountants check this question once again thoroughly".

IV. The classification of services

IV.1 General considerations (paragraphs 27 and 28, questions 23 to 26)

48. All Members agree with the principle that present data constraints should not be a major factor in devising a new services classification, with some qualifications. Germany notes that "in a detailed breakdown attention must be paid to the fact that information can be made available at least at a certain level of aggregation. In accordance with the EEC argumentation a further desegregation is then possible in the form of a collection of keywords on specific items without it being possible to provide evidence for every detail." The United Kingdom insists that account should be taken of data difficulties that are likely to be permanent. Canada proposes to use present data as an indicator in devising a service classification. Belgium-Luxembourg considers data availability to be an important factor. The Netherlands limit their agreement to the longer term. Australia proposes that a new services classification should be compatible with existing balance of payments standard components in order to maintain data continuity.

49. All Members accept the principle that a new service classification should be linked to the United Nations Central Product Classification (CPC). They also agree that the correspondence should be flexible. The United States note that some services may be of particular interest from an international standpoint, while others that are important domestically may be essentially untradable. The German comments suggests: "We think that it must be possible to establish a linkage between one classification and the other. An attempt should at least be made to remain compatible at a higher aggregation level; the further breakdown can then be made according to different criteria. We think the wording of the EEC 'Matching between two very different levels of classification should be avoided' convincing, even if it is not imperative in every case". The Netherlands plead for an identifiable correspondence. Australia's comments are the following: "We agree with the view expressed by the expert group meeting on external sector transactions namely, '...that a standard list of services items should be used as the basis for a harmonised presentation. These items should include the traditional items shown under services - transport, travel, etc - and also those items that are becoming increasingly important as international transactions, such as financial services and communications. The details to be shown should agree with the Central Product Classification (CPC), preferably at a high level of that hierarchy. The Group agreed that those concerned with the CPC classification should pay particular attention to the needs of the balance of payments and external sector accounts, so that harmonization between these accounts and other accounts, including input-output, would be attainable'. The correspondence between the services classification and the CPC could be flexible with correspondences at different levels."

50. All Members agree that the two traditional balance-of-payments categories are not defined by the nature of products - travel and government services - should be maintained. The United States point out that this is desirable because of the importance of the transactions, the need to maintain continuity of historical data services and the methods of collecting the data (from consumers rather than from producers). Australia proposes: "The two traditional balance of payments standard components - travel and government

services - should be maintained. We suggest the following strategy for development of the services classification and data collection. The existing standard components of the BOP should be retained as the basis for further development. Transactions could be broadly categorised into 'direct purchases', as measured by the items 'travel' and 'government', and 'cross border' transactions as measured by all other services items. Most of the interest in additional data relates to cross border transactions. For this reason as a first priority it is suggested that the services classification of cross-border transactions be developed to correspond with the CPC at a fairly detailed level and data collection be developed accordingly. Direct purchases transactions - travel and government services - are of interest in their own right for BOP purposes; additional detail for these items is of lesser interest. However, in order to provide complete information on trade in services it is suggested that, ultimately, data collections be developed to provide details of travel and government services classified to the CPC at a fairly high level in that hierarchy".

IV.2 The structure of the classification (Appendix II, questions 27 and 28)

51. All Members except the United Kingdom, Canada and Finland expressed a qualified agreement with the structure of the classification proposed in Appendix II.

52. The United States raised "the question of what to do about payments for the use of nonfinancial intangible assets (e.g., patents and copyrights). They are considered as factor income in paragraph 22 and are therefore excluded. However, might they nevertheless be included in this list, in the spirit of paragraph 9? They would correspond to proposed CPC category 8992." Japan proposes to introduce information services as an independent category. Germany's comments reads as follows: "The main classification (one-digit figures) is oriented partly on the type of services (1, 3-5), partly on the relationship between the service and the substrate 'Goods' (2), partly on the recipients of the service (6-8). Items 6 and 7 appear to be rather arbitrary, both in their wording and in the definition (are e.g. 'legal services' always 'business services'?). We would summarise at least items 6 and 7 in one item 'Other' in which those services which do not fit under any other heading could easily be accommodated. Item 9 'Governmental services' is at first sight oriented on the character of the supplier of the service, but a subcriterion seems to be the type of service, as not all services of public authorities are recorded here. 'Education', for instance, appears in the CPC under 'Official', in your proposal under 'Personal services'; item 92 of the CPC largely represents services for the individual households, but you classify it under 'Governmental services'. Since such services can be and are rendered by the private sector as well, your definition in paragraph 37 '...services that can only be provided by governments' is not correct. We would summarise our comments by saying that, as you state yourselves in the heading of part III (A possible classification of services) this is a possible breakdown to which we can agree, by and large, but which requires thorough preliminary work". Belgium-Luxembourg underlines the necessity to complement the classification by definitions of the individual items. Australia suggests that the criteria for developing the classification which are specified by the IMF in the GATT paper mentioned in paragraph 13 of this note are applied to the development of the services classification.

53. The United Kingdom proposes, as an alternative, the classification presented in paragraph 32 of this note. Canada notes: "This classification is both analytical and commodity oriented. We prefer a product classification from which various analytical classification could be derived depending upon the objectives". Finland opts for a new classification independent of CPC, SNA and the IMF without too many subitems.

IV.3 Category 1 "Transportation" (paragraph 29, question 29)

54. All Members except Finland and Sweden agree to this category, with the following qualifications. The United States raises the question whether rental services concerning transport equipment which are included in category 2 (Goods-related services) should belong to "transportation". Germany suggests to record under item 1.8 (Supporting and auxiliary transport services) only those transactions which cannot be classified under the individual types of transport; this should be made clear by adding the word "other"; "towing and pushing" should not be shown separately. The Netherlands find that the distinction between rental with and without crew is difficult to make in practice, and propose to make instead the distinction between time and trip charter. Australia suggests to include rental services concerning transport equipment (which Appendix II shows in the category "Goods-related services") in transportation. Finland proposes a one-level breakdown. Sweden considers the subitems to be too detailed.

IV.4 Category 2 "Goods-related services" (paragraph 30, question 30)

55. All Members except the United Kingdom, Canada, Finland and Sweden express qualified agreement with this category. The United States propose: "The recommendations of the expert group on external sector transactions regarding processing and repair should be followed. This would appear to entail the deletion of categories 2.2.1 (processing implying substantial physical change) and 2.3.1 (repair of investment goods)". Norway propose to delete some details. Australia suggests to take out rental services concerning transport equipment. Canada objects to this category, because it is not a product classification and excludes certain goods-related services such as merchandise insurance. Sweden considers the breakdown of this category to be too detailed.

IV.5 Categories 3 "Insurance" and 4 "Financial services" (paragraphs 31 and 32, questions 31 to 34)

56. All Members agree with the view that insurance and financial services should form separate categories. All Members except Canada, Finland, Sweden and Australia agree with the recording of all premiums and claims under "Insurance". The United States comments on this point: "The conceptual questions involved are very technical and may require the attention of specialized groups to resolve. The IMF report on the Expert Group meeting notes that certain questions concerning insurance were forwarded to specialized groups for study. Their findings may be helpful. As a point of information, the United States currently collects, and records in its balance of payments accounts under services, data on premiums and claims". Germany's

view is: "Insurance business is in many respects a borderline case between services and transfer payments (in the case of life insurance, capital transactions in addition). Since the breakdown of the individual branches of this category poses great problems in theory and mainly in practice, we plead for classifying all insurance services either under services or under transfer payments, though we would prefer the former solution". Canada, Finland and Sweden are in favour of recording only imputed insurance services, Canada raises the question whether premiums and claims are transfers or financial assets and liabilities. Australia prefers to reserve its views on the measurement of insurance transactions until that evaluation work on this issue is completed by the IMF, in view of the fact the expert group on external sector transactions forwarded the matter to the Group on Production Accounts, the Group on Financial Flows, and the Group on the Household Sector Accounts and Income Distribution Statistics.

57. The breakdown of category 3 "Insurance" is acceptable to the United States, Japan, Canada, Belgium-Luxembourg, the Netherlands, Turkey and New Zealand. Germany disagrees on the following grounds: "The suggested breakdown is much too detailed for a concrete compilation of data and probably not absolutely necessary materially. Apart from life insurance, merchandise insurance and reinsurance should be excluded, but all other types of insurance should be combined under "Other". "Pensions and annuities" only belong in this category to the extent that they are based on private contracts. Insurance premiums and payments are not distinguished at all". The United Kingdom notes: "A life/pensions/other split is all that is required". Sweden finds the breakdown too detailed. Australia, too, considers the breakdown too detailed and proposes to limit it to the split between merchandise insurance and other insurance.

58. Japan, the United Kingdom, Canada, Belgium-Luxembourg, the Netherlands, Turkey and New Zealand are in broad agreement with the category 4 "Financial Services". The United States raises the question whether the items could be geared more to the types of services likely to be provided internationally and stresses that more conceptual work may be needed to determine how best to define and measure banking and other financial services. Germany comments as follows: "The breakdown by type of service is of course quite interesting but an institutional breakdown is also justified. The main problem is that in future, too, data will hardly be available for this purpose and that the breakdown is not in all respects consistent with the banks' practice (what is for example a turnover commission on current accounts?) We should therefore decide on a less detailed breakdown, e.g. Security services and Other". Norway would prefer an institutional breakdown. Sweden finds the breakdown too detailed. Australia suggests "that further breakdown of financial services is not warranted; the statistical requirement for detailed financial services data is unlikely to justify the cost of collecting such data".

IV.6 Category 5 "Communications" (paragrap 33, question 35)

59. All Members except the United States, the United Kingdom, Finland and Australia generally agree to this category. Japan proposes to record courier service under transportation. Germany suggests to explain the distinction between "postal services" and "telecommunications" in more detail. Sweden considers the breakdown to be too detailed. The United States raise the

following issues: "Is broadcasting a 'telecommunications' service, or just 'communications?' Should there be more categories for telecommunications (except broadcasting)? For example, would it be useful to distinguish between charges for basic point-to-point transmission of voice or data and charges for services that add value or function to these basic services? Would it be feasible to distinguish between public channels and leased lines?" The United Kingdom wonders whether postal services and courier services are distinguishable. Finland proposes to divide communications only into data, post, tele and satellite, without subdivision. Australia suggests "that Communications and its components Postal services and Telecommunications services provide sufficient detail. Courier services should be classified to transportation".

IV.7 Category 6 "Business services" (paragraph 34, question 36)

60. All Members except the United States, Germany, the United Kingdom and Australia express qualified agreement with this category. Canada notes that the term "technical services" is vague, that there should be an item for data bank services separate from computer services, and that engineering, architectural services and franchising are missing. Finland proposes to suppress the three-levels subdivision. The Netherlands raises the question of the meaning of agricultural and mining services. Sweden is opposed to the subdivision of computer services. The United States' comments are the following: "Note that agriculture and mining are goods-producing industries. Thus the question arises as to whether agricultural and mining services should be listed under "goods-related" services rather than under business services. A separate two-digit category might be provided for data bank and information retrieval services (now shown as a three-digit subdivision of computer services). 'Recruitment and provision of personnel services', corresponding to CPC category 8971, might be broken out of other business services and shown as a separate category of business services. Some thought should be given to how franchising should be treated". Germany proposes: "Some transactions should be supplemented, e.g. overhead expenses, others would have to be transferred under this heading (e.g. construction services, at least, however, 'architectural and engineering services'). We combine mining services, i.e. drilling services and the like, with construction services." Australia suggests the following changes: "6.1.1 Consultancy related to hardware installation and 6.1.2 Services related to software could be combined and 6.1.3 Data processing and 6.1.11 Data bank services could be combined. 6.5 Technical Services should include all of CPC code 893 and could be broken down into Architectural services, Engineering services and Other technical services."

IV.8 Category 7 "personal services" (paragraph 35, question 37)

61. All Members except the United States, Germany, the United Kingdom and Australia agree to this category. The United States note: "Because much trade in personal services would be recorded under travel, it may be appropriate to note explicitly that the services recorded here include only those services that are not shown under travel. Category 7.3, "recreational and cultural services", should be shown as corresponding to proposed CPC division 96 rather than 95. Clarify whether the publishing component of

division 96 in meant to be included. Should there be an "other" personal services category? To which CPC categories would it correspond?" Germany thinks that an item "personal services" is questionable; to its mind, subitems have been chosen arbitrarily, and the EEC approach is therefore justified. Australia's view on this category is the following: "Nearly all of the personal services transactions in the balance of payments account could be measured by the travel item. Nevertheless, as it is believed that education and health services are becoming increasingly important in international trade their separate identification in the classification appears justified. For completeness, another item-Other personal services-is probably required to correspond to CPC codes 95, 97 and 98. It is suggested that item 7.3 'Recreational and Cultural services' corresponds to CPC code 96 and not 95 as shown. We would prefer to see social services classified to Other personal services rather than to 7.2 'Health and social services'".

IV.9 Category 8 "Travel" (paragraph 36, question 38)

62. All Members except the United Kingdom, Finland, Norway and Sweden expressed qualified agreement with the breakdown of this category. The United States, Japan and Canada propose an additional breakdown of travel expenditure by type of expenditure (food, lodging, etc.). Germany finds the term "Pleasure travels" ambiguous. The United Kingdom, Norway and Sweden propose the breakdown into "Stays of a professional nature" and "Stays of a private nature". Finland rejects any breakdown of total travel. The Netherlands raise the question whether professional travel represents tourism. Australia proposes: "In addition, it is suggested that the correspondence with the CPC would be improved by the addition of CPC codes 858p, 859p, 861p, 862p, 863p, 881p, 882p, 8921p, 91p, 93p, 94p, 95p, 96p, 97p and 98p."

IV.10 Category 9 "Government services" (paragraph 37, question 39)

63. All Members agree with the composition of this category, except Germany which feels that some rethinking is required. Canada proposes an additional breakdown by type of products purchased. Australia considers that it should encompass services produced and services received by governments. New Zealand suggests an additional breakdown by embassy, consular and trade commission services.

IV.11 Category "Miscellaneous services" (question 40)

64. All Members except Japan, Finland, Sweden and Turkey are in favour of creating such a category. The United States raises the issue of the contents of such a category and of the recording of the services of membership organisations (proposed CPC category 95). Germany comments as follows: "Such an item should no doubt be introduced to accommodate cases which are not yet known or which have not yet been reviewed. As mentioned categories 6 and 7 of your proposal could be combined to "Other" - unless a much better solution is found - and supplemented by "Other miscellaneous". Norway proposes to complement it by a foot-note referring to data specification problems. Australia considers that such a category may be required if some "direct purchases" transactions cannot be classified elsewhere.