

**INTERNATIONAL TRADE IN SERVICES**  
**Project on a harmonised statistical System**

## INTERNATIONAL TRADE IN SERVICES

### Project on a harmonised statistical System

---

#### Why a community project?

This document discusses initial ideas for the development of European Community statistics on international trade in services. These are currently being discussed within working groups at Eurostat.

Both the Member States of the European Community and the Commission are finding statistics on international trade in services increasingly necessary, since services feature in multilateral trade negotiations. The information currently available is generally very scanty and of poor quality. Trade in goods is covered by a classification comprising around 9 000 headings, whereas trade in services, which in value terms is equivalent to about 30% of trade in goods, is broken down under fewer than 10 headings (1). The basic information varies a great deal from one Member State to another, as regards both classifications used and the valuation of flows. It is therefore essential that a harmonized system be drawn up, with sufficiently detailed data.

Currently, in many Member States enterprises are obliged to answer questionnaires covering services as a whole, together with all current and capital transactions between residents and non-residents, in order to meet Balance of Payments requirements. It would therefore be desirable to extend the "Services" data-collection system to all current and capital transactions.

Using the information thus obtained it should, of course, be possible to obtain correct Balance of Payments statistics for services. The "Balance of Payments" will remain the sole source for international trade in services for most countries in the world where it is important to be able to make comparisons.

#### A proposed classification for current and financial international transactions

As indicated earlier, the classification has to cover not only services but also all current and financial international transactions. Furthermore the nomenclature should be compatible with the CPC so that statistics drawn up according to the two classifications can be used jointly. The CPC is the central reference classification and will be considered as such when different types of statistics are drawn up. Since it is a basic requirement that it should be possible to use all these statistics together, it is vital that the CPC and the BP classification should be aligned as far as possible. Any difference between the two should be an exception, in flows for which it is virtually impossible to ensure harmonization (e.g. tourism). Wherever possible, the same item should not occur at very different levels in the two classifications (for example, 1 digit in the BP classification and 4 digits in the CPC).

---

(1) At Community level, at least.

Similarly, partial overlapping between items should be avoided (e.g. a 4-digit item in the BP classification corresponding to part of a 4-digit class in the CPC).

Finally, BP classification takes into account work done on national accounts, in particular the conclusions of the Washington meeting (March-April '87). Via the draft presented there, numerous alignments have been made between the two systems, the most important being a clear distinction between goods, services, income and transfers and a common definition of the content of these concepts.

The classification in the annex takes into account discussions and comments made at previous working party meetings in Luxembourg and those organised by the IMF and OECD. It is apparent, however, that there should be only one classification at international level. It is therefore suggested that the final common nomenclature become a part of the IMF manual, even if the information collected by the Fund is much more highly aggregated: the new IMF "standard components" should include only 1 or 2 digit items of the detailed classification (up to 4 digits).

#### Possible sources of information

Two sources are possible:

- data collected from enterprises;
- payment statistics (receipts or expenditure) which the banks may have available, covering payments made with other countries, from or to a resident account.

Some Member States already use both sources in conjunction with each other. It is evident that they complement each other and that neither one alone can claim to meet the requirements of statistics on international trade in services or Balance of Payments.

It is important to make a comparison of the two sources

Banking information is incomplete as regards international trade in services in that it provides payment and not transaction statistics. For international trade in services and for Balance of Payments requirements, the data collected must relate to transactions rather than payments. Payments may be partial or may cover several types of different transactions. Furthermore, banking statistics do not include settlements made by bills of exchange or offsetting, for example. The IMF Balance of Payments Manual - despite its name - is concerned not with "payments" but with "transactions" (§ 31 of the Manual). Moreover banking statistics cover only payments via resident banks. Many enterprises (importing or exporting services) make or receive payments to or from non-resident accounts and these transactions are likely to increase considerably in the future, with the creation of a European financial area: these transactions are not covered by the payment statistics.

However, the banking source remains vital for the drawing up of Balance of Payments statistics. In particular, this is the only information covering private transfers (workers' remittances, migrants' transfers, private development assistance) and financial transactions (and the equivalent; e.g. purchases of residences abroad). For some Member States, this information is the only source of statistics on tourism. Furthermore, even for international trade in services, this source has a certain usefulness in that it supplements the information provided by enterprises.

It will probably not be possible to use the "enterprises" source to collect data on:

- services imported by general government or households;
- services exported by small-scale enterprises. There is a risk that some types of service may not be covered by a survey, for example (not an exhaustive list):
  - . medical services (surgeon going abroad to perform an operation);
  - . advisory services: legal advice given by barristers and notaries; management consultancies; organizational advice;
  - . educational services provided by small firms or individuals;
  - . architectural services;
  - . repair services.

Some of these services may be important, particularly for small countries where cross-border links may be very frequent.

The "enterprises" source is vital if the aim is to:

- . obtain information on a transaction basis;
- . draw up correct statistics on trade credits (difference between transaction and payment);
- . avoid confusion between certain transactions giving rise to a single payment;
- . take into account settlements other than by payment (compensation or bill of exchange, for instance);
- . take into account settlements from non-resident accounts.

For the above-mentioned reasons, it is proposed that the two sources of information be used together:

- banking statistics, i.e. more specifically statistics on foreign payments (receipts or expenditure) from or to resident accounts;
- the data collected from enterprises whose international transactions are above a certain value threshold.

The information provided by the survey would be the prime source, banking statistics being only an addition to help with drawing up statistics, with an identification code for the reporting unit being used to avoid double counting.

**Which information to collect from enterprises?**

The information collected from enterprises should include the following information:

- enterprise identification code
  - economic transaction code
  - partner country code
  - transaction date
  - transaction value
  - for all transactions: amount paid.
- 1) The identification code should identify the enterprise, so that the central banks can eliminate from the banking source those records relating to the enterprise included in the survey and thus avoid double counting.
  - 2) The economic transaction code should comprise a coding for services and financial transactions according to the common classification (see the provisional project in annex).
  - 3) The partner country code should provide as much geographical detail as possible.
  - 4) The transaction date should be such that it is possible to obtain monthly statistics where required. Another solution would be to ask the reporting unit for the monthly total only, which is sufficient from the statistical point of view.
  - 5) The amount of the transaction should be the total amount (already paid and to be paid for that transaction).
  - 6) Enterprises should indicate expenditure and receipts (payments) for all transactions carried out over a one-month period. Only the figure for total payments is required, with the trade credits needed to draw up the Balance of Payments being valued as the difference in transaction values.

**Which information to collect from Banks?**

Banking information should cover all payments (receipts or expenditure) from or to a resident account. When each payment is made, the following data would be requested:

- enterprise identification code
- economic transaction code
- partner country code
- payment date
- payment value.

The only difference between the banking and enterprise sources would be the significance of the amount shown: payment or transaction.

The statistical system described above could be supplemented by data on non-resident accounts.

Transactions by an operator from a non-resident account (abroad) would obviously be useful for drawing up the Balance of Payments in the country of residence. However, such transactions cannot be covered by the banking authorities in that country since they are not entitled to investigate such transactions directly in other countries.

In the long term, there is one solution which might be possible for the Community Member States only, and which would preserve banking confidentiality: the other country could transmit overall data (i.e. after aggregating the reporting units resident in the country concerned). The data transmitted would already have been compared with the list of enterprises who send data directly in order to avoid double counting. However, this would mean that the list of reporting units would have to be communicated and a single Community coding adopted for those units. Such a system does not seem feasible in the short term.

#### Limits of the proposed system

The system proposed clearly has two limits:

Some enterprises carry out operations abroad for an amount of money which is less than the threshold at which they would be obliged to make a declaration under the proposed system. The transactions which they make from resident bank accounts will be captured by the banking source. However, the operations which they make from a non-resident account will not be captured.

As indicated earlier, part of this information could eventually be obtained from the central banks of the member states. Theoretically, the system of data collection from enterprises could of course include these operations by obliging residents to declare all the transactions which they make from non-residents accounts. Nevertheless, it is likely that, with the realisation of a European financial market, the growing number of non-resident bank accounts inside the Community will make it difficult to capture all of these flows, for example, those in relation to services provided by doctors, lawyers, architects...

The transactions which will be collected from the banking source (and which relate to enterprises which were not asked to provide information) also present a problem since they relate to payments and not to transactions. For a certain number of operations payment and transaction are identical, for example: travel, capital income, workers remittances.... However, for certain services there can be differences due to purchaser/supplier credits.

To resolve these two problems one might carry out a sample survey of all those enterprises which have not been asked to provide information. This would enable:

- the taking into account of those operations carried out by enterprises from non-residents' accounts
- the correction of data on international trade in services in order to go from a "payment" basis to a "transaction" basis and thus to evaluate commercial credits.

### Conclusions

The proposed outline is quite clearly based on systems already existing in some Member States which collect data from enterprises and cover bank payments. For them, Eurostat's proposals must, of course, involve certain changes or adaptations to conform with the new system but will not necessitate an upheaval of their existing system. For other Member States, where the available data are scanty, these proposals would mean a considerable effort and expenditure to set up a new statistical system.

But this effort is needed both to increase the quality/quantity of the information on external trade in services and to improve Balance of Payments statistics as a whole by establishing a direct link between a single statistical collection system and the future Balance of Payments accounting system.

## **Annexe**

### **Classification of Current and Financial Transactions**



Classification of Current and Financial Transactions

Codes	Headings
<b>A.</b>	<b>MERCHANDISES</b>
1	Merchandise other than repairs, processing and fuel for carriers
2	Repairs
3	Processing
4	Fuel and other goods for carriers
<b>B.</b>	<b>SERVICES</b>
1	<u>Transport</u>
1.1	Sea Transport
1.1.1	Marine passenger transport
1.1.2	Sea freight
1.1.3	Rental of sea-going vessels with crew
1.2	Air transport
1.2.1	Air passenger transport
1.2.2	Air freight
1.2.3	Rental of aircrafts with crew
1.3	Space transport
1.5	Rail transport
1.5.1	Rail passenger transport
1.5.1	Freight transport
1.6	Road Transport
1.6.1	Passenger transport
1.6.2	Freight transport
1.7	Pipeline transport
1.8	Transport services via non sea going vessels
1.9.	Supporting and auxiliary transport services
2	<u>Insurance and reinsurance imputed service</u>
2.1	Insurance on transport
2.2	Other property and liability insurance
2.3	Life insurance

- 2.4 Disability and medical care insurance
- 2.5 Other insurance
- 2.6 Reinsurance
- 3 Financial commissions
- 4 Trade earnings and commissions
  - 4.1 Trade earnings
    - 4.1.1 Merchanting
    - 4.1.2 Franchising and other trade earnings
  - 4.2 Trade commissions
- 5 Travel
  - 5.1 Stays of a professional nature
  - 5.2 Stays of private nature
    - 5.2.1 for leisure
    - 5.2.2 for education
    - 5.2.3 for medical care
    - 5.2.4 for other purpose
- 6 Construction services
  - 6.1 Buildings
  - 6.2 Civil engineering
  - 6.3 Installation work
  - 6.4 Other construction services
- 7 Communications
  - 7.1 Postal services and courier services
    - 7.1.1 Postal services
    - 7.1.2 Courier services
  - 7.2 Telegraphic and telephonic services
  - 7.3 Other telecommunication services
- 8 Business services
  - 8.1 Information services
    - 8.1.1 provided by data bank
    - 8.1.2 provided by press agencies
  - 8.2 Software and other computer services
  - 8.3 Legal/Accounting/Management/Consulting services
    - 8.3.1 Legal services
    - 8.3.2 Accounting auditing and tax consultancy services
    - 8.3.3 Management consulting services
  - 8.4 Architectural, engineering and technical consulting services
    - 8.4.1 Architectural and urban planning services
    - 8.4.2 Engineering services
    - 8.4.3 Technical consulting services
      - 8.4.3.1 Agriculture
      - 8.4.3.2 Mining
      - 8.4.3.3 Oilfield

- 8.5 Research and development services
- 8.6 Advertising services, market research and public relation services
  - 8.6.1 Advertising services
  - 8.6.2 Direct marketing
  - 8.6.3 Market research, Polling services
  - 8.6.4 Public relations services
- 8.7 Rental services
  - 8.7.1 Rental services concerning transport equipment (without crew)
    - 8.7.1.1 Rental services concerning ships (without crew)
    - 8.7.1.2 Rental services concerning aircrafts (without crew)
    - 8.7.1.3 Rental services concerning other transport equipment (without crew)
  - 8.7.2 Other rental services
- 8.8 Other business services
- 9 Culture, education and health services
  - 9.1 Culture
    - 9.1.1 Films and audiovisual services
    - 9.1.2 Other recreational and cultural services
  - 9.2 Education services
  - 9.3 Health services
- 10 Governmental transactions
  - 10.1 Expenditure of embassies, consulate and military units
  - 10.2 Services of Defense
  - 10.3 Aid Services of Education
  - 10.4 Aid Services of Health
  - 10.5 Other Aid Services

**C. INCOME**

- 1 Income from work
- 2 Income from intangible assets
  - 2.1 Income from patents, trademark, models, design and priority right
  - 2.2 Income from copyright
  - 2.3 Income from distribution rights of films and TV programmes
- 3 Direct investment income
  - 3.1 Non financial corporate and quasi corporate enterprises
  - 3.2 Central Banking Authorities
  - 3.3 Other Monetary and Credit Institutions
  - 3.4 Insurance enterprises
  - 3.5 General Government
  - 3.6 Households
- 4 Other investment income
  - 4.1 Non financial corporate and quasi corporate enterprises
  - 4.2 Central Banking Authorities
  - 4.3 Other Monetary and Credit Institutions
  - 4.4 Insurance enterprises
  - 4.5 General Government
  - 4.6 Households

**D. TRANSFERS**

- 1        Insurance
  - 1.1      Net insurance premium
    - 1.1.1    Transport
    - 1.1.2    Other property and liability insurance
    - 1.1.3    Life insurance
    - 1.1.4    Disability and medical care insurance
    - 1.1.5    Other insurance
    - 1.1.6    Reinsurance
  - 1.2      Insurance claims
    - 1.2.1    Transport
    - 1.2.2    Other property and liability insurance
    - 1.2.3    Life insurance
    - 1.2.4    Disability and medical care insurance
    - 1.2.5    Other insurance
    - 1.2.6    Reinsurance
- 2        International cooperation
- 3        Other transfers
  - 3.1      Migrants' transfers and workers remittances
    - 3.1.1    Migrants' transfers
    - 3.1.2    Workers' remittances
  - 3.2      Other transfers

**E.        Purchase/Sale of intangible assets**

**F.        Financial transactions**

- 1        Direct investment
  - 1.1      Non financial corporate and quasi corporate enterprises
  - 1.2      Central Banking Authorities
  - 1.3      Other Monetary and Credit Institutions
  - 1.4      Insurance enterprises
  - 1.5      General Government
  - 1.6      Households
- 2        Other Investment
  - 2.1      Non financial corporate and quasi corporate enterprises
  - 2.2      Central Banking Authorities
  - 2.3      Other Monetary and Credit Institutions
  - 2.4      Insurance enterprises
  - 2.5      General Government
  - 2.6      Households

3	<u>Reserves</u>
3.1	Monetary Gold
3.2	Special drawings rights
3.3	Reserve position in the Fund
3.4	Reserve position in the European Monetary Cooperation Fund
3.5	ECU
3.6	Foreign exchange assets
3.7	Other claims
3.8	Use of the IMF credits
3.9	Use of the EMCF credit
G	Errors and omissions

Memorandum item = Arbitrage on Financial Assets

## DEFINITIONS AND COMMENTS ON THE VARIOUS HEADINGS OF THE CLASSIFICATION

### 1. Repairs

This heading includes only the value of the repair and not the value of the good before/after repair. It is proposed that all repairs (on capital as well as consumer goods) be recorded as a subheading of "Merchandise" for the following reasons:

- a) Repairs on capital goods are entered as goods in the national accounts systems (SNA/ESA), and therefore any change in the BP system should bring it more into line with national accounts. This was the point of view adopted at the Washington meeting.
- b) With a view to alignment of national accounts and the Balance of Payments, repairs on consumer goods should be recorded as services and not as merchandise. However, this point of view has not been adopted since it is likely that, in the context of international trade, this type of repair is negligible and that these flows which are entered in external trade statistics (of the Member States and other countries) cannot always be distinguished from "Merchandise" as a whole. Some countries are probably not able to make other than rough estimates of repairs on consumer goods, and it would therefore seem preferable to enter such repairs as a sub-heading under "Merchandise" as well, rather than jeopardize correct valuation of the Trade Balance.

### 2. Processing

Processing in this context is the processing of merchandise against payment of a commission. The goods concerned are processed and not repaired, and there is therefore a distinction between the two types of activity.

It is proposed that the value of the goods before/after processing be entered under "Merchandise".

This way of dealing with processing would have the following advantages:

- a) It would align the BP and national accounts systems. In national accounts, processing is considered as a production activity, with the intermediate consumption of goods being followed by the production of new goods. The goods are recorded prior to/following processing as an import/export of goods. With a view to harmonization, the Washington Working Party suggested that BP recording be identical to that used in national accounts.
- b) The goods to be processed are included in the external trade statistics which constitute the basic information used to value the "Merchandise" heading in the Balance of Payments of most countries. However, it may sometimes be difficult to separate goods before/after processing from external trade statistics as a whole.

Job processing does not have any specific, uniform definition in every country and it is therefore preferable to include the goods before/after processing under the "Merchandise" heading in the Balance of Payments so that this item remains comparable from one country to another, since the relevant statistics are of relatively poor quality.

These two arguments militate strongly in favour of the proposed treatment.

### 3. Space transport

This heading includes satellite launching by commercial enterprises (such as Ariane Space). It is now included in the CPC.

### 4. Supporting and auxiliary transport services

This does not correspond to the present standard component "Port services": goods supplied to carriers (stores and fuel) must be entered as merchandise.

The contents of this post are identical to those of the CPC: it includes loading and unloading operations, stowage, warehousing services, pilotage and navigation aid services.

It is suggested that the CPC renames "pushing and towing services" in such a way that these services are clearly distinguished from pilotage and navigation aid services.

### 5. Leasing or rental of transport equipment

A distinction must be made between leasing or rental

- with operators or drivers
- without operators or drivers.

The enterprise hiring transport equipment with operator in fact buys a "transport service" and then resells this service to individual passengers. On the other hand, an enterprise which hires transport equipment without crew or operator is simply hiring goods, most often subsequently producing a transport or other type of service (e.g. boats used for exhibitions). The CPC makes the same distinction and agents carrying out this type of transaction (airline companies, travel agencies, etc.) are definitely in a position to provide the corresponding information: travel agencies, for example, only hire with operator.

## 6. Insurance

- a. This document proposes that insurance be dealt with by recording
- the export/import of insurance services
  - gross claims
  - net premiums (i.e. gross premiums less insurance service charges).

This treatment differs from that laid down by the fourth Manual, since although insurance services are considered to be services, the other two components of insurance operations (gross claims and net premiums) must be considered as transfers.

One of the problems, however, is that the "service" can only be valued as an overall figure. In national accounts, the service is assessed by the formula (1)

insurance service charge = gross premium x fixed ratio.

However, the treatment of insurance will probably be reviewed in the new SNA and the Balance of Payments proposals are therefore very provisional.

- b. Insurance services should be delimited according to a sectoral criterion, i.e. insurance services provided by insurance companies but not those provided by social security administrations. This definition is in line with that used in CPC. Social benefits (e.g. pensions) should be included under the heading Transfer (32 Other Transfers) together with social contributions.

## 7. Financial commissions

- a. A commission is a fixed amount received by an operator for provision of a service (or a fixed percentage of the value of that service). Capital gains realized by the purchase/sale of financial assets (income from arbitrage on currency and securities) are excluded.

(1) Except for Life insurance

Financial commissions cover mainly:

- exchange transactions
- international payments (credit cards, the issue and payment of cheques, etc.)
- management of liquid assets and wealth, trust activities
- factoring (debt recovery)
- security transactions: issue, brokerage, coupon payment.

- b. Banking advisory activities are excluded: these should be considered as "business services".

- c. Income from arbitrage on currency and securities is excluded. Some Member States (e.g. the United Kingdom) include such income under current transactions. When the fourth Manual is revised, it would be preferable to include them as a "memorandum item", with the purchase/sale of financial assets being recorded only under financial transactions.



#### 8. Trade earnings and commissions

- a. Merchanting is the purchase/sale of goods by a resident, the goods being exported from one country to another without crossing the frontiers of the country of residence of their temporary owner (merchant).
- b. Franchising should be specifically mentioned, although it is not considered in the CPC.
- c. Commissions include brokerage and fees for the hire, purchase or sale of goods (in particular aircraft, boats and raw materials) but not the hire or purchase itself.

#### 9. Travel

- a. According to § 278 of the fourth Manual, travel covers the goods and services acquired from an economy by the individuals defined as travelers during their stay in that economy, to use themselves.

It should be added that

- all goods and services are included under the "travel" heading except for the international carriage of travelers (§ 278)
- a traveler is a person staying for less than one year in an economy of which he is not a resident, with the exception of diplomatic and consular staff, staff on military bases and persons undertaking a productive activity directly for an entity which is a resident of that economy (seasonal or border workers, § 279 and 319).

On the other hand, business travelers or persons installing machinery or equipment (when the enterprise performing the installation service is not a resident of the economy where the installation takes place) are considered to be travelers (§ 281).

"Travel" refers to their personal acquisitions of goods and services ... but not the sales or purchases that they may conclude on behalf of the enterprise they represent".

It should be expressly indicated - in a more general fashion than in the present manual - that: the expenditure of businessmen or those providing services should be entered under the "travel" heading but receipts under the heading relating to the service provided: legal service, health service, advisory service, etc.

b. Two types of breakdown would seem to be feasible for the "travel" heading:

- the first according to the purpose of the journey, for example
  - journeys for professional purposes
  - private journeys
    - for pleasure
    - for education
    - for medical care
    - for other reasons
- the second according to the type of goods or services acquired by the traveler
  - hotel, restaurant
  - transport (within the country visited, since international transport is recorded under "Transport")
  - rent
  - hire of means of transport
  - other services
  - final consumption of goods

The first type of classifications seems to be preferable, since this information can be collected from a single source - the banks - whereas the second type would require a survey of travellers to find out the pattern of their consumption. However, the breakdown by type of goods is also interesting from the point of view of economic analysis. Because of its simplicity as regards the collection of information, the first type of classification has been favoured to the extent that at the international level it is easier to obtain this type of data. In any case, one might also envisage at the European level - should the need clearly present itself - the production of statistics on the types of goods or services acquired by travellers, thus giving a double breakdown of the post "travel".

## 10. Construction

a. Installation and construction work should be recorded in the BP as follows:

- "... the installation services should be considered to be services that have been provided by the resident enterprise to a non-resident if the work of installation is carried out entirely, or primarily, by the employees in question and they complete the installation in less than one year". (§ 73)
- Otherwise: the rule is to consider that a direct investment is made and that the work is carried out by an enterprise resident in the country where the construction/installation work is performed. (§ 67 and 73)

This is also the treatment recommended in the OECD document "Benchmark definition of foreign direct investment", (§ 74 and 76)

b. If these rules were followed, the headings "Building" or "Civil Engineering" (dams, sea walls, bridges, tunnels, etc.) would to all intents and purposes not be valued since such work could not be considered as a service.

c. However, the Member States' statistical practice does not abide by these accounting principles. Construction work is always considered to be an export/import of services by the Federal Republic of Germany, France, the Netherlands, Ireland, Denmark, Spain and Portugal.

d. The main differences in the two types of accounting practice are as follows:

- the "services" treatment implies that the receipts-expenditure balance of the enterprises carrying out the work should be entered under the "Construction" or "Installation" heading;
- the "direct investment" treatment implies that all of this expenditure (including that which does not involve any exchange transaction, such as the payment of wages from the parent concern to its own employees carrying out work on the spot) should be considered to be an increase in assets; an equivalent amount should be recorded once the construction work has been completed as a decrease in assets (disinvestment) and the balance should appear as capital income. It is highly unlikely that such information can ever be available for the country in which the construction work is carried out, hence the risk of asymmetry;

e. To conclude, the "services" treatment

- is more simple to carry out
- shows up explicitly net receipts from construction work in the Balance of Payments statistics unlike the other accounting method under which this activity is not shown separately from direct investment as a whole. This "construction" information is required (for multilateral trade negotiations for example). It is therefore suggested that this "services" treatment should be adopted in the new Manual.

11. Information services

These services are those provided by news agencies or transmitted from data bases. It is logical to group together these two types of service to the extent that they are often provided by the same enterprises (e.g. Reuter). However, they appear under separate headings in the CPC.

12. Legal services

This heading should cover legal advisory services as well as services provided by barristers and notaries.

13. Accounting, auditing and tax consultancy services

Tax consultancy services are grouped together with accounting services, since these different services are often provided by the same institutional units.

14. Management consulting services

Management consulting services consist of assistance in identifying and researching problems and/or opportunities concerned with policies, organization, procedures and methods, recommending appropriate action and helping to implement these recommendations (definition of the European Federation of Management Consultants' Associations). "Public relations services" have been excluded from this heading and grouped together with "Advertising Services" and "Market Research", since they are often produced by the same enterprises. An amendment to the CPC along these lines should be suggested.

15. Architectural and urban planning services

These are services provided by architects.

16. Engineering services

These are services provided by consultant engineers or design offices related to the design, construction and implementation of an investment. Part of these services will very probably be included under the "construction" heading, since it will be impossible to separate them from other construction services.

17. Technical consulting

Advisory services for agriculture are included under this heading, although they are not in the CPC.

18. Culture

This heading should cover fees received by authors, composers, producers and directors, actors, musicians, etc., excluding distribution rights which should be considered as income. According to the CPC, fees should be considered as the sale of a service and not as income from labour. On the other hand, distribution rights (for a film, for instance) or royalties (for a book) should logically be grouped together with income from patents or copyrights, to which they are very similar.

19. Education, health

This heading should cover fees received by doctors or surgeons providing services abroad, together with the income of firms providing educational services abroad (e.g. management training).

20. Government transactions

a. According to the IMF Manual (§ 311 et seq.) the heading "Other goods, services and income - official sector" comprises:

- the expenditure of embassies, consulates and military units
- aid services
- military services purchased or sold by a government
- other services purchased or sold by a government.

b. Statistical practice in the Member States is as follows:

- the expenditure of embassies, consulates and military units is entered under the heading "Official transactions";
- aid services, on the other hand, are included under "Official transactions" in the United Kingdom only. Other Member States break down aid services according to the type of expenditure required to produce them (for example, technical cooperation is mainly recorded under the heading "wages and salaries" since such expenditure comprises mainly the wages and salaries of cooperation workers);
- other services purchased or sold by a government vary considerably. Some Member States do not record any services in this category, whereas others enter various types of service under this heading.

c. It would be desirable to lay down precise rules in the new IMF Manual in an attempt to avoid different accounting practices in different countries.

It would be preferable to exclude services purchased or sold by a government which are already entered under other headings in the classification (e.g. communications), since this would make the classification as a whole less useful. On the other hand, military services (not included anywhere else in the classification) could be entered under this heading. The same applies to the expenditure of embassies, consulates and military units (which in any case can hardly be broken down according to type of goods or services).

There remains the question of aid services (for example, cooperation workers in the field of education). Three solutions are possible:

- there should be a subheading (e.g. "Education") under the heading "Governmental transactions". This solution is in line with the IMF Manual, but is rarely used in practice. It has the advantage of showing aid services (non-market) separately and making a distinction between them and the equivalent market services (education services provided abroad on a commercial basis). This solution would also seem to be the easiest to put into practice;
- the services could be broken down according to the type of expenditure incurred in providing them. This is the solution used in some countries and is the closest to national accounts practice. On the other hand, it does not indicate the type of service exchanged and also has the disadvantage of making certain posts very broad in content - for example the salaries of aid workers would appear as a receipt (for the donor country) under the post "labour income" along with the salaries of frontier/seasonal workers;
- these aid services (non-market) could be grouped together with the equivalent market services. This solution would not appear to be desirable since it is more useful from the point of view of economic analysis not to group together market and non-market services, and it is also useful to have a detailed breakdown of market services.

It is therefore suggested to include these services under the post "governmental transactions" (first solution).

#### 21. Investment income

Four types of breakdown may be envisaged for investment income, as for the investments themselves:

- according to the existence or otherwise of an effective power of decision in the management of the enterprise (direct investment or otherwise);
- according to the duration of the debt (short-, medium- or long-term);
- according to the resident sector concerned (general government, households, etc.)
- according to the type of debt (trade credits, shares, etc.).

The breakdown according to duration of the debt is difficult to put into practice since the term changes (a medium-term debt becomes a short-term debt after a few years). At the Washington meeting (May '87), the Working Party indicated that "recent developments affecting not only international but also domestic transactions bring into question the usefulness of a long-term versus short-term distinction and urged that the distinction be reviewed critically". Similarly, the breakdown according to type of debt (trade credits, shares, etc.) should not be used: on the one hand, changing financial instruments mean that any breakdown of this type would risk becoming obsolete very quickly and on the other hand it would make any classification impracticable in part, since certain financial instruments are by nature basically composite.

The breakdown proposed in this document is as follows: a distinction between direct investment/other investment cross-referenced with the type of resident sector which is party to the transaction.

It should, however, be noted that:

1. The concept of direct investment and the operational rules implementing this concept should be reviewed, so that statistics may be better harmonized. At present, there are considerable differences between Member States.
2. The sectorization should be identical in both statistical systems, the Balance of Payments and National Accounts. In particular, it is a basic requirement that the sectorization should be purely institutional in the BP.

## 22. International cooperation

a. This heading should cover the following transfers:

- transfers between States in cash or in kind, for example:
  - food aid
  - the counterpart to wages of technical cooperation assistants
  - payments intended to finance budget deficits
  - aid for the construction of roads, hospitals, etc
  - contractual debt cancellation;
- transfers and contributions from the State to international organizations together with compulsory payments to international organizations (e.g. the Community Institutions' own resources);
- all transfers by international organizations (including subsidies and investment aid from Community institutions);
- all other transfers considered to be public development aid.

b. This concept of international cooperation should make it possible to clarify the classification of transfers.

Currently, according to the principles of the fourth Manual, the heading "resident official sector transfers" is extremely heterogeneous, since it includes, for example:

- pensions paid out
- damage compensation paid or received
- part of public development aid
- social contributions received.

### 23. Other transfers

This heading is broken down as follows:

- migrants' transfers and workers' remittances
- Other transfers
  - residual item comprising, for example:
    - gifts and inheritances
    - fines
    - claims for damages not covered by an insurance contract
    - scholarships
    - pensions
    - social contributions
    - lottery winnings
    - private development aid.

\* \* \* \* \*