COMMUNICATION FROM AUSTRALIA

Some Notes on the Measurement of Services in
Australia's Balance of Payments Statistics

The attached communication is circulated at the request of the delegation of Australia to the members of the Group of Negotiations on Services.
SOME NOTES ON THE MEASUREMENT OF SERVICES IN
AUSTRALIA'S BALANCE OF PAYMENTS STATISTICS

The purpose of these notes is to provide an insight into the presentation and measurement of service transactions in Australia's balance of payments accounts. In order to understand the measurement of services, we should first discuss some general principles of balance of payments recording.

THE MEANING OF BALANCE OF PAYMENTS STATISTICS

2. Broadly speaking, the balance of payments is a system of accounts providing a systematic record of economic transactions between residents of Australia and residents of the rest of the world.

3. Hence the balance of payments is concerned with economic transactions, not payments and receipts. It is also a system of accounts, not a single entry or a series of entries. The ABS publishes about 500 quarterly and monthly series in about 50,000 cells of data. Each year the ABS publishes another 3,000 annual regional series in about 20,000 cells of data.

STANDARD CONVENTIONS FOR BALANCE OF PAYMENTS RECORDING

4. It is extremely important that balance of payments statistics are systematically and consistently recorded. To achieve this, the balance of payments has a conceptual framework consisting of a set of basic principles and definitions. These include:

. the double entry system of recording,

. guidelines for determining the scope of economic transactions, their time of recording, their valuation, etc,

. guidelines for classification and presentation, and definitions of "residents" and "non-residents".

5. It is also important that the statistics are internationally comparable. For this reason the Australian conceptual framework takes close account of international recommendations promulgated by the International Monetary Fund and the United Nations for the recording of transactions. In practice, it is not possible for all the requirements of the conceptual framework to be precisely met.

RESIDENTS

6. For balance of payments purposes, it is necessary to define what is meant by a "resident" of Australia. A resident is an economic entity which has a closer association with the territory of Australia than any other territory.
7. Residents include individuals, government authorities, business enterprises and private non-profit bodies. All economic entities not defined as residents are classed as "non-residents".

8. It should be noted that, in accordance with internationally accepted conventions, all enterprises engaged in production in the domestic territory are regarded as residents even if they are owned by foreigners. It is the transactions of such enterprises with other countries, including the transactions with their home offices, that are recorded in the balance of payments and not those between the foreign-owned enterprises and the rest of the economy of the host country.

9. The situation is different for diplomatic missions, military units and personnel of governments stationed in foreign countries. They are regarded as residents of the home country's economy and therefore as non-residents of the country in which they are located. Their transactions with the country in which they are located are therefore recorded in the balance of payments of the home country.

10. Tourists and other travellers are, of course, residents of their home country.

PUBLICATION OF BALANCE OF PAYMENTS STATISTICS

11. Balance of payments statistics for Australia are regularly published as follows:

- Monthly statistics (Catalogue No. 5301.0)
- Quarterly statistics (Catalogue No. 5302.0)
- Annual statistics (Catalogue No. 5303.0)
- Historical monthly and quarterly statistics (5337.0)
- Regional annual statistics (5338.0)

12. The nature of the monthly publication means that, although the same in terms of scope, it contains much less detail than shown in the quarterly publication. The annual publication is further expanded to include some broad regional and other additional data. Historical data going back to July 1971 on a monthly basis and to September quarter 1959 on a quarterly basis are released in 5557.0, while detailed regional data are released on an annual basis in 5338.0. Preliminary monthly data from 5301.0 are available on a very timely basis about 10 working days after the reference period and quarterly data from 5302.0 (which include constant-price estimates) are released some two months after the reference quarter.

PRESENTATION OF THE BALANCE OF PAYMENTS

13. Balance of payments statements have traditionally been presented in two parts, a current account and a capital account.
14. The current account records transactions in merchandise, services (including, in practice, a few types of goods), income and unrequited transfers. The following table indicates the relative importance of the various current account components for the latest financial year.

```
CURRENT ACCOUNT 1985/86

<table>
<thead>
<tr>
<th>Component</th>
<th>$A billion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MERCHANDISE</strong></td>
<td></td>
</tr>
<tr>
<td>Exports f.o.b.</td>
<td>32.2</td>
</tr>
<tr>
<td>Imports f.o.b.</td>
<td>-35.6</td>
</tr>
<tr>
<td>Balance on merchandise trade</td>
<td>-3.4</td>
</tr>
<tr>
<td><strong>SERVICES</strong></td>
<td></td>
</tr>
<tr>
<td>Credits</td>
<td>5.9</td>
</tr>
<tr>
<td>Debits</td>
<td>-3.9</td>
</tr>
<tr>
<td>Net services</td>
<td></td>
</tr>
<tr>
<td><strong>INCOME</strong></td>
<td></td>
</tr>
<tr>
<td>Credits</td>
<td>2.0</td>
</tr>
<tr>
<td>Debits</td>
<td>-7.3</td>
</tr>
<tr>
<td>Net income</td>
<td></td>
</tr>
<tr>
<td><strong>UNREQUITED TRANSFERS</strong></td>
<td></td>
</tr>
<tr>
<td>Credits</td>
<td>2.6</td>
</tr>
<tr>
<td>Debits</td>
<td>-1.7</td>
</tr>
<tr>
<td>Net unrequited transfers</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>BALANCE ON CURRENT ACCOUNT</strong></td>
<td>-13.8</td>
</tr>
</tbody>
</table>
```

15. The capital account records transactions in Australia's foreign financial assets and liabilities.

**PRESENTATION OF THE SERVICES ACCOUNT**

16. The focus of these notes is on the services component of the current account. In practice, "services" includes transactions in some specified goods, for example, goods purchased by travellers or diplomatic missions. The principal categories of the services account, and the values recorded for them in 1985-86, are shown in the following table. "Credits" refers to services provided to non-residents and "debits" to services acquired from non-residents.

```
<table>
<thead>
<tr>
<th>Component</th>
<th>$A billion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CREDITS</strong></td>
<td></td>
</tr>
<tr>
<td>Shipment</td>
<td>0.4</td>
</tr>
<tr>
<td>Other transportation</td>
<td>2.5</td>
</tr>
<tr>
<td>Travel</td>
<td>1.8</td>
</tr>
<tr>
<td>Other services</td>
<td>1.2</td>
</tr>
<tr>
<td>Total services credits</td>
<td>5.9</td>
</tr>
<tr>
<td><strong>DEBITS</strong></td>
<td></td>
</tr>
<tr>
<td>Shipment</td>
<td>-2.8</td>
</tr>
<tr>
<td>Other transportation</td>
<td>-2.3</td>
</tr>
<tr>
<td>Travel</td>
<td>-2.8</td>
</tr>
<tr>
<td>Other services</td>
<td>-2.0</td>
</tr>
<tr>
<td>Total services debits</td>
<td>9.8</td>
</tr>
<tr>
<td><strong>NET SERVICES</strong></td>
<td>-3.9</td>
</tr>
</tbody>
</table>
```
17. The presentation of the services account broadly follows international conventions for the compilation of balance of payments statistics.

18. The detailed items included in the Australian services account (all of which are published in the quarterly balance of payments bulletin) are listed below.

**CREDITS**
- Shipment
- Freight on exports
- Insurance on exports
- Other transportation
- Passenger services
- Port services etc
- Travel
- Other services
  - Official
  - Non-official
    - Expenditure of foreign governments
    - Expenditure of foreign government employees
    - Expenditure of resident entity employees
    - Insurance services n.e.c.
    - Miscellaneous services

**DEBITS**
- Shipment
- Freight on imports
- Insurance on imports
- Other transportation
- Passenger services
- Port services etc
- Travel
- Other services
  - Official
    - Defence services
    - Financial services
    - Miscellaneous services
  - Non-official
    - Expenditure of Australian government employees
    - Expenditure of non-resident entity employees
    - Insurance services n.e.c.
    - Miscellaneous services

19. Definitions of these items are provided in the Attachment.

**DATA SOURCES**

20. In principle, balance of payments estimates should be compiled by summing information from the accounts, whether actual or notional, of every economic unit in Australia which engages in foreign transactions. In practice, this is not possible. The estimates are therefore derived from a wide variety of data sources of varying degrees of frequency, detail, accuracy and timeliness. For the services account, these sources include:
. ABS foreign trade statistics, based on the Customs recording system;

. government accounting records;

. special purpose ABS surveys, for example, the Surveys of International Shipping and Airline Operations, the Survey of Non-trade Foreign Receipts and Payments (recording foreign exchange transactions passing through the Australian banking system), and collections from insurance enterprises, diplomatic missions and travel enterprises.

. Other sources, including ABS overseas arrivals and departures statistics (derived from "migration cards"), ABS household surveys, the Australian Tourist Commission's International Visitors Survey, and taxation data.

21. The data sources used in estimating the various items are also indicated in the Attachment.
NOTES ON THE MEASUREMENT OF SOME PARTICULAR ITEMS

22. Freight International freight services refer to services provided for the carriage of goods beyond the customs frontier of the exporting country. This is consistent with the point of valuation of merchandise trade on a free-on-board basis which includes the cost of distributive services up to the customs frontier of the exporting country.

23. Conventional balance of payments practice based on international recommendations regards the freight services provided beyond the customs frontier of the exporting country as being provided directly by the transport operator to the importer. As the balance of payments is mainly concerned with transactions between Australian residents and non-residents, the application of this convention excludes from the balance of payments accounts the earnings of Australian transport operators for freight on imports as well as the earnings by non-resident operators for freight on exports. The earnings so omitted may in fact include certain resident/non-resident transactions.

24. Travel Travel covers goods and services acquired from an economy by non-resident travellers for their own use during their stay. It excludes international passenger services and the expenditure of non-resident shipping and airline crews, which are included in "Other transportation" services.

25. A traveller is a resident of one country who visits another for such purposes as business, study or recreation for a period under twelve months. Foreign students in Australia who are studying under government aid programs and who stay for more than twelve months are also regarded as non-residents and their expenditure in Australia is included in this item. This treatment is adopted because their centre of interest is considered to be another country to which they will return on completion of their study.

26. Travel credits are goods and services acquired by non-resident travellers in Australia. They are largely measured by applying an estimate of foreign travellers' expenditure per head to an estimate of the number of these travellers. The former estimate is derived from the Australian Tourist Commission's annual International Visitors' Survey (IVS) and the latter from statistics of short term arrivals and departures of visitors obtained from migration cards. The normal time lag for the IVS data is about a year and in the past the time lag for arrivals and departures data has been six to eight months. Accordingly, the latest available published data are always extrapolations.
27. Travel debits are goods and services acquired by Australians travelling abroad. They are measured by applying an estimate of Australian travellers' expenditure per head to an estimate of the number of these travellers. The former estimate is derived from an annual survey of international travel enterprises (which provides data about travellers' cheques sales, use of internationally-valid credit cards, use of currency notes etc.) and the latter from statistics of short term departures and arrivals of Australian residents. We are currently finalising survey data in respect of 1985-86. Until survey results are available, extrapolations are published.

28. As a result of improved procedures for the processing of the data on migration cards, the time lag for the receipt of the overseas arrivals and departures data is presently shortening.

29. Insurance Six separate categories of insurance are published in the balance of payments, four of which are in the services account.

30. "Insurance services n.e.c." includes general insurance and life insurance services (although the contribution of life insurance is very small). It excludes marine insurance, which is classified as part of "Shipment". The measure of insurance services provided abroad (credits) is premiums received less claims paid. The measure of insurance services received from abroad (debts) is premiums paid less claims received. This treatment follows the international standard for the measurement of insurance services in the balance of payments.

31. Estimates of insurance services provided to or by non residents are derived from taxation sources and ABS collections from Australian insurance and reinsurance enterprises, Australian branches of foreign insurance enterprises and agents and brokers for foreign insurance enterprises.

32. Occasionally, due to natural disasters in Australia, the net result for insurance services credits is negative (i.e claims received exceeded premiums paid). In these extraordinary years, the cause of the excess claims is identified and the claims relating to those events are approximated and classified as a contractual income flow from the foreign insurers to the Australian insured. This is recorded under "insurance income, credits" and the balance recorded against "insurance services debits".
OTHER ABS INFORMATION ON INTERNATIONALLY-TRADED SERVICES

33. Apart from the statistics on trade in services released in balance of payments publications, the ABS makes available other information which is useful in the assessment of international trade in services.

International Transport Services

34. Statistics from the Surveys of International Shipping and Airline Operations are made available each quarter to users on request. The tables provide detailed results from these surveys, not only for items relevant to the balance of payments but also the international freight components not measured in the accounts (see paragraph 23 above).

International Consultancy Services

35. Detailed statistics on consultancy services supplied abroad by Australian professional consultants are published separately by the ABS in "Consultancy Services Australia" (5339.0). Data has been released on an irregular basis since the early 1970's, with the last issue in respect of 1984-85.

INFORMATION IN THE BALANCE OF PAYMENTS ACCOUNTS WHICH IS SOMETIMES ASSOCIATED WITH SERVICES TRADE

36. Because of the definition of "resident" adopted internationally for balance of payments recording, some transactions which are sometimes considered as service earnings by a country are not recorded in the services account of the balance of payments. Suppose an enterprise in Australia sets up an affiliate abroad to sell services to residents of the country in which it is located. The earnings and expenses of that affiliate in the foreign country are not recorded in the balance of payments. However, the net profits of the affiliate attributable to the Australian head office are recorded in the income account. A considerable amount of information on investment income (including direct investment income) is published by the ABS in balance of payments and foreign investment bulletins. This information is collected in the ABS surveys of foreign investment.

37. Also, in accordance with international conventions, income accruing to owners of patents, copyrights and similar non-financial assets are recorded in the income account. Income of this sort, which is often referred to by such terms as royalties and licence fees, is recorded under the heading "other property income". For debits, the component "cinema and television film royalties" is split out from the "other property income" category on a quarterly basis, and the data source is taxation statistics. For credits, the main data source is the ABS Survey of Non-trade Foreign Receipts and
Payments supplemented by information on transactions in technical knowhow from an ABS publication "Research and Experimental Development, Business Enterprises"

FUTURE DEVELOPMENTS

38. The services account in the balance of payments presents a reasonably reliable, comprehensive statement of Australia's transactions with the rest of the world for purposes of balance of payments analysis. However, we are aware of the increasing interest in obtaining a further breakdown of this account.

39. Further work is continuing on the Survey of Consultancy Services and it is expected that this survey will be conducted on a regular biennial basis in future, with the next survey scheduled in respect of 1986-87. While the next survey will have much the same scope as the 1984-85 survey, it is possible that subsequent surveys could be expanded in scope to cover some additional consultancy-related services provided abroad by Australian residents.

40. In addition, ABS foreign investment surveys have recently begun to collect separately the financial services provided abroad and received from abroad by the "non-official sector" (financial services received by the official sector are already identified). It is hoped that we will eventually be able to show these items separately in the accounts.

41. Surveys of services industries proposed by the ABS for 1986/87 and 1987/88 will provide users with more information about the services industries in Australia as well as presenting some scope for further data refinement in the services account of the balance of payments. In particular, the 1986/87 surveys will include travel retailers and wholesalers and these enterprises are being asked to provide data for use in improving our estimates of the travel item. Surveys of real estate agents, technical services, legal and accounting services, and business services n.e.c. will be conducted with reference to 1987/88. For most industries questions will be asked on direct overseas transactions, enabling improvements to be made to the information base on which balance of payments statistics are estimated.

42. Interest in trade in services is increasing rapidly in international forums and increasing attention is being given to the available statistics, current methods of compilation,
etc. In late March 1987, an expert group on external sector transactions for the revision of the System of National Accounts (SNA) met in Washington. One of the matters considered and agreed upon by the group concerned the development of a standard list of services items to be used as a basis for harmonizing the presentation of national accounting and balance of payments statistics. The standard list would include the traditional items shown under services such as transportation and travel as well as those items that were becoming increasingly important as international transactions such as financial services and communications. It was agreed that the list should be aligned with the Central Product Classification (CPC) being developed by the UN preferably at a high level of that hierarchy. The ABS is actively contributing to the work in this area.

43. Present and future ABS work on these matters will depend on user requirements and their resource implications. There are two issues here, one relating to the enhancement of existing data quality and the other to further dissections of existing data items. Although we consider that the quality of the data for the various services items currently identified is reasonable by both international standards and for the needs of most domestic users of balance of payments statistics, there is always room for improvement, with perhaps more room for improvement in "miscellaneous non-official services" than in the other items. As a proportion of total "other non-official services", the "miscellaneous non-official services" component comprised 71 per cent for credits and 68 per cent for debits in 1985/86.

44. Work already in train is expected to help in the dissection of some of the services items mentioned above within a reasonable timeframe. Obviously, there is room for the provision of further dissections, but these will depend on overall ABS priorities and on whether it is feasible to introduce new data sources or enhance existing data sources.

Australian Bureau of Statistics

June 1987
# TABLE OF PUBLISHED COMPONENTS OF THE BALANCE OF PAYMENTS SERVICES ACCOUNT: descriptions and sources of data

<table>
<thead>
<tr>
<th>ITEM</th>
<th>DESCRIPTION</th>
<th>SOURCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>(CREDITS)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SHIPMENT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freight on exports</td>
<td>Freight services performed by resident transport operators or merchandise exports.</td>
<td>Survey of International Shipping Operations (SISO) and Survey of International Airline Operations (SIAO).</td>
</tr>
<tr>
<td>Insurance on exports</td>
<td>Insurance services performed by resident insurers on merchandise exports</td>
<td>Information supplied by insurance enterprises. Foreign trade statistics.</td>
</tr>
<tr>
<td>OTHER TRANSPORTATION</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passenger services</td>
<td>International passenger services provided to non-residents by resident transport operators.</td>
<td>Fare revenue earned by resident operators from ticket sales overseas. SISO and SIAO.</td>
</tr>
<tr>
<td>Port services etc</td>
<td>Goods and services procured in Australia; ports by non-resident transport operators; goods and services purchased by foreign civilian crews in Australia; charter and operational charter services provided by residents to non-residents; and miscellaneous transportation services provided by residents to non-residents such as the carriage of freight between overseas ports and the carriage of mail.</td>
<td>SISO and SIAO.</td>
</tr>
</tbody>
</table>
TRAVEL

Acquisition of goods and services in Australia by non-resident travellers. Excludes foreign government officials and their dependants

Australian Tourist Commission's International Visitors Survey (IVS). 'Overseas Arrivals and Departures, Australia' (3401.0, 3402.0).

Commonwealth Government ledgers.

OTHER SERVICES

Official

Acquisition of goods in Australia and services in Australia and abroad, by non-residents from the resident official sector

Commonwealth government ledgers.

A special official advice.

Survey of Government Overseas Transactions

Non-official

Expenditure of foreign govt

Official expenditure on goods and services provided by the resident non-official sector to foreign embassies, consulates, communications bases and similar non-resident entities in Australia.

Information provided by foreign embassies, consulates, etc.

Diplomatic lists.

Personal expenditure on goods and services in Australia by foreign government officials and their dependants stationed in Australia.

As above.

Expenditure of foreign govt employees

Expenditure on goods and services in Australia by non-resident workers out of the income they earn from resident employers

IVS.

3401.0, 3402.0.

Expenditure of resident entity employees

Life and general insurance services provided by resident insurance and reinsurance enterprises to non-residents

Surveys of foreign investment.

Taxation statistics.

Insurance services n.e.c.
TRAVEL

Acquisition of goods and services abroad by resident travellers. Excludes Australian government officials and their dependants stationed abroad. Survey of enterprises involved in international travel transactions. An ABS household survey.

OTHER SERVICES

Official

Defence services

Acquisition of goods and services abroad for defence purposes by the resident official sector from non-residents. Survey of Government Overseas Transactions.

Financial services

Acquisition of financial services by the resident official sector from non-residents. A special official advice.

Miscellaneous services

Acquisition of goods and services n.e.c. by the resident official sector from non-residents. Commonwealth Government ledgers. State government budget papers.

Non official

Expenditure of Australian government employees


Expenditure of non-resident entity employees

Expenditure on goods and services abroad by resident employees out of the income they earn from non-resident employers. It has been assumed that the average earnings of Australian visitors abroad (for which data are not available) are equivalent to the average amount earned by foreign visitors to Australia during the same period. This amount is multiplied by the number of Australian visitors abroad (from 3401.0 and 3402.0).
Miscellaneous services

Acquisition of services n.e.c. by non-official non-residents from the resident non-official sector. Includes consultants' services; financial services, agents services rental services, storage, advertising and sales promotion; management, business and technical services; processing and repair services; and operational leasing services n.e.c.

Survey of Non-trade Foreign Receipts and Payments.
SISO and SIAO.
Commonwealth Government ledgers.

(DEBITS)

Shipment

Freight on imports

Freight services performed by non-residents on merchandise imports

Foreign trade statistics.
SISO and SIAO.

Insurance on imports

Insurance services performed by non-resident insurers on merchandise imports

Information supplied by insurance enterprises.
Foreign trade statistics.

Other Transportation

Passenger services

International passenger services provided to residents by non-resident transport operators.

Fare revenue earned by non-resident operators
SISO and SIAO

Port services etc

Goods and services procured in foreign ports by resident transport operators; goods and services purchased by Australian crews abroad, time charter and operational charter services provided by non-residents to residents; and miscellaneous transportation services provided by non-residents to residents such as the carriage of freight between Australian ports and the carriage of mail.

Foreign trade statistics.
SISO and SIAO.
Life and general insurance services provided by non-resident insurance and reinsurance enterprises to residents

Acquisition of services n.e.c. by the resident non-official sector from non-residents. Includes consultants' services; financial services; agents' services; rental services; storage, advertising and sales promotion; management, business and technical services; processing and repair services; and operational leasing services n.e.c.

Surveys of Foreign Investment.
Taxation statistics.

Survey of Non-trade Foreign Receipts and Payments.
S15O and S1AO.