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A Survey and Analysis of the Availability
of Data on Canada's
Exports and Imports of Services
- revised -

by

Randall Geehan

April 1982

Note: the views expressed in this Report are those of the author. While the statistical data are derived from the best available sources, they should nevertheless be treated as indicative rather than definitive. Some detail has been suppressed for reasons of confidentiality.

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PREFACE

This survey and analysis of the availability of data on Canada's exports and imports of services has been developed under contract for the Task Force on Trade in Services. It represents one of the specific tasks required to identify the extent of existing data on Canada's international trade in services and to make recommendations on improvements in the data base and classification system. The classification of services developed by Mr. Neil McKellar constitutes the other specific task. This survey and analysis is based on that classification system and it should be read in conjunction with that report.

this report are my own responsibility.

Randall Geehan Economic Consultants Ltd.

April, 1982

Organization of the Balance of Payments AccountsAcknowledgments

Mr. Bower Carty gave generously of his time and invaluable expertise on the Balance of Payments. K. Lal, Director of the Input-Output Division and Albert Meguerditchian, Acting Director of Balance of Payments Division and Paul Paradis, Chief of International Travel, also assisted me. Many members of the Balance of Payments Division answered innumerable questions and I would like to thank them: Mr. Carmel Spiteri, Chief of the Current Account Section, Lucie Laliberté, John Motala, Jeff Allen, Brian Glabb and Paul Weiser. Any errors of fact or interpretation in this report are my own responsibility.

Introduction

Organization of the Balance of Payments Accounts

The Balance of Payments has three principal components -- the current account, capital account and net official monetary movements. The current account is in turn split into merchandise trade (also called "visible" trade) and "invisible transactions". The term "invisible transactions" is used in the United Kingdom but is uncommon in North America. However, it is a very useful term as it in turn covers three constituent components: transfers; profit, interest and dividends (or factor income flows); services.

In the Canadian Balance of Payments, inheritances and migrants funds plus personal and institutional remittances make up the transfers component. Transfers are defined as transactions for which there is no quid pro quo. The Canadian Balance of Payments records interest and dividend flows but does not record unremitted profits, i.e. the portion of retained earnings of Canadian resident corporations attributable to non-resident shareholders and the portion of retained earnings of foreign corporations attributable to Canadian resident shareholders. By contrast, the U.K. and U.S. accounts are two of the few countries which do include these unremitted profits as entries in the current and capital accounts. Both countries enjoy a surplus of receipts over payments on this item, whereas Canada would show a deficit if data were available. This difference in treatment of unremitted profits creates an important problem for international comparability. It is common to see comparisons made among countries in terms of their balances on "services" account or "invisibles" account without any clear recognition of the conceptual differences in the official statistics. Other conceptual differences, especially with respect to freight and shipping, are discussed below.

In the Canadian Balance of Payments nomenclature, the services account comprises travel, interest and dividends, freight and shipping, other service receipts. This nomenclature is at variance with National Income and Expenditure Accounts terminology which classifies interest and dividends as primary factor income flows (i.e. return to investment or capital). Furthermore the Balance of Payments category "other service receipts" includes some elements which are investment earnings and some which are taxes. For these reasons it is useful to think of invisibles transactions as consisting of the three

components: transfers; profits, interest and dividends; services -- despite the fact that neither the U.S. nor the Canadian Balance of Payments records entries in this way. This report is concerned with services narrowly defined as in the U.K. accounts.

Interest and Dividends

It is worth noting that the balance on Canada's interest and dividend transactions is affected substantially by world inflation. Canada is a net debtor nation whereas the U.S. and U.K. are net creditors. As a result, Canada's payments of interest and dividends exceed its receipts. The proposition that the percentage rate of expected inflation becomes incorporated in interest rates is now widely accepted by economists. High inflation in recent years has likely been an important contributing factor to the widening deficit on Canada's interest and dividends account. The reverse effect would apply to the U.S. and U.K. This factor should also be taken into account in making international comparisons.

Freight and Shipping

In the Canadian Balance of Payments service account there is a component called "inland freight" which consists of the value of transportation services in carrying merchandise from the point of lading (the factory or wholesaler) to the customs frontier. In the U.K. and U.S. Balance of Payments accounts, merchandise exports and imports are valued at the customs frontier, not the place of lading, so the value of inland freight appears in their merchandise trade figures and not in the service account as in Canada.

Freight and shipping in the Balance of Payments figures includes payments to non-residents by Canadian airlines and ships for fuel as well as receipts from non-residents for the same. Since these payments/receipts are for merchandise and not services, estimates are made for ship fuel (bunker fuel) and these sums are deleted in this report. Available data do not permit a similar adjustment for jet fuel.

Travel

A major component of service flows is reported under "travel", which covers all expenditures by non-residents incidental to travel in Canada (receipts or exports of travel services) and all expenditures by Canadian residents incidental to travel abroad (payments or imports of travel services). International travellers include tourists, business travellers, students, shoppers, commuters, seasonal workers, convention delegates, airplane and truck crews, diplomats and military personnel, etc.

Travel expenditure includes international fare payments, lodging, food, entertainment, local transportation, personal services, gifts and other goods purchased. Because many services, by their very nature, are consumed at the point of purchase, they are purchased only by travellers. Therefore, an allocation of exports and imports to any classification of services is heavily dependent on the availability of a detailed breakdown of travel expenditure. No country collects such highly detailed statistics. The available Canadian data do permit a split into expenditure on fares (by mode -- air, ship, rail, bus) versus all other.

Available Canadian Detail

Published Balance of Payments statistics for Canada contain a wealth of information on capital and current account transactions, broken down by type of transaction and by geographical region. Data are available on a quarterly and an annual basis.

The focus of this report is on a relatively small component of these accounts. The prime goal is to obtain the most detailed data on services trade possible. Therefore no quarterly estimates nor time series are presented, nor is any geographical detail given. The year 1977 was chosen because that was the date of the last special survey of business service receipts and expenditures (the quadrennial survey referred to in Balance of Payments Division as BP-21S). The basic data source is the ledgers and worksheets of Balance of Payments Division.

U.S. Data

Published U.S. Balance of Payments data on services transactions is, for the most part, less detailed than Canada's -- for example, the U.S. has no survey which provides details comparable to those reported on the quadrennial survey of business services referred to above. The Canada-United States components of the travel expenditure estimates are derived from a cooperative effort which results in each country exchanging and receiving essentially the same quality of data.

Canada and the U.S. undertake a highly detailed joint reconciliation of their Balance of Payments data on an annual basis. As a result, it is fair to conclude that the U.S. has no better data on services transactions than does Canada. In fact, for a significant number of items, Canadian data contributes to better U.S. estimates.

The U.S. consultants' report "The International Operations of U.S. Service Industries: Current Data Collection and Analysis" (June, 1981) by Economic Consulting Services, Inc. (hereinafter referred to as ECS) has quite a different focus from this report, and as a result comparisons are of little value. The ECS report contains estimates of the international activities of a number of service industries but international activity is defined to include sales of foreign subsidiaries of U.S. corporations abroad, whereas Balance of Payments concepts classify foreign subsidiaries as non-resident corporations, in which case their transactions with non-residents go unrecorded. Furthermore, while the ECS report is about industry activity, this report rests on a classification of services, a distinction emphasized by Mr. Neil McKellar, author of the companion report on a classification of services. The other major U.S. report, "International Transactions of the United States: Proposals for Improvement in Data Collection" (September, 1981) by E. P. Lederer, W. Lederer and R. L. Sammons, also has a different focus from the recommendations made in this report. The U.S. report consciously departs from Balance of Payments concepts and proposes means of collecting data on the foreign subsidiaries of corporations, not just data on exports and imports. This report on Canadian data only makes recommendations for improvements in the Balance of Payments data on Canada's exports and imports of services.

U.K. Data

Published annual data on services in the U.K. Balance of Payments are more detailed than the regularly published data of Canada or the U.S. In particular, the U.K. presentation includes more detailed estimates of financial services. Whereas Canadian services data are available in roughly comparable detail, the details are only published every four years, coinciding with the availability of special survey results. A careful reading of the U.K. notes on sources and methods reveals that the policy of their Central Statistical Office is to lean much more toward a policy of publishing estimates even when they are based on a roughly similar or lesser quality of basic data sources as are (unpublished) Canadian estimates. For example, estimates of receipts for banking services are published for 1977, 1978, 1979 based on a 1976 survey and an estimate of export of solicitors services is based on VAT returns from 1974 to 1977 "but estimates for other years are notional" (United Kingdom Balance of Payments, 1980 edition, p. 20).

Comments on U.S. and U.K. data in respect to particular categories of services appear throughout the body of this report.

Conclusion on Data Quality

Close study of the Canadian Balance of Payments accounts and less intensive analysis of U.S. and U.K. data have led the author of this report to the conclusion that the Canadian data are at least as good, if not better, in terms of available detail and reliability of the estimates. Of course, it is always possible to recommend improvements -- specific suggestions are included in an addendum to this report.

Organization of the Rest of the Report

The body of this report consists of estimates of Canada's international receipts and payments for services, classified according to the system prepared by Mr. Neil McKellar as described in the companion report to this one. Under each classification (usually the two digit classification level, occasionally at the three digit level where sufficient details exist) dollar figures are reported for 1977, followed by a set of comments which briefly explain the

data. For many classifications there are also comparisons with and comments on U.S. and U.K. data where these are of particular interest.

This volume of the report concludes with a table which reconciles the published Balance of Payments Statistics with the data recorded in this report.

A set of recommendations are contained in a separate section as an addendum to this report.

1980 edition (see 2007) "Sixty and a Half Years of Canadian Current Data Collection and Analysis"

Comments on U.S. and U.K. data in respect to particular categories of services appear throughout the body of this report.

EC3 report contains estimates of international trade in services and international activities of foreign subsidiaries of U.S. corporations.

Close study of the Canadian Balance of Payments accounts and less intensive analysis of U.S. and U.K. data have led the author of this report to the conclusion that the Canadian data are at least as good if not better in terms of available detail and reliability of the estimates. Of course, it is always possible to recommend improvements - specific suggestions are included in an addendum to this report.

International Transactions of the United States: Proposed Revisions for 1980
L. R. Brown and W. J. G. (1981) (September)

The body of this report consists of estimates of Canada's international receipts and payments for services, as well as the balance of payments prepared by the Bank of Canada. Each classification is given a brief description at the three digit level where sufficient detail is required. The report is followed by a set of comments which briefly explain the

11 Health Services for People

<u>Estimates (1977):</u> (\$ millions)	Payments	26.3
	Receipts	no separate data

Comments : These figures represent the payments and receipts of provincial government health insurance plans for the claims of Canadian residents incurred abroad and for claims received for services provided to non-residents travelling in Canada.

12 Education Services

Estimates : No separate data.

Comments : Canadian students studying abroad and foreign students in Canada are asked to report their expenditures on the international travel surveys. The travel expenditure figures do not contain separate data on tuition fees. No separate travel expenditure estimates are tabulated or reported for students; however Canadian travellers abroad are asked to specify the main purpose of their trip for the residual category "other" and non-resident travellers in Canada are asked to check the category "study", if applicable, under the question: "What was the main reason for coming to Canada?"

U.K. Data : Balance of Payments data include a separate estimate for foreign journalists' and students' expenditure in the U.K. The figure is calculated as the product of number of journalists plus students and an estimate of their average annual expenditure. The estimates are for those resident in the U.K. for twelve months or more. Those who remain for less than twelve months are covered by the item "travel credits".

131 Live performances, theatrical and similar

<u>Estimates (1977):</u>	Payments	0.3	
(\$ millions)	Receipts		no separate data

133 Sports events, live

<u>Estimates (1977):</u>	Payments	16.7	
(\$ millions)	Receipts		1.6

134 Film rental services

<u>Estimates (1977):</u>	Payments	83.6	
(\$ millions)	Receipts		1.0

135 Performance and broadcast rights

<u>Estimates (1977):</u>	Payments	17.8	
(\$ millions)	Receipts		13.8

139 Other cultural and recreational services

<u>Estimates (1977):</u>	Payments	0	
(\$ millions)	Receipts		10.2

Comments : The data on CBC and private broadcasting receipts and expenditures which are recorded under category 135 above, are based on an annual survey performed by the Transportation and Communications Division of Statistics Canada. Coverage is good but the definition is broader than that of the Classification of Services. The survey definition covers all business services including royalties, patents, copyrights, advertising, commissions, salaries, insurance and equipment rentals. Advertising revenues may be significant on the side of receipts.

U.S. and U.K. Data :

The U.S. consultants report (ECS) contains estimates of film rental receipts and payments. The U.K. Balance of Payments reports separate figures for films and television which cover expenditures and receipts with respect to rentals, royalties, production costs and film purchases.

14

Food and Accommodation Services for People

Estimates : No separate data.

Comments : These expenditures are included under travel expenditures and receipts in the Balance of Payments.

U.S. and U.K. Data :

Published data are similar to Canada's. The ECS consultant's report for the U.S. includes an estimate of accommodation services but good quality data are not available.

17

Employment Services

Estimates : No separate data.

Comments : Employment services are a component of "consulting and other professional services" as reported on the quadrennial Balance of Payments survey of "Business and Miscellaneous Services and Charges" (BP-21S) and a component of Balance of Payments estimate of the value of services of small consulting firms and independent consultants. The sums involved are likely small.

Estimates : No separate data.

Comments : Personal service expenditures and receipts are included in travel expenditure in the Balance of Payments of Canada and other countries.

Estimates (1977): Payments 7.61

(\$ million)

Food and Accommodation Services for People

134

Estimates (1977): Payments

(\$ million)

Comments : These expenditures are included under travel expenditures and receipts in the balance of payments.

Estimates (1977): Payments

(\$ million)

Comments : Published data are similar to Canada's. The ECJ consultant's report for the U.S. includes an estimate of accommodation services but good quality data are not available.

Estimates (1977): Payments 0

(\$ million)

Employment Services

Comments : The data on CBC and private broadcasting stations are which are recorded under category 135. The annual survey performed by the Department of Statistics Canada and other

Comments : The data on CBC and private broadcasting stations are which are recorded under category 135. The annual survey performed by the Department of Statistics Canada and other

SECTION 2 - SERVICES FOR THE PROPAGATION AND CARE
OF PLANTS AND ANIMALS

Estimates : No separate data.

Comments : Consulting and other business services in this section of the classification of services are included with "consulting and other professional services" as reported on the quadrennial Balance of Payments survey of "Business and Miscellaneous Services and Charges" (BP-21S). An estimate of the value of services of small firms of consultants and independent professionals is also incorporated in the Balance of Payments but the amounts are small and no details are available.

U.S. and U.S. Data

Questionnaire BE-47 is sent out annually to U.S. firms, most (about 200) of which are engaged in construction, engineering, consulting and other technical services. This provides data on receipts from and payments to foreign residents (see p. 11-2 and following in the report by Lederer, Lederer and Sammons). The U.S. Balance of Payments presentation includes estimates for earnings on construction work overseas by "architects and quantity surveyors", "consulting engineers", "construction contractors", "process engineering contractors",

MINERALS

Estimates : No separate data.

Comments : The consulting and other services classified under Section 3 are incorporated in the figure for "consulting and other professional services" as reported on the quadrennial Balance of Payments survey of "Business and Miscellaneous Services and Charges" (BP-21S). An estimate of the services of small consulting firms and independent professionals is made in the Balance of Payments but the sums involved are small. Charter payments for seagoing oil rigs belong here but are included in 542 for lack of separate data. The Balance of Payments is actively considering exploiting existing data from surveys to prepare an annual analysis of the petroleum and natural gas industry along the lines of the annual analysis of the automobile industry which has been done in the past.

U.K. Data : The U.K. Balance of Payments reports a figure for receipts and expenditures for services related to exploration and production of oil and gas.

FIXED ASSETS41 Architectural, Engineering, Design, Decoration and
Appraisal Services for Buildings and Other Fixed Assets

<u>Estimates (1977,1978):</u>	Payments	no separate data
(\$ millions)	Receipts	220.9

Comments : These estimates are only for identifiable components. Additional amounts may be included in the Balance of Payments broad categories of "consulting and other professional services" (from the quadrennial survey BP-21S) and "consultants" (an estimate for small firms and independent professionals). A special survey of "Offices of Architects" (Cat. no. 63-534, occasional) by Merchandising and Services Division of Statistics Canada provides the information that fees earned overseas in 1977 were \$6.3 million. A similar survey of "Engineering and Scientific Services" (Cat. no. 63-537, occasional) was made in 1978, and receipts were estimated as \$176.7 million. Therefore the estimate above is not strictly for 1977. The receipts estimate incorporates disparate data from several sources for two different years.

U.S. and U.K. Data :

Questionnaire BE-47 is sent out annually to U.S. firms, most (about 200) of which are engaged in construction, engineering, consulting and other technical services. This provides data on receipts from unaffiliated foreign residents (see p.II-2 and following in the report by Lederer, Lederer and Sammons). The U.K. Balance of Payments presentation includes estimates for earnings on construction work overseas by "architects and quantity surveyors", "consulting engineers", "construction contractors", "process engineering contractors".

Renting, Buying and Selling of Buildings
and Other Fixed Assets

Estimates : No separate data are available.

44

Repair, Renovation and Related Construction
Services, Buildings and Other Fixed Assets

<u>Estimates (1977):</u>	Payments	33.0	
(\$ millions)	Receipts		no separate data

Comments : This estimate is based on U.S. data. Payments to other countries and all receipts by Canadian companies are a component of "consulting and other professional services" as reported on the quadrennial Balance of Payments survey of "Business and Miscellaneous Services and Charges" (BP-215).

U.S. and U.K. Data :

See the notes to category 41.

45

Management and Maintenance Services,
Buildings and Other Fixed Assets

Estimates : No separate data. Likely negligible.

49

Other Services Related to Buildings
and Other Fixed Assets

Estimates : No separate data, except for canal fees (1977 payments to the U.S. were \$8.3 million and total receipts were \$11.1 million).

Comments : The major components of this classification category would be canal fees, port fees, airport landing fees, etc. The latter two are included as components of services incidental to transportation, classification 69.

SECTION 5 - SERVICES RELATED TO THE MANUFACTURE AND MARKETING
OF GOODS, EXCEPT TRANSPORTATION

51 Design and Manufacturing Services
for Transportable Goods

Estimates: No separate estimates, except for the item "Special Tooling and other automotive charges", which for conceptual reasons belongs more to merchandise trade and so is excluded here.

Comments : Other components are likely included in the Balance of Payments categories "scientific research and product development" or "consulting and other professional services" which are collected on the quadrennial survey BP-21S.

52 Storage of Goods Except Live Storage of Vehicles

Estimates : No separate data.

Comments : Storage costs are a component of freight and shipping, see Section 6.

54

Marketing and Rental Services, Transportable Goods

541 Services of purchasing and sales agents

<u>Estimates (1977):</u>	Payments	197.7	
(\$ millions)	Receipts		264.6

542 Rental of transport equipment with or without operators

<u>Estimates (1977):</u>	Payments	265.2	
(\$ millions)	Receipts		96.2

544 Rental of industrial machinery and equipment except transport equipment

<u>Estimates (1977):</u>	Payments	25.0	
(\$ millions)	Receipts		17.0

548 Rental of transportable goods, n.e.s.

Estimates : No data, likely negligible.

549 Franchising services

<u>Estimates (1977):</u>	Payments	11.0	
(\$ millions)	Receipts		0

Comments : The data on purchasing and sales agents are calculated as a percentage of exports and imports and the Balance of Payments concept is consistent with the Classification of Services. Data on rental of transport equipment includes aircraft leases, railroad rolling stock rents and vessel charters. The available figures for railroads are not entirely for rental of rolling stock but the full figures have been recorded here. The data on "rental of industrial machinery and equipment except transport equipment" come from the quadrennial Balance of Payments survey BP-21S. The estimate for franchising services is smaller than might be expected because many franchisees make payments to a Canadian resident franchisor who has obtained the rights from a non-resident corporation. The Canadian franchisor's purchase of these rights would be classified as a capital account transaction.

U.K. Data : The published data on the U.K. Balance of Payments includes data on payments and receipts for ship charters.

56

Maintenance, Repair and Servicing of Manufactured Goods

19

<u>Estimates (1977)(partial):</u> (\$ millions)	Payments	no separate data	
	Receipts		14.1

Comments : Payments and receipts of this type are included under "expenditures in foreign ports by Canadian shipping operators", "expenditure in Canadian ports by foreign shipping operators", plus airline expenditure and several classifications of business services in the Balance of Payments. Respondents are not asked to report maintenance and repairs separately. A separate estimate is made for "ship repairs n.e.i." in the Balance of Payments and that partial figure is reported here.

59

Services Related to the Manufacture and Marketing of Transportable Goods, n.e.s.

<u>Estimates (1977):</u> (\$ millions)	Payments	3.4	
	Receipts		9.2

Comments : Separate data are not available on all of the specialized services that are classified to this category.

SECTION 6 - TRANSPORTATION SERVICES

		<u>Air Transport Services</u>	
61			
611	Air transport, passenger		
	<u>Estimates (1977):</u>	Payments	601.4
	(\$ millions)	Receipts	301.8
613	Air transport, except passenger		
	<u>Estimates (1977):</u>	Payments	58.5
	(\$ millions)	Receipts	38.8

Comments : Passenger fare estimates are based on the survey of international travellers and include an estimate for receipts of Canadian carriers from non-residents travelling to and from locations outside Canada. The figures for classification 613 are for air freight.

U.K. Data : The U.K. publishes separate data on "airline passenger revenue" (credits and debits) and "airlines freight" (credits and debits) in its Balance of Payments presentation. Passenger revenue for visitors to/from the U.K. are reported separately from "other passengers". U.K. estimates of passenger fare receipts are based on the assumption that all tickets sold outside the U.K. are to non-residents. Passenger fares on the payments side are estimated from the International Passenger Survey.

U.K. Data : The published data on the U.K. Balance of Payments on payments and receipts for air charters.

621 Water transport, passenger

<u>Estimates (1977):</u>	Payments	49	
(\$ millions)	Receipts		0

623 Water transport except passenger

<u>Estimates (1977):</u>	Payments	881.2	
(\$ millions)	Receipts		455.8

Comments : The bulk of passenger fare payments are for ship cruises, as estimated from the survey of international travellers. Passenger fare receipts are negligible. The available data on "water transport except passenger" are quite detailed, including separate figures for ocean shipping, Great Lakes shipping, interport earnings, and ocean freight on oil imports. Charter payments/receipts are excluded from the above figures but are included in 542, "rental of transport equipment". Canal receipts/payments are included in 423, "rental services for fixed assets except buildings". Port expenditures/receipts are included in 695, "services incidental to transport, n.e.s.".

U.K. Data : Separate figures are reported in the U.K. Balance of Payments for "tankers" and "dry cargo".

63 Rail Transport Service Except Urban Transit

631 Rail transport, passenger, except urban transit services

<u>Estimates (1977):</u>	Payments	2.4	
(\$ millions)	Receipts		0.9

633 and 67* Rail transport service except passenger and Pipeline Transport Service.

<u>Estimates (1977):</u>	Payments	580.3	
(\$ millions)	Receipts		804.7

Comments : Category 633 - Passenger fare estimates are from the Survey of International Travellers and are for travellers to and from the U.S. only. Canadians' expenditure on rail travel while visiting overseas and overseas visitors' expenditure on rail fares in Canada are not estimated separately but are included in total travel expenditure. Rail transport except passenger is a component of "inland freight" in the Balance of Payments estimates, which is split by mode of transport for trade with the U.S. but not for trade with overseas countries (owing to the lack of data). I have split the overseas inland freight figures between rail and truck by separately applying the U.S. trade receipts and expenditure ratios for rail versus truck.

Category 67 - Receipts for inland freight transportation services on oil export to the U.S. and U.S. crude oil in-transit through Canada. Since Canadian gas pipeline companies own the gas being exported, gas exports are

* Data amalgamated for reasons of confidentiality.

valued at the customs frontier and there is no inland freight component. Payments to the U.S. are for in-transit oil and natural gas movements via the U.S.

U.S. and U.K. Data on Category 633:

The U.S. and U.K. merchandise exports and imports are valued at the customs frontier in agreement with the recommendations of the IMF Balance of Payments Manual. Canadian merchandise exports and imports are valued at place of lading. Hence the cost of transporting imports by foreign carrier to the Canadian customs frontier is recorded as inland transportation services (imports). The services of Canadian carriers in transporting exports to the border is recorded as inland freight (export services). This difference in treatment should be borne in mind when making international comparisons of service trade. The total of goods and services is unaffected by the treatment used, whether the Canadian or IMF convention.

64 Urban Transit and Other Passenger Transport Services

Estimates : No separate estimates, except for international bus fares between Canada and the U.S. (payments of \$7.9 million in 1977, receipts of \$9.9 million).

Comments : This category of the classification of services is included in the travel expenditure estimates of the Balance of Payments. Separate estimates could only be made by asking international travellers to report highly detailed estimates of their expenditure.

<u>Estimates (1977):</u>	Payments	559.8
(\$ millions)	Receipts	638.2

Comments : See the notes to classification 63, rail transport.

67

Pipeline Transport Services

Amalgamated with category 633 for reasons of confidentiality.

69

Other Non-Passenger Transport and ServicesIncidental to Transport

<u>Estimates (1977):</u>	Payments	317.9
(\$ millions)	Receipts	543.9

Comments : Payments and receipts include ocean and Great Lakes port expenditures, exclusive of bunker oil. Balance of Payments figures contain separate estimates for bunker oil on the receipts side but not on the payments side. The estimate on the payments side comes from Input-Output Division of Statistics Canada. Airline expenditures (including fuel) are also components of the above figures. No separate estimates of airline fuel are available for either payments or receipts. The receipts figure above includes a Balance of Payments estimate of expenditure by non-resident owned fishing vessels in Canadian ports. It must be noted that parts of the sums reported above should be allocated to classification 491, "services of transportation terminals and facilities", but harbour fees and airport landing fees are not reported separately by respondents, making the necessary split impossible.

SECTION 7 - SERVICES RELATED TO RECORDS AND INFORMATION

71 Information Originating Services

711 Research services, basic and applied

<u>Estimates (1977):</u>	Payments	190	
(\$ millions)	Receipts		31

Comments : These figures equal the item "scientific research and product development" as reported on the quadrennial Balance of Payments survey BP-21S.

U.K. Data : The U.K. Balance of Payments reports a figure for "research and development" receipts, but no separate category appears on the payments side. Furthermore, research services are likely also included in the U.K. figures for service receipts and payments between affiliated companies or branches.

712 Writing services, verbal

713 Composing and arranging services, musical and choreographic

715 Photographing (including video taping) services

716 Sound recording services

719 Other information originating services

Estimates : No separate data.

Comments : The major international service flows in these categories would be copyright and royalty payments for printed material, sound recordings and video tapes. In addition there are likely to be some payments to and receipts from non-residents for the use of sound-recording studios and television studios. The quadrennial Balance of Payments survey BP-21S has a category "royalties, copyrights, trademarks" but the bulk of the flows reported are for rights to produce goods and are not classified as "information originating services".

Estimates : No separate data.

Comments : Payments and receipts in this category are likely a component of the item "management and administrative services" or "consulting and other professional services" as reported on the quadrennial Balance of Payments survey of other service receipts and payments (BP-21S). One additional piece of information is available from a 1977 survey performed by Merchandising and Services Division of Statistics Canada, as reported in Computer Service Industry, 1977 (Cat. no. 63-222, annual). Total revenue generated outside Canada (receipts) by establishments primarily engaged in providing computer services is reported to be \$10.2 million. The 1981 Balance of Payments survey BP-21S includes a separate category for "computer services".

U.S. Data : The U.S. consultants report (ECS) contains estimates of U.S. accounting firms revenue from foreign sources but the estimates are largely for earnings of U.S. branches and U.S. affiliated companies abroad, figures which do not conform with Balance of Payments concepts of exports and imports.

Estimates (1977):	Payments	78.9
(\$ millions)	Receipts	65.8

Comments : These figures cover payments and receipts for telephone, telegraph, cable and satellite communications lines plus lesser amounts of postal payments and receipts. These data are recorded on a settlement basis; they are not gross. In other words, only the net payment or receipt for each class of service and trading partner are recorded.

U.K. Data : The U.K. Balance of Payments reports "telecommunications and postal services" as a separate item on both the credit and debit side.

74

Publicity Services

<u>Estimates (1977):</u> (\$ millions)	Payments	89.4	Receipts	28.0
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Comments : These figures are reported as the item "advertising and sales promotion" on the quadrennial Balance of Payments survey BP-21S. On the payments side an estimate for advertising by the provinces has been removed from government expenditures and added here, in agreement with Input-Output Division estimates.

U.K. Data : The U.K. Balance of Payments reports "advertising" credits and "agency expenses and advertising" debits.

79

Other Services Related to Records and Information

Estimates : No separate data.

* Data for these three categories have been aggregated for reasons of confidentiality.

SECTION 8 - (SPARE)

Estimates (1977): Payments 89.4

Receipts 28.0

Comments : These figures are reported as the "advertising and sales promotion on the quarterly Balance of Payments survey 89-215. On the payments side an estimate for advertising by the provinces has been removed from government expenditures and added here, in agreement with input-output division estimates. U.K. Data : The U.K. Balance of Payments reports "advertising" credits and agency expenses and advertising "debts". 1981 The 1981 balance of Payments survey 89-215 includes a separate category for "computer services".

Other Services Related to Records and Information

U.S. Data : The U.S. consultants report (ECS) contains estimates of U.S. accounting firms revenue from foreign sources. U.S. Data : U.S. and foreign U.S. branches of U.S. companies abroad, figures which do not conform with balance of Payments concepts of exports and imports.

Communication Services

Estimates (1977): Payments 78.9
Receipts 65.8

Comments : These figures cover payments and receipts for telephone, telegraph, cable and satellite communications lines plus postal amounts of postal payments and receipts. These data are recorded on a settlement basis; they are not gross. In other words, the net payment or receipts for each of services and related partner are recorded.

U.S. Data : The U.S. Balance of Payments reports "telecommunications and postal services" as a separate category on the credit side.

- 91 Management and Administrative Services.
 92 Legal, Judicial and Legislative Services.
 93 Protective Services.

<u>Estimates (1977)*:</u>	Payments	828.4
(\$ millions)	Receipts	307.0

- 911 Management and administrative services, except public administration

Comments : The bulk of this category consists of the item "management and administrative services" reported by respondents to the quadrennial Balance of Payments survey of other service receipts. Most of these payments are between affiliated corporations and are not always equivalent to market values. It is possible that the amounts reported are affected by tax laws and the tax liabilities of parents and subsidiaries -- sums recorded here as service payments or receipts may really belong in profit transfers or vice versa. Also, part of such figures may belong under the category "accounting, auditing and bookkeeping services" (722), "computer services" (721) or some other category. In addition to the figures reported on BP-21S, the above estimates include payments to trade unions (which, arguably, might be considered transfers rather than payment for services) and payments by IATA (International Air Transportation Association) and the ICAO (International Civil Aviation Organization) which have their headquarters in Montreal. There are no details on the type of services these payments represent. IATA and ICAO receipts, foreign

* Data for these three categories have been amalgamated for reasons of confidentiality.

business corporation expenditures in Canada (other than those reported on BP-21S) and international trade union payments of wages and salaries to Canadian residents are also components of the receipts. Furthermore, payments to various UN and other international organizations are included in the payments.

U.K. Data : The U.K. Balance of Payments records the catch-all categories "Services rendered by/to U.K. enterprises to/from: overseas parent companies" and "overseas branches, subsidiaries and associates".

915 Public administration and management: not relevant to trade in services

92 Legal, Judicial and Legislative Services

Comments : Lawyers' fees paid to non-residents are likely reported under the item "consulting and other professional services" on the quadrennial Balance of Payments survey BP-21S. The sums involved are likely relatively small.

U.K. Data : The U.K. Balance of Payments includes an estimate for "solicitors", on the credit side only, as a component of "financial services". The fees received are mainly earned in connection with services provided by financial institutions.

93

Protective Services

Comments : Receipts include those from the U.N. for Canada's peace-keeping forces abroad plus receipts for the maintenance of foreign military personnel in Canada.

Payments include expenditure for the development of the long range patrol aircraft. The bulk of payments are for maintenance of bases, defence installations and Canadian military personnel abroad.

U.S. Data : The figures published for the services component of the U.S. Balance of Payments include some goods as well as services. The Canadian figures do not include goods.

94 Insurance Services

<u>Estimates (1977):</u>	Payments	274.4
(\$ millions)	Receipts	150.6

Comments : These figures cover premiums and claims for all types of insurance. In principle, life insurance data could be separated out but this is not currently done.

U.K. Data : The U.K. Balance of Payments includes a credit entry "insurance" under "financial services" which covers premiums net of claims and other expenses abroad. The figure is inflated by including the whole of net earnings by U.K. insurers on international cargoes (including receipts on imports by U.K. shippers). An offsetting entry is included on the debit side of "other services".

Estimates : No separate data.

Comments : The net income of Canadian chartered banks from their foreign operations are recorded under "miscellaneous income" in the Balance of Payments together with banks earnings on foreign currency assets net of payments on liabilities. No separate estimate is made for the value of the services (exclusive of interest and profit flows) performed in Canada for non-residents nor is a separate estimate made for financial service imports. Neither are there separate estimates for payments and receipts for underwriting fees (which are substantial in view of Canada's considerable foreign borrowing) nor for stock nor commodity brokerage fees, etc. An estimate for fees received by Canadian trust companies from non-residents is recorded but the amount is relatively small (\$3.9 million). As of 1981 partial information is being obtained from some chartered banks on their service receipts from non-residents.

U.S. and U.K. Data :

The U.S., like Canada, does not make separate estimates for banking and similar services. The U.K. Balance of Payments does report separate credit entries for services under "banking" (excluding profits of overseas branches, subsidiaries and associates which are recorded under "interest, profits and dividends" and excluding net earnings on services to affiliated enterprises overseas, which are included under "other services"), "commodity trading" and "brokerage, etc."

99

Miscellaneous Services, n.e.s.

Estimates : No separate data.

Comments : Data for this classification are components of "consulting and other professional services", as reported on the quadrennial survey BP-21S, and the estimates for small consulting firms and independent professionals.

Reconciliation Between Balance of Payments Published Figures
and Data Allocated According to the Proposed
Classification of Services

(Year: 1977, figures in \$ millions)

Balance of Payments (Source: CANSIM)	Classification of Services (Source: this report. Classification code in parentheses.)	
Travel receipts 2,025	Passenger fares	
	Air (611) ¹	294.3
	Water (621)	0.0
	Rail (631)	0.9
	Bus (64)	9.9
	Total passenger fares	305.1
	Unallocated ²	1,719.9
	Total	2,025.0
Travel payments 3,666	Passenger fares	
	Air (611) ¹	598.3
	Water (621)	49.0
	Rail (631)	2.4
	Bus (64)	7.9
	Total passenger fares	657.6
	Unallocated ²	3,008.4
	Total	3,666.0
Freight and shipping receipts 2,371	Canal fees (49)	11.1
	Charters (542)	27.6
	Ship repairs n.e.s. (56)	14.1
	Air freight (61)	38.8
	Water transport (623)	455.8
	Rail transport (633) and Pipeline (67)	804.7
	Truck transport (66)	638.2
	Other services incidental to transport (69)	278.4
	Total services	2,268.7
	Bunker fuel	102.1
	Total	2,370.8

¹ The figures reported under "Air transport, passenger (611)" include small amounts for transport of migrants and settlements with foreign airlines for pooled services (\$7.5 receipts, \$3.1 payments); these small amounts are recorded under "business services and other transactions" in the Balance of Payments.

² The unallocated sums cover all non-fare expenditure by international travellers. The bulk of these expenditures is likely to be for accommodation (143) and food and beverage services (141) with lesser amounts for a wide range of services from cultural and recreational (13) to personal grooming (191) and local transportation (section 6). International travellers' expenditure on goods are also included.

Reconciliation (continued)

<u>Balance of Payments</u>		<u>Classification of Services</u>	
Freight and shipping payments	2,397	Canal fees (49)	8.3
		Charters (542)	184.6
		Air freight (61)	58.5
		Water transport (623)	881.2
		Rail transport (633) and Pipeline (67)	580.3
		Truck transport (66)	559.8
		Other services incidental to transport (69)	85.7
		Total services	2,358.4
		Bunker fuel (est.)	38.7
		Total	2,397.1
Government transactions receipts	373	Protective services (93) (i.e. defence) and Admin. services (int'l orgs) (911)	167.6
		Postal services (73)	23.0
		Total allocated services	190.6
		Taxes ³	15.3
		Government representation (est.) ³	125.8
		Unallocated services	40.7
		372.4	
Government transactions payments	594	Health services (11)	26.3
		Protective services (93) (i.e. defence) and Admin. services (int'l orgs) (911)	357.3
		Postal services (73)	10.7
		Advertising (74)	52.4
		Total allocated services	446.7
		Government representation ³	133.0
		Unallocated services	13.8
		593.5	

³ Taxes and government representation abroad are not classified as services in the Classification of Services used in this report. The cost of government representation is reported separately from other government expenditure on the payments side, but not on the receipts side. I have estimated the split on the receipts side by applying the corresponding ratio from the payments data.

Reconciliation (continued)

<u>Balance of Payments</u>	<u>Classification of Services</u>	
Miscellaneous income receipts 822	These series consist of various forms of interest and profits which for institutional and statistical reasons are not included in the Balance of Payments series for "interest and dividends" although, conceptually, they belong there. These data are not allocated to various services classifications.	
payments 1,182		
Business services and other transactions receipts 1,830	Culture & recreation (13)	26.6
	Architects, engineers, etc. (41)	220.9
	Services related to transportable goods, n.e.s. (59)	9.2
	Sales agents (541)	264.6
	Rental, transport equipment (542)	68.6
	Rental, industrial machinery (544)	17.0
	Franchising services (549)	11.0
	Transport of migrants and pooled routes (611)	7.5
	Services incidental to transport (69)	265.5
	Research services (711)	31.0
	Communications (73)	65.8
	Publicity services (74)	28.0
	Insurance (94)	150.6
	Financial services (96)	3.9
	Total allocated services*	<u>1,309.6</u>
	Consulting and other professional services (not allocated)	25.5
	Royalties, copyrights, trademarks (not allocated)	30.0
	Commuter and migrant worker income, etc. (not services)	88.9
	Unallocated and conceptually excluded	376.0
	Total	<u>1,830.0</u>

* some data are included in the total only, for reasons of confidentiality.

Reconciliation (continued)

<u>Balance of Payments</u>	<u>Classification of Services</u>	
Business services and other transac- tions payments 2,834	Culture & recreation (13)	118.4
	Construction services (44)	33.0
	Services related to transportable goods, n.e.s. (59)	3.4
	Sales agents (541)	197.7
	Rental, transport equipment (542)	80.6
	Rental, industrial machinery (544)	25.0
	Transport of migrants and pooled routes (611)	3.1
	Services incidental to transport (69)	232.2
	Research services (711)	190.0
	Communications (73)	78.9
	Publicity services (74)	37.0
	Insurance (94)	274.4
	Total allocated services*	<u>1,744.8</u>
	Consulting and other professional services (not allocated)	97.0
	Royalties, copyrights, trademarks (not allocated)	376.4
Commuter and migrant worker income, etc. (not services)	68.8	
Unallocated and conceptually excluded	547.0	
Total	<u>2,834.0</u>	

* some data are included in the total only, for reasons of confidentiality.

* some data are included in the total only, for reasons of confidentiality.

Reconciliation (continued)

Summary of Reconciliation Results

	<u>Receipts</u>	<u>Payments</u>
Travel:		
allocated to services (fares)	305.1	657.6
unallocated	1,719.9	3,008.4
Total	<u>2,025.0</u>	<u>3,666.0</u>
Freight and shipping:		
allocated to services	2,268.7	2,358.4
conceptually excluded (bunker fuel)	102.1	38.7
unallocated	---	---
Total	<u>2,370.8</u>	<u>2,397.1</u>
Government transactions:		
allocated to services	190.6	446.7
conceptually excluded (taxes, representation abroad)	141.1	133.0
unallocated	40.7	13.8
Total	<u>372.4</u>	<u>593.5</u>
Miscellaneous income:		
conceptually excluded (interest, profits)	822	1,182
Total	<u>822</u>	<u>1,182</u>
Business services and other transactions:		
allocated to services	1,309.6	1,744.8
conceptually excluded and/or unallocated	464.9	615.8
other unallocated	55.5	473.4
of which: royalties, copyrights, trademarks	30.0	376.4
consulting & professional services	25.5	97.0
	<u>1,830.0</u>	<u>2,834.0</u>

The results of this study, as summarized in the reconciliation table at the end of the report volume, demonstrate the feasibility of classifying service exports and imports according to the system developed by Mr. Neil McKellar. As shown in the reconciliation table, the only major component of the Balance of Payments service account which cannot be readily allocated is the large non-fare component of

Conclusions and Recommendations:

Addendum to

A Survey and Analysis of the Availability

of Data on Canada's

Exports and Imports of Services

- April, 1982 -

From this, only about 10% of services cannot be classified, at least approximately. It is clear from the explanatory notes in the body of the report that the major kinds of problems remain: first, the classification of services in mind and the information available in this report are sometimes "forced" and incomplete, which cannot be, owing to lack of detailed data; secondly, the classification which the Task Force on Trade in Services would like to see tried. Finally, it is important to note that, as a practical matter, the implementation of the classification of services can only be done if some services are aggregated to the two- or even one-digit level, as has been done in the report. Some services are not very important in international trade and it would constitute a misuse of resources to attempt greatly improved data quality in such areas.

The recommendations listed below take account of the relative importance of the data and is seeking to improve as well as the feasibility and cost of making improvements. These recommendations are based on a strategy of seeking to augment the existing data base. In my opinion it is impractical to consider radical changes such as new surveys designed from the outset to obtain data consistent with the proposed classification of services.

(1) Presentation

It would be useful to clearly distinguish in the Balance of Payments among:

- (1) transfers;
- (2) profit, interest and dividends;
- (3) services.

Currently, "miscellaneous income" (which includes banks' interest payments and receipts, banks' and insurance companies net profits from branches and subsidiaries abroad plus several other types of interest flows) is sub-

5

The results of this study, as summarized in the reconciliation table at the end of the report volume, demonstrate the feasibility of classifying service exports and imports according to the system developed by Mr. Neil McKellar. As shown in the reconciliation table, the only major component of the Balance of Payments service account which cannot be readily allocated is the large non-fare component of travel receipts and payments. Apart from this, only about 10% of services cannot be classified, at least approximately. It is clear from the explanatory notes in the body of the report that two major kinds of problems remain: first, existing data have not been collected with the classification of services in mind and therefore the allocations made in this report are sometimes "forced" and components which should be split out cannot be, owing to lack of detailed data; second, there are gaps in the data which the Task Force on Trade in Services would like to see filled. Finally, it is important to note that, as a practical matter, the implementation of the classification of services can only be done if some classes are aggregated to the two- or even one-digit level, as has been done in the report. Some services are not very important in international trade and it would constitute a misuse of resources to attempt greatly improved data quality in such areas.

The recommendations listed below take account of the relative importance of the data one is seeking to improve as well as the feasibility and cost of making improvements. These recommendations are based on a strategy of seeking to augment the existing data base. In my opinion it is impractical to consider radical changes such as new surveys designed from the outset to obtain data consistent with the proposed classification of services.

(1) Presentation

It would be useful to clearly distinguish in the Balance of Payments among:

- (1) transfers;
- (2) profit, interest and dividends;
- (3) services.

Currently, "miscellaneous income" (which includes banks' interest payments and receipts, banks' and insurance companies net profits from branches and subsidiaries abroad plus several other types of interest flows) is published in the lines A23 "Other service receipts" and B23 "Other service

payments". A23 and B23 also cover transactions by governments which include some tax flows which are transfers, not payment for services. The presentation of the U.K. Balance of Payments is clearer in classifying and distinguishing among the three. All three together are referred to as "invisibles" in the U.K. accounts.

(2) Insurance and Financial Services

From the viewpoint of the Task Force of Services, it would be very useful to develop separate estimates of the value of banking, underwriting and brokerage services. For some of these components, the major problems are likely to be as much conceptual as data gathering in nature, which is to say it's possible that a year's effort by a qualified person could make considerable progress with little increase in ongoing costs. For other components (e.g. fees and commissions for banking services) the problems are much more difficult. The Canadian chartered banks do not collect data on service fees received by customer residency.

(3) Tax Data

The feasibility of using data on withholding taxes to improve the information on a variety of services transactions should be investigated. One person-year should be sufficient to determine feasibility and costs. It is impossible at this stage to estimate the costs of a system to produce usable data on a continuing basis. If it proves to be feasible, tax data might improve the quality of data on cultural and recreational services (performers fees), income from real estate and various consulting and professional services.

(4) Education Services

Existing data and existing estimates (e.g. "Foreign Students in Canada and Canadian Students Abroad", a report prepared by Max von Zur-Muehlen of Education, Science and Culture Division of Statistics Canada, dated March 13, 1978) could be exploited to prepare separate estimates of tuition fees paid and received. Perhaps it will also prove feasible to make estimates of total student expenditure for both payments and receipts.

A fraction of a person-year should produce useful results in this area.

(5) Real Estate Transactions

Continuing effort should be made to obtain data on the value of real estate transactions between residents and non-residents. Transactions by larger corporations are already captured through the direct investment figures but it is likely that significant amounts go unrecorded in both the capital and service accounts. The cost of producing usable results in this difficult area is likely to exceed one or two person-years and may require surveys. The Balance of Payments Division has been doing developmental work in this area but is hampered by lack of resources.

All of the above recommendations could be carried out at a cost of approximately \$250,000. Four or five person-years of effort by qualified additional Balance of Payments staff would constitute the major resource requirement.

(6) Increased Detail and Frequency of Existing Surveys

In the past, the quadrennial survey of business and miscellaneous services (BP-21S) has proved to be invaluable in improving the data base. The growing interest in this area has resulted in requests for additional detail on this survey. For example, the 1981 survey asked for data on computer services for the first time. In the future this survey will be integrated with the revised CALURA annual survey. This will produce an increase in the frequency of the data and an increase in number of firms covered. Furthermore, since Crown Corporations are not exempt under the new CALURA legislation, their exports and imports of services should be better covered than they have been in the past. The Task Force on Trade in Services should approach the CALURA section of Business Finance Division to suggest additional detail on trade in services for their question-

naires, which I understand are not yet in final form. For example (if necessary) questions might be added on construction contractor's fees, architects' fees, engineering and scientific fees, management and economics consultants' fees.

(7) Additional Surveys of Canadian Service Industries

Surveys of Canadian service industries, such as the 1977 survey of Offices of Architects, provide data on Balance of Payments receipts only. All Canadian users of these services would have to be surveyed to provide payments estimates. However, in view of the poverty of data on services relative to the rich quantity of data on goods producing industries, the Task Force may wish to recommend that Merchandising and Services Division institute new surveys in such areas as accounting, legal services, management and economic consulting.

(8) More Detail on Travel Expenditures

A small sample survey of international travellers could be used to obtain estimates of expenditure on lodging, restaurant meals, entertainment, alcohol, local transportation, personal services, etc. The cost is likely to be high and it could prove difficult to obtain reliable estimates of a high degree of detail. On the other hand, a very approximate split of total travel expenditure could probably be made on the basis of a small sample. The Task Force may wish to consider asking the provincial tourist agencies and various interested industry groups to help support the cost of additional Statistics Canada surveys in this area.



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