

Background Notes *(September 2011)*

Introduction

The quarterly balance of payments (BOP) statistics compiled and published for Ireland provide some detail on exports and imports of services along with some regional geographical detail for total services. This new release provides on an annual basis greater analysis of the service components and significantly more geographical detail including a cross-classification of service components according to counterpart country/region. The data are collected and compiled within the BOP framework and as such are designed to comply in so far as possible with the stipulated international methodological standards. They also conform closely with international presentation formats taking materiality and relevance into account as well as data confidentiality constraints. The results published in this release are generally compatible with the information supplied to and published by Eurostat and the European Central Bank (ECB) concerning the economic activities of EU and EMU residents with non-residents of these areas. The figures are also compatible with those supplied to other international organisations such as IMF and OECD.

A summary description of the methodology is given below. It follows as far as possible the recommendations of the IMF's *Balance of Payments Manual - 5th Edition (BPM5)* published in 1993 and its supplement *Financial Derivatives: A Supplement to the 5th Edition (1993) of the Balance of Payments Manual* published in 2000. It also largely complies with the principles described in the *Manual on Statistics of International Trade in Services* (2002) prepared and published jointly by the UN, European Commission, IMF, OECD, UN Conference on Trade and Development and the WTO. Any significant deviations from the international recommendations are highlighted below.

Data collection

The information on service exports and imports is obtained as part of the overall process of collecting BOP-relevant data. Statutory surveys are conducted by the CSO and by the Central Bank of Ireland (CBI). Other data obtained from administrative sources are also used. Following the introduction of a redesigned BOP data collection system in 1998 and up to 2007, the CSO undertook all the necessary survey collection and compilation required. However, following a recent joint initiative involving the CSO and the CBI to rationalize statistical data collection and compilation for the financial sector and also to reduce the burden on data providers, the data collection arrangements have changed. As a consequence, since 2008 the data required from licensed banks (credit institutions) and from investment funds (including money market funds) to meet BOP-related data requirements (as well as other statistical demands on both organisations) are being collected quarterly by the CBI under its legislation as well as European legislation¹. The data are supplied by the CBI to CSO for statistical compilation purposes. The CSO has therefore discontinued its surveys of credit institutions and investment funds but continues to collect the required data from other financial enterprises as well as non-financial enterprises using its ongoing quarterly statutory surveys. These are conducted under the Statistics (Balance of Payments and Financial Accounts) Order, 2010 (S.I. No. 206 of 2010) made under the Statistics Act, 1993.

CSO surveys of financial enterprises aim at exhaustive coverage and are conducted on a quarterly basis. However, in order to reduce reporting burden, companies with low activity volumes may, on approval from the CSO, provide annual data. The relevant CBI surveys of credit institutions and investment funds are conducted quarterly and are directed at all such entities. Overall, both organisations survey about 4,500 financial entities. The surveys cover banking, insurance and pension funding, asset financing, treasury, institutional investment, investment funds (e.g. mutual funds, unit trusts and similar collective investment operations), broking and other financial service provision. Financial enterprises, including those engaged in internationally-traded financial service activities and collectively labelled as IFSC (International Financial Services Centre) enterprises, are required to make returns.

Quarterly detailed returns are provided by about 3,500 entities while about 1,000 smaller activity entities provide the same level of detailed data annually. Quarterly estimates are made by the CSO from the annual returns for a specific year and these are used as preliminary quarterly estimates for the following year.

CSO surveys of manufacturing and non-financial service enterprises are conducted on a quarterly basis also with smaller activity entities reporting annually. Coverage for these entities is on a sample selection basis, those surveyed being selected on the basis of statistical register information concerning their transactions with non-residents. About 500 companies make quarterly or annual returns. Some of the enterprises are Irish owned; others are foreign-owned companies or branches. Both types have trading or investment transactions with non-resident affiliates or with third parties.

In order to facilitate compilation of the wider national accounts statistics, the surveys conducted by both the CSO and the CBI also collect data on transactions of reporting enterprises with residents of Ireland.

The returns are predominantly supplied in electronic form but a small number of reporters use paper forms.

In making the overall estimates of imports and exports of services by manufacturing and non-financial enterprises, the survey results are grossed (or scaled) up to allow for non-coverage of enterprises and for some survey non-response. The grossing factors used take into account comparisons of data collected from the BOP surveys with data obtained from other CSO sources such as the Annual Services Inquiry and the Census of Industrial Production.

Apart from survey data, administrative sources also provide information on non-resident service transactions (e.g. the Department of Defence, concerning Ireland's UN military peace-keeping activity; the Department of Foreign Affairs, on expenditure incurred in maintaining Ireland's embassies and consulates abroad). In addition, information on tourism expenditure and receipts is obtained from other CSO inquiries and the freight and insurance service components of merchandise imports are estimated from the official merchandise imports statistics published by the CSO.

Sign convention and symbols

Service exports and imports are both shown with a positive sign and the net balance for any component or for the overall aggregate is calculated as exports *less* imports. Occasionally, the *merchanted* component of service exports may have a negative sign as a consequence of a merchanted loss being generated by a resident entity.

Amounts are shown in millions of Euro; '0' means amounts of less than €500,000; '-' means 'not relevant'.

Cell entries may not add to totals due to rounding.

Definition of services

The *Manual on Statistics of International Trade in Services* states that

“the term *services* covers a heterogeneous range of intangible products and activities that are difficult to encapsulate within a simple definition. Services are also often difficult to separate from goods with which they may be associated in varying degrees.”

The *Manual* generally respects the 1993 UN *System of National Accounts* usage and definition of the term *services* as follows:

“Services are not separate entities over which ownership rights can be established. They cannot be traded separately from their production. Services are heterogeneous outputs produced to order and typically consist of changes in the condition of the consuming units realised by the activities of the producers at the demand of the customers. By the time their production is completed they must have been provided to the customers”.

Services, unlike goods, are (generally) non-transportable. They differ from goods most notably in the immediacy of the relationship between supplier and consumer. Service supply, depending on the type of service, can involve the supplier travelling to the customer or vice versa, or the use of other means of delivery (e.g. using postal or internet services).

Valuation

Service transactions, like all BOP transactions, should be recorded on an accruals basis using market valuation, and the collection system is designed to adhere to this approach. In practice, the information supplied to the CSO is based on company accounts data and may include information supplied on a 'best estimate' basis.

Residence

Exports and imports of services occur between residents of Ireland and non-residents. For BOP, the term 'resident' covers: (a) individuals, including foreign nationals, living in Ireland for at least one year as well as Irish embassy staff and military staff located abroad, (b) Irish government enclaves located abroad (embassies, consulates, etc.), and (c) corporate bodies who have a centre of economic interest located here, including branches of foreign-registered companies. A 'non-resident' is any individual or entity which is not categorised as a 'resident' for BOP purposes.

Geographical allocation principle

Service transactions are allocated to the country of residence of the counterpart i.e. in the case of exports, to the country of residence of the purchaser of the service; in the case of imports, to the country of residence of the entity from which the service was purchased. The country allocation is based on the ISO 3166 classification.

Description of individual service components

Services exports and imports are presented to show nine main categories of service types: *transport, tourism and travel, communications, insurance, financial services, computer services, royalties/licences, other business services* and *other services not elsewhere specified*. The *other business services* category is further subdivided into *merchandising; other trade related services; operational leasing; legal, accounting and other professional services; advertising and market research; research and development; architectural, engineering and other technical services; management services between affiliates; and other*. In all, a total of seventeen individual service components are identified. The various components are described as follows.

(i) Transport

Transport services cover the carriage of passengers, the movement of freight, oil and gas pipeline transport and electricity transmission, along with the chartering of carriers and associated crew. Supporting and auxiliary services (e.g. cargo handling and storage, cleaning in ferry ports and airports, salvage operations) are also included. Export sales data for passenger transport are obtained from resident airline and ferry operators in terms of their receipts from non-residents for travel to and from Ireland. Direct data on receipts for other types of resident transport companies are not available – such expenditure by non-resident visitors to Ireland being captured indistinguishably in the *travel and tourism* receipts (exports). Respondents may provide their 'best estimates' in respect of the geographical breakdown required because of the difficulty of knowing in all cases the precise country of residence of their customers. Payments by Irish residents to non-resident transport enterprises in general cannot be directly distinguished at present. Such payments (imports) are included in the *travel and tourism* expenditure data. Receipts by resident airline and shipping companies for freight services provided (exports) to non-residents are obtained from these enterprises, the geographical breakdown being provided on a 'best estimates' basis where necessary. Imports of freight services are estimated from the official merchandise imports figures in calculating the necessary deduction to transform the imports valuation from a c.i.f (cost, insurance, freight) to a f.o.b. (free on board) basis as required for BOP purposes. The overall c.i.f. to f.o.b. adjustment factors are 2% for intra-EU imports and 4.8% for extra-EU freight. In each case, the freight element

is estimated to account for 90% of this overall adjustment while the remaining 10% is allocated to the insurance element. Within the *transport* category three service components are shown: *passenger, freight* and *auxiliary services*.

(ii) ***Tourism and travel***

The category *tourism and travel* essentially covers the goods and services acquired in one economy by a resident of another economy during visits of less than one year. The results shown for *tourism and travel* are derived from the tourism statistics collected and compiled by the CSO primarily from its quarterly Passenger Card Inquiry (PCI) and from its monthly Country of Residence Survey (CRS). The PCI and the CRS surveys are conducted independently at airports and ferry ports to meet the requirements of EU Council Directive 95/57/EC and Commission Decision 95/57/EC, each inquiry obtaining information for about 400,000 travellers over the course of a year. The PCI is a continuous sample survey of incoming and departing passengers at airports and seaports. It collects details of purpose of journey, country of residence, expenditure and fare costs, length of stay (for passengers travelling into and out of Ireland), and type of accommodation used (for visitors to Ireland). In the CRS, a sample of sailings and flights is selected and a one-in-five systematic sample of passengers

for both modes of travel is surveyed. The data collected provide country of residence analyses of arriving and departing overseas travellers into/out of Ireland as well as information on route taken and mode of transport. The sample results are grossed up to total passenger numbers provided by airports and ferry companies. The PCI results are combined with the overall visit estimates from the CRS to provide the official overseas tourism and travel estimates published by the CSO. It should be noted that the *tourism/travel* exports item represents receipts of residents from non-resident visitors other than passenger fare receipts of Irish passenger carriers from non-residents; the latter are included under *transport* exports. The *tourism/travel* imports item represents foreign expenditure by Irish residents on foreign travel. Because of the difficulty of separately distinguishing passenger fares paid to non-resident carriers this element of expenditure is generally included in *tourism/travel* imports (rather than being more appropriately categorised as an import of transport services. Payments made to Irish passenger carriers by Irish residents are excluded.

(iii) ***Communications***

This covers postal and courier services and telecommunications services. Postal and courier services include the pick-up, transport and delivery of letters, postcards, printed matter, parcels and packages. Telecommunications services include the transmission of sound, images and other information by telephone, radio and television broadcasting, electronic mail, facsimile services and by satellite delivery. Also included are cellular telephone services and internet access services. Details of expenditures by resident enterprises on services purchased from non-residents are obtained from the BOP surveys of these enterprises. Information on receipts from non-residents in respect of their purchases of Irish-produced communications services are obtained from resident service providers.

(iv) ***Insurance***

The value of *insurance* services provided to non-residents by resident insurers (exports) is compiled from survey returns. It is estimated according to the international standards as the value of direct and supplementary premiums earned less the value of claims payable less increases in the actuarial element of insurance technical reserves. Supplementary premiums consist of investment income earned on investing the insurance technical reserves. This income is attributed to the policy holders and is also treated as being paid back to the insurance company by them. Capital and exchange gains and losses are excluded from the calculation of the output of resident insurance providers and data suppliers are requested to provide the relevant details to ensure that any impact of such gains/losses is removed. The value of insurance services purchased by residents from non-resident insurers (imports) is currently estimated primarily as insurance premiums paid less claims received. Reinsurance transactions in premiums and claims are currently treated on a gross basis and are incorporated in the results presented. Auxiliary insurance services (e.g. broking) are treated as part

of insurance and receipts and payments for such services are included. In relation to merchandise imports, as described already for *transport* services, the insurance element of the c.i.f. to f.o.b. adjustment made for merchandise imports is estimated as 0.2% of the c.i.f. value for Intra-EU imports; for Extra-EU imports, the insurance element is estimated as 0.48% of the import value. These amounts are recorded under *insurance* imports. Given the complex nature of the insurance (and reinsurance) business in Ireland, the estimation procedures for both exports and imports of insurance services are currently being reviewed.

(v) **Financial services**

This item covers financial intermediation and auxiliary services, except those of life insurance and pension funding and non-life insurance. Included are:

- (1) Specific types of financial service which generate explicit or implicit fees and commissions associated with financial transactions such as, for example, deposit taking and lending, financial leasing, factoring, etc.
- (2) Provision of services in the areas of, for example, financial advice, financial security custody and trustee services, management of financial assets, company mergers and acquisitions.

The following are excluded from *financial services*:

1. Interest earned on deposits, loans, financial leases and debt securities (this is investment income, not included in services);
2. Life insurance and pension intermediation services;
3. Other insurance services;
4. Non-financial advisory services provided by banks (such as management advisory services, which are included under the appropriate category);
5. Gains and losses made on purchase and sales of securities and financial derivatives on own account;
6. Financial intermediation services indirectly measured (FISIM). Some financial intermediaries are able to provide services for which they do not charge explicitly. FISIM is the measure of the value of these services. Financial intermediaries do this by paying to lenders (those from whom they borrow funds in the form of deposits and/or loans) rates of interest lower than the rates that they charge to those to whom they lend through loans (and to different categories of these lenders and borrowers). The IMF's 1993 BPM5 does not recommend the inclusion of FISIM in financial services but the UN's 1993 System of National Accounts (SNA) does make such a recommendation. Also the 1995 EU European System of Accounts (ESA) regulation (Council Regulation (EC) No 2223/96) as amended by Council Regulation (EC) No 448/98 and Commission Regulation (EC) No 1889/2002 require the inclusion of the FISIM element under services and, hence, as part of GDP. There is therefore a difference in treatment of FISIM currently by CSO between the approach adopted for BOP purposes and that used for the national accounts. Under the new international BOP standards which will come into operation in 2014 FISIM will be included under Financial services.

In addition to explicit fees that may be charged for the conversion of foreign exchange, implicit service fees for foreign exchange transactions are valued as the spread between the mid-point rate and the buying or selling rate. Therefore all financial service fees may not be invoiced separately; they may be included indistinguishably with the financial transactions to which they relate. An example is the invoiced price of a security that includes a charge for the brokerage service provided, as well as charges for the international transfer of foreign currency. Such services are difficult to record and reporters may include them indistinguishably with the values of related financial transactions.

(vi) **Computer services**

The *computer services* component consists of hardware and software-related services and data-processing services. Included are hardware and software consultancy and implementation services; maintenance and repair of computers and peripheral equipment; disaster recovery services; provision of advice and assistance on matters related to the management of computer resources; analysis, design and programming of systems ready to use (including web page development and design), and technical consultancy related to software; development, production, supply and documentation of customised software, including operating systems made to order for specific users; translation and localisation services; systems maintenance and other support services, such as training provided as part of consultancy; data-processing services, such as data entry, tabulation and

processing on a time-sharing basis; web page hosting services; and computer facilities management. Sales and purchases of software transmitted electronically are recorded under *computer services*. Excluded from *computer services* are the export/import of packaged (non-customised) software which is embedded in hardware or carried on other physical media. This software is classified as *merchandise* in the official foreign trade statistics.

The relevant information on computer services is obtained from the usual BOP survey sources. In valuing these services reporters are asked to include the value of software licence fees received (exports) or paid (imports). This is a conscious CSO departure from the international standards which require that such licence fees be included under the service item *royalties/licence fees*. The treatment described was adopted in order to facilitate users in analysing the contribution of computer software producers to the economy.

(vii) ***Royalties/licences***

This item covers franchises and similar rights as well as other royalties and licence fees. Franchises and similar rights comprise international payments and receipts of franchising fees and the royalties paid for the use of registered trademarks. Other royalties and licence fees includes international payments and receipts for the authorised *use* of intangible, non-produced, non-financial assets and proprietary rights (such as patents, copyrights and industrial processes and designs) and with the use, through licensing agreements, of produced originals or prototypes (such as manuscripts, and cinematographic works and sound recordings). In line with the IMF's BPM5 recommendation, payments and receipts for the outright purchase or sale of these assets and rights are excluded from this service component. Instead, such transactions are recorded as capital account transactions in the Balance of Payments statement. As described above under item (vi) *computer services* and as a conscious CSO departure from the international recommendations, receipts and payments in respect of computer software licence fees are not included under *royalties and licence fees* but are instead included under *computer services*. A further deviation from the international standards is that royalty receivables and payables in connection with the entertainment industry (mainly concerning film distribution and musical recordings and performances) are currently excluded from *royalties and licence fees* and included under *other services not elsewhere specified*.

(viii) ***Other business services***

This item covers receivables and payables for the following services, the data for which are obtained from survey returns: (a) *merchanting*; (b) *other trade-related services*; (c) *operational leasing*; (d) *legal, accounting and other professional services*; (e) *advertising and market research*; (f) *research and development*; (g) *architectural, engineering and other technical services*; (h) *management services between affiliates*; and (i) *other services*. The various service sub-categories are described as follows.

- a. *Merchanting* consists of the sales net of purchases by Irish resident enterprises of foreign goods bought from and sold to non-residents without the goods entering or leaving Ireland. The net profit resulting from these transactions is recorded as a (positive) service export value under *merchanting services*; any net loss from this activity is recorded as a negative export value. As an interpretation of the philosophy of the current international standards, the CSO also includes under *merchanting* the value on a net basis of services delivered by Irish residents to foreign customers through a contracted foreign service providerⁱⁱ. These services may or may not be associated with the supply of goods or equipment. The amount recorded under *merchanting* is the amount received by the Irish resident from the foreign customer less the amount paid by the former to the foreign contracted service provider.
- b. *Other trade-related services* consist of commissions earned by resident entities acting as agents for non-residents or paid to non-resident entities acting as agents for residents in connection with imports or exports of goods or services. Excluded are financial brokerage fees (included in *financial services*) and transport related fees (included in the appropriate component of *transport*).
- c. *Operational leasing* covers rental receivables and payables between residents and non-residents in respect of leasing (other than financial leasing) and chartering, without operators, of aircraft, ships and other transport or other equipment and plant.
- d. *Legal, accounting and other professional services* covers: legal consultancy, advisory and representation services, drafting services of legal documentation and instruments; accounting, auditing, bookkeeping, tax consulting and tax planning and document preparation services; business and management consulting and other professional services.

- e. *Advertising and market research* services include the design and creation of advertisements by advertising agencies; media placement, including the purchase and sale of advertising space; exhibition services provided by trade fairs; the promotion of products abroad; market research; telemarketing; and public opinion polling on various issues.
- f. *Research and development* services cover those services that are associated with basic research, applied research and experimental development of new products and processes. Activities in the physical sciences, social sciences and humanities are covered, including the development of operating systems that represent technological advances. Also included is commercial research related to electronics, pharmaceuticals and biotechnology.
- g. *Architectural, engineering and other technical services* covers services related to architectural design of development projects; planning, design and supervision of the construction of civil and other engineering projects; surveying; cartography; product testing and certification; and other technical services.
- h. *Management services between affiliates* covers payments between related enterprises for management (or other overhead) services that cannot be specifically classified to any other component of *services*.
- i. *Other services* covers any other business services that cannot be classified to any of the business services listed above.

(ix) ***Other services not elsewhere specified***

This includes government services, personal, cultural and recreational services, construction services and any other services transacted between residents and non-residents. These services are described as follows.

1. *Government services* includes the value of expenditure abroad (i.e. imports) by Irish embassies, consulates, and military units (e.g. associated with UN peace-keeping engagements) with residents of economies in which the embassies, consulates and military units are located; receipts by Irish residents from foreign embassies and consulates located in Ireland are correspondingly included (as exports). As a general exclusion under the international standards, transactions by embassies, consulates and the like, and their staff, with residents of the home economies of the embassies, consulates, etc. are not recorded in international service transactions (or in balance of payments) statistics. The data are obtained from Government departments and from embassies and consulates located in Ireland.
2. *Personal, cultural and recreational services* covers audiovisual and related services and other personal, cultural and recreational services. Included are services and associated fees related to the production of motion pictures, radio and television programmes (live or recorded) and musical recordings and performances. Fees for distribution rights (for television, radio and film) are also included. Excluded are purchases and sales of films, television and radio programmes, recorded music, musical compositions and manuscripts, and the rights to these. The estimates included are based on information obtained from a number of sources including data provided by representative and industry bodies as well as media reports and articles. As described above under the *royalties and licence fees* heading, the current treatment for royalty receivables and payables mainly in connection with film distribution and musical recordings and performances deviates from the international standards. These amounts are excluded from *royalties and licence fees* and included under *personal, cultural and recreational services*.
3. *Construction services* cover work performed on construction projects and installation by employees of an enterprise in locations outside the economic territory of the enterprise. The work may be performed for a short period of time e.g. for less than one year for smaller projects. Some of the construction work undertaken in Ireland can be considered to fall within the ambit of construction services as enterprises from Northern Ireland provide the service on a cross-border basis. However, for larger projects the work may extend over a number of years. In such cases, it is likely that the enterprise undertaking such a project will either set up a long-term site office in the country in which the project is being undertaken, or more probably it will establish a subsidiary or branch in that location. Where a long-term (over one year) site office or a subsidiary/branch are established, the construction work undertaken is deemed to be a direct investment operation (see the definition of *direct investment* in any of the other CSO Releases: *Balance of International Payments*, *International Investment Position* or *Foreign Direct Investment*). Because of current difficulties in collecting the relevant data directly from the required number of construction companies, the construction service estimates are based on

data collected from local authorities and from the Department of the Environment, Heritage and Local Government. These estimates attempt to reflect the net construction service inflows (exports) and outflows (imports) vis-a-vis non-residents in the year. Further work is ongoing on this item and it is intended to compile and publish specific data for construction services when circumstances permit.

4. Any other services not specified above are included under this residual heading.

ⁱ ECB Regulation on the Assets and Liabilities of Investment Funds (ECB/2007/8) of 27 July 2007, the ECB Balance of Payments and International Investment Statistics Guideline (ECB/2004/15) of 16 July 2004, as amended by (ECB/2007/3) of 31 May 2007, and the ECB Guideline on Monetary, Financial Institutions and Markets Statistics (ECB/2007/9) of 1 August 2007

ⁱⁱ The international standards limit merchanting activity to the international purchase and sale of goods which neither enter or leave the compiling economy. These standards require that services outsourced outside the compiling economy by a resident supplier and associated with the supply of merchant goods should be treated and recorded on a gross basis in both the BOP and the international trade in services statistics. The CSO has not adopted this approach for reasons of possible consequential statistical distortion, particularly in the context of potentially large transactions in imports and exports of outsourced services having little impact on domestic employment levels.