Comments on draft SNA chapter:
Chapter 15: The Goods and Services Account and Supply and Use Tables

Deadline for comments: 29 November 2007
Send comments to: sna@un.org

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Submission date:	28 November

This three-part template allows you to record your comments on draft chapter 15 easily and, at the same time, makes it easy for us to use your comments in considering revisions to the draft chapter. You may complete any one, any two, or all of the three parts of the template.

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Part I: General comments

In the space below, please provide any general comments, such as about the clarity with which the new recommendations were incorporated. Also, you may wish to comment on whether there is enough cross-referencing to earlier chapters for the basic concepts and definitions used in the supply and use tables (30 words or less).

Comment:

General comments

We are not sure that the new chapter is an improvement of the old chapter.

- The chapter deletes the explanation of cif/fob adjustment (para 15.69 in the old text) and adds something in which is incomplete (see explanation below).
- The chapter rewrites Part A in a way as if it is a compilation guide. It's ok this way but it should not be a reason for the rewrite.
- The chapter introduces some small tables and deletes para. 15.111 to 15.119 which show the relationships more or less mathematically. We are not sure the abbreviation makes it easier for novices to understand the relationship or not. At least the formulas and numbers presented in the old text would allow readers to trace the tables easily and systematically. [By the way, the numerical numbers in the small tables form 15.1 to 15.10 are put in the wrong places. For example 4 should be placed on "wholesale and retail trade". Table 15.3 shows cif/fob adjustment in the wrong places. The numbers should be at the cross sections with transport and financial and insurance services.]
- The chapter introduces goods for processing. This part may be needed but it is still not yet fully articulated. Though, it is not difficult to present the

treatment of goods for processing fully (especially for the owners of the goods), it may be better left for handbooks.

- The chapter adds the double deflation method using use and supply tables. It is **a practical implementation of SUT** (why include it when symmetric table is not). It could be discussed here briefly and articulated elsewhere (actually it is presented as an application of the use of SUT in the Handbook of input-output table compilation and analysis). What is included is still incomplete and has some problems that are discussed below.

Part II: Comments on specific draft paragraphs or passages

In your review of draft chapter 15, you may wish to devote particular attention to the passages listed below. For ease of reference, we have identified the relevant paragraphs. For each passage, a Word table is provided for you to use in making your comments. In most cases, there is a row for general comments at the top of the table. Thereafter please use a separate row for each paragraph on which you wish to make detailed comments.

<u>Goods and services account</u>

As the foundation of the supply and use tables, the goods and services account is discussed in paragraphs 15.7. This account also serves as a preliminary step to the material on the summary measures of the accounts (now in chapter 14, but to be moved in the next version of the full set of chapters where this chapter on the goods and services account and supply and use table will be chapter 14, prices and volumes will be chapter 15 and part of the existing chapter 14 will be described as “Summarising and integrating the accounts” in place of the present title of “Summarising and presenting the accounts”> and will be chapter 16.).

1. Do you find this discussion useful? Is it clear and sufficient?

General comment	Click here and start typing.
15.7	Click here and start typing.

<u>Goods for processing</u>

The implications of the new treatment for goods sent abroad for processing (and returned from abroad after processing) for the supply and use tables is described in paragraphs 15.32-15.36.

2. Is the discussion of goods for processing clear and sufficient?

General comment	It does not show clearly how the imputation of production for the owner is implemented. But the issue is: is it necessary to discuss implementation in this chapter?
15.32	Click here and start typing.
*	Click here and start typing.

* Insert rows in this Word table for each paragraph on which you wish to comment.

<u>Trade and transport margins</u>

The decision on how to record goods for processing has implications for how to record transport margins on such goods. Further, the principles of how to record trade and transports margins within supply and use tables when valuation is at basic prices as compared with purchaser's prices were not elaborated in the *1993 SNA* text. Such a clarification is now provided (paragraphs 15.42-15.66)

3. Is the discussion of trade and transport margins clear and sufficient?

General comment	**<u>On the description of trade and transport margins</u>** This part spanning many pages, from paras 15.42 to 15.63, is unduly long, and rather difficult to understand. It discusses hypothetical cases that are not really needed for an understanding of the SUT and its compilation. Suggestions made are not implementable. The chapter should focus on the core of the system. There is no need for more than para. 15.42 of the old text which is the summary of the many pages in the new text. Para. 15.64-15.65 can be reduced substantially. It is long as it try to explain basic prices in many different ways because of the author's own statement that: ***There is no universally appropriate valuation for imports of goods and servcies at basic prices.*** Then it goes on with recommendations, but at the end concludes (in Para 15.65d): ***It may not be possible to determine from customs declarations which unit is responsible for the transport costs and, even when it is and conceptually the transport costs should be separated from the value of the goods themselves, there may be no information and no resources available to***

make the separation in practice.

If the conclusion if that one does not have information to implement it, then there is really no need to discuss the issue in depth.

How should one write about the problem of valuing imports

The new text in para 15.65 in its present presentation is not very helpful.

15.65 Imports of goods are to be recorded in the supply table at basic prices with taxes and margins added subsequently. **There is no universally appropriate valuation for imports of goods at basic prices.**

It may be much more helpful to state clearly that the value of imports cif is in principle treated as equivalent to basic prices because the national border can be treated similarly to the factory gates from which imported goods or domestically produced goods are delivered to purchasers.

In the case of domestically produced goods, their basic prices reflect the actual prices receivable by producers. In the case of imported goods, their prices must reflect the actual prices payable by the importer similar to the case of domestically produced goods their prices must reflect the actual prices receivable by the producers.

The basic prices for domestically produced goods has been defined in para 6.49 of the new SNA as below

Para. 6.49 (a) The basic price is the amount receivable by the producer from the purchaser for a unit of a good or service produced as output minus any tax payable, and plus any subsidy receivable, by that unit as a consequence of its production or sale. It excludes any transport charges invoiced separately by the producer;

The principle of this definition must be implemented in a practical way. The definition of basic prices helps increasing homogeneity in valuation, but it can only be implemented to the extent that it respects the actual recording of transactions on the market.

For domestically produced goods: The amount receivable by the producer (basic price) must reflect the actual transactions:

- If he/she sells the good and the delivery costs (transport and insurance) by invoicing two products separately, then he/she is actually selling two products and they should be treated as such.
- If he/she sells the good as part of a composite product where he is also responsible for the delivery costs, then he/she is selling

	only one product. The initial recording should not be treated as sales of two products, as it may create double counting of the delivery costs when these services may be provided by a third party to the producer. **For imported goods:** The treatment is no difference from that of domestically produced goods. The value of imports payable by the importer is the equivalent basic prices. • If the importer pays as one price for both the good and the transnational delivery costs (transport and insurance costs) as a composite product, the good is recorded as the purchase of the composite product and in this case import is valued at cif value. However, as the transport and insurance costs may be provided by residents and therefore, these services are counted wrongly as imported services. Thus there is a need for cif/fob adjustment, and if they are provided by non-residents. This cif/fob adjustment explained in the new para. 15.65 (b) is not correct and incomplete. The text in old para. 15.69 is much better. • If the importer is invoiced separately for the good and the transnational delivery costs, he/she is treated as purchasing two separate products. In this case, the value of the good cif and fob is the same. If the delivery costs incurred by him are provided by domestic suppliers, they are obviously domestic production and are always recorded as such by business accountants and customs. There is no double counting here as in the first case. However, if the importer purchases the two products from a non-resident, he/she is recorded as importing two products. The non-resident exporter may purchase the delivery services from a domestic producer, it will be reflected as such in actual transactions. The recording of imports in supply and use tables at cif is aimed to enhance homogeneity in valuation. However, in the SNA system, the total value of imports and the total value of exports have to be valued fob in order to avoid counting domestic transnational delivery of services as imports and then treat them as exports in order to get the right value of trade balance. This type of recording in the 1193S was a change as compared with SNA68.
15.42	Click here and start typing.
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* Insert rows in this Word table for each paragraph on which you wish to comment.

<u>The supply and use tables in volume terms</u>

Section D.2 provides a general discussion of the supply and use tables in volume terms, covering output, imports and exports, margins, taxes less subsidies on production, and value added.

4. Is the discussion of supply and use tables in volume terms clear and sufficient?

<table>
<tr>
<td>General comment</td>
<td>
<u>On the deflation of trade and transport margins</u>
We found the description of the technique does not reflect the actual technique of deflating the margins using the use and supply tales in basic prices, for example one does not apply the current period margin to volumes, but the base year margin to volumes. Therefore, the conclusion in Para 15.127 that
<blockquote>The implied deflator for trade margins is then the same as the implied deflator for the goods concerned, implying in turn that the whole of the margin change is seen as a volume change and not a price change, an assumption that may be questioned. (Para 15.127)</blockquote>
is problematic. The technique can be explained by the following example:
<table>
<tr><th></th><th>T1</th><th>T2</th><th>Price index</th><th>Change in ratios</th></tr>
<tr><td>Product at current prices</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Value at basic prices</td><td>200</td><td>400</td><td>110</td><td></td></tr>
<tr><td>Margin</td><td>15</td><td>25</td><td></td><td></td></tr>
<tr><td>Margin ratio</td><td>0.075</td><td>0.0625</td><td></td><td>83</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>At T1 prices</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Value at T2 delfated to T1</td><td></td><td>363.6364</td><td></td><td></td></tr>
<tr><td>Margin of T2 at T1 price (applying margin ratio of T1 to value at T1 prices)</td><td></td><td>27.27273</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Implicit margin deflator</td><td></td><td></td><td>91.7</td><td></td></tr>
</table>
Here it is assumed that price of the product increased by 10% and a product at current prices is separated into value at basic prices and the
</td>
</tr>
</table>

	margins (trade and transport margins). To deflate the value at T2, one applies the price index of 110, one gets the value 363.6. Since it is not possible to deflate the margins (especially trade), the margin ratio at the base year T1 is used. This ratio is applied to the deflated value of the product. The derived margin at T1 prices is 27.27. The implicit price deflator for the margin is 25/27.27*100= **91.7. This is not equal to the change in the ratio. It is also not equal to the deflator of the goods.** Therefore to write "The implied deflator for trade margins is then the same as the implied deflator for the goods concerned" is not correct. However, one criticism of this technique is the effect of technology on the change in the ratios.
15.119	Click here and start typing.
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* Insert rows in this Word table for each paragraph on which you wish to comment.

<u>Additions and deletions to the draft chapter</u>

The chapter aims to give a more comprehensive view of supply and use tables and how they might be used than is found in the *1993 SN*A. As explained in the Note by the Editor, new material was added on several aspects.

5. Bearing in mind that input-output tables will be described in a later chapter, are there other aspects of supply and use tables that you feel should be added to the chapter?

Comment:

Click here and start typing.

Table 15.3 of the *1993 SNA* shows the cross classification of production account items by industries and institutional sectors. It has been omitted from the draft chapter.

6. Do you see any reason to restore it to the draft?

Comment:

Why delete it when it is useful for seeing the connection between SUT and the institutonal accounts?

Part III. Other specific comments

You are welcome to make other comments. Please do so by using Adobe Acrobat Version 6 or 7 to comment directly on the PDF of the draft chapter.

If you don't have Adobe Acrobat Version 6 or 7 and would like to make detailed comments, please send a message to sna@un.org requesting a version of the draft chapter that permits you to comment. To optimize your commenting tools, please download Adobe Reader 7.0 for free from http://www.adobe.com/products/acrobat/readstep2.html