

**Comments on draft SNA chapter:
Chapter 6: The production account**

**Deadline for comments: 15 April 2007
Send comments to: sna@un.org**

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Submission date:	16 April 2006

This three-part template allows you to record your comments on draft chapter 6 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 (30 words or less).

Comment:

<p>In our opinion, section C on prices could be made more clear by including a diagram that shows the relationship between basic prices, producer prices and purchaser prices.</p>
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Part II: Comments on specific draft paragraphs or passages

In your review of draft chapter 6, you may wish to devote particular attention to the passages listed below. There is space after each issue for any comment you wish to make.

1. In section B, the text extends the definition of services to cover margin services explicitly. Is this a useful extension? This section also is more precise about products capturing knowledge, some of which have many of the characteristics of goods. Is this precision useful?

Comment:

The distinction between margin services and knowledge-capturing products is, in our opinion, not very helpful. They have similar characteristics as transformation services or ordinary goods and no special method of valuation. We think that the distinction unnecessarily complicates things.

2. Section D now discusses GDP as derived from the production account only. The expenditure based estimate and the relationship between this, the income based estimate of GDP and the production based measure are now discussed in chapter 14 after the components of the other estimates have been discussed in the accounts where they occur. Do you agree to this placement of the material on the alternative estimates of GDP?

Comment:

The placement is fine with us, but it would be illustrative to put the alternative ways of estimating GDP in the overview of the system as well, together with a discussion of the system identities and statistical discrepancies.

Furthermore, section D now discusses the alternative ways of estimating GDP very briefly. In our opinion, it comes a bit out of the blue. If one wants to include some text on this topic here, it needs more introduction (e.g. on the principle of transaction identity).

3. The AEG recommended that goods sent abroad for processing should be recorded without imputing a change of ownership when no change actually happened. They further recommended that the same principle should be adopted for processing of goods by another resident unit. Does the text in section E reflect this recommendation adequately?

Comment:

Here, we would like to refer to the discussion at the latest AEG-meeting (New York, 19-23 March 2007).

4. Section E introduces the recommended change in terminology for kinds of production. Market production covers production for sale (short-hand term that includes other deliveries also) and for own use; non-market production relates only to production by general government and NPISHs. Is the resulting text sufficiently clear?

Comment:

As discussed at the latest AEG-meeting (New York, 19-23 March 2007), we prefer a three way split into market output, output for own final use and non-market output.

5. The output of the central bank is described in a stand-alone subsection of section F. Is the resulting text sufficiently clear on the proposals for compiling and allocating monetary policy services and financial intermediation services provided by the central bank?

Comment:

In our opinion, the text is sufficiently clear. The distinction is probably very difficult to make on practice. Furthermore, taking into account the relatively small numbers involved, one could argue not to spend too much text and resources on this split.

Note that in para. 6.146, line 10, "... out ..." should be "... output ...".

6. In section F, new text has been provided for the financial services. Is this text accurate and clear? This part of the text has been extended to include margins as well as FISIM and insurance charges. Are there any comments on this extension? (Further material will be added when chapter 17 is posted).

Comment:

In general terms, the text is okay to us. We do have some specific remarks; see below.

7. Section G has a brief discussion of leasing, leaving the main discussion for chapter 17 on cross-cutting issues. Is the discussion here adequate in the context of chapter 6?

Comment:

No remarks.

8. The discussion of consumption of fixed capital, in section H, is reduced from that in the 1993 SNA. The previous recommendations have been superseded; fuller discussion will appear in chapter 19 on capital services. Is the discussion in chapter 6 adequate in this content?

Comment:

We do have some remarks and/or questions in relation to the present text in section H:

- The value of fixed capital seems to be exclusively defined as the net present value of future benefits (NPV). No mention is made of market prices being a possible way to value assets (with the NPV as an alternative), as was the case in the 1993 SNA. We have some doubts whether this change is for the better.
- In line with the above remark, we have serious problems with a sentence like the following in para. 6.211: “As a result of market forces, the purchaser’s price of a new fixed asset should provide a good initial estimate of the present value of the future rentals that can be derived from it”. Here, it seems that the whole concept of valuation according to market prices has been abandoned.
- In our opinion, we think it is important to mention the hyperbolic function for relative efficiencies as well in para. 6.214. Nowadays, this function is used, for example, in Australia, USA and the Netherlands.

Part III. Other specific comments

Para. 6.39-47: In our opinion, it would be appropriate to include some more text on the delineation and recording of illegal activities, in line of the e-consultation of the AEG.

Para. 6.47: In addition, we think that the present text on theft is not very helpful. It may even be confusing, as it seems to imply that the sales of stolen goods by the thief should be recorded as output (“margin”). In our opinion, the latter is only the case for a fence buying and selling stolen goods on a “regular” basis, as a kind of business.

Para. 6.49 and following: As mentioned in the above, a diagram could be very helpful. More generally, one should consider discussing the treatment of taxes and subsidies on production, as related to the valuation of transactions in goods and services, here. Furthermore, in the definition (para. 6.49), it should be made clear that taxes and subsidies only refer to taxes and subsidies on products.

Para. 6.60: “... taxes on the output” and “... subsidies on the output” to be changed into “... taxes on products” and “... subsidies on products”.

Para. 6.65: At the end, it says “... to the first definition of gross domestic product (GDP)”. However, GDP has not yet been defined in this chapter.

Para. 6.66: “... other taxes on production ...” to be changed into “... other taxes less subsidies on production ...”

Para. 6.74: “... taxes, less subsidies, on the output” to be changed into “... taxes, less subsidies, on products”.

Para. 6.80: The text of this paragraph, first and foremost the first sentences, is very confusing as. As a general rule, GDP is actually a measure of production on the economic territory of a country.

Para. 6.84: In our opinion, this paragraph should be deleted, as it is in contradiction with the general definition of output. The relevant recording may be useful for analytical purposes, but is not part of the way goods and services are recorded in the core system of national accounts.

Para. 6.89-90: In our opinion, it is a bit strange to discuss the valuation of different kinds of output before having defined them. Is it necessary to include these paragraphs? In the subsequent paragraphs, the valuation is discussed in more detail.

Para. 6.90 (and elsewhere): Non-market output is valued including a return to capital. We assume that this will be changed in view of the decision at the latest meeting of the Statistical Commission.

Para. 6.101-104: In our opinion, it would be useful to address the issue of storage services here as well, possibly with a reference to para. 6.136-138.

Para. 6.121: In our opinion, this paragraph is rather superfluous. It addresses a rather specific practical problem.

Para. 6.130-132: The text on agriculture has been reduced significantly. We regret this, especially because of the removal of the text on the valuation and recording of seasonal products and cattle. We prefer not to change the 1993 SNA in this respect.

Para. 6.132: Regarding consumption of fixed capital on plants and animals, reference is made to “below”. However, in section H, nothing is stated. In our opinion, the issue should be addressed as there seems to be difference of opinion. For example, according to the 1995 ESA, the relevant cattle should not be depreciated.

Para. 6.143: The relationship with para. 6.136-138 on storage services could be made more clear. Now it looks like trading companies not being able to produce storage services as well.

Para. 6.153: We think that it is not needed to address the recording of credit card companies in such an explicit and rather detailed way.

Para. 6.157: Here, one may want to address the issue whether or not SPV’s can actually produce FISIM-type of services as well.

Para. 6.206: The paragraph ends with: “In practice, however, it may be difficult to measure such losses”. One would expect an advice after such a sentence.

Para. 6.207: The present text is slightly confusing when it comes to the recording of the return to fixed capital in the core system. In our opinion, it should be stated that the return on capital is not recorded as such in the core system and that it is treated as an implicit part of operating surplus.