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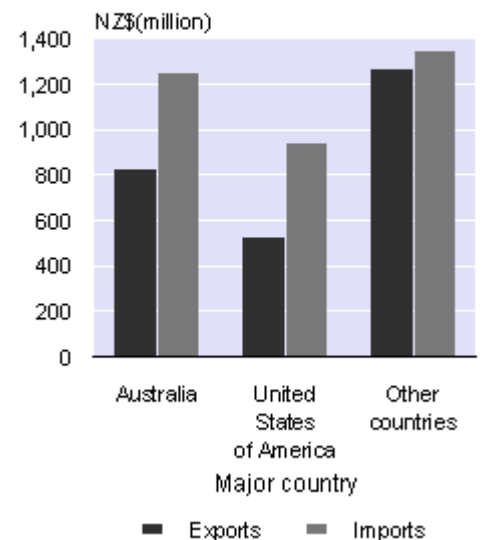
Census of International Trade in Services and Royalties: Year ended June 2005

Highlights

- **Major exports of commercial services were: communication, merchandising and trade-related services, and computer and information services, in the June 2005 year.**
- **Major imports of commercial services were: communication, computer and information services, and royalties and licence fees, in the June 2005 year.**
- **New Zealand's main trading partners were Australia and the USA in the June 2005 year.** Exports of commercial services to Australia and the USA were \$831 million and \$529 million, respectively. Imports were \$1,253 million from Australia, and \$943 million from the USA.
- **The results of a new census of international trade in commercial services provide updated benchmark data for improving the quality of the services component in the balance of payments current account.**

Services and Royalties by Major Countries

Year ended 30 June 2005



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Commentary

Overview

Statistics New Zealand has completed a census of New Zealand's international trade in commercial services and royalties for the June 2005 year. Commercial services includes service types such as ICT (information, communication and technology), business, technical and other miscellaneous services. The 2005 Census recorded exports (sales) of these service types abroad of \$2,628 million, while imports (purchases) from abroad were \$3,541 million. These international transactions are an important contributor to New Zealand's total international services trade. Exports and imports of commercial services contributed 21.3 and 30.8 percent of total services exports and imports in the balance of payments current account, respectively, in the June 2005 year. (Exports and imports of travel, transportation, insurance and government services make up the rest of total services in the current account.)

The 2005 Census of commercial services and royalties provides a more comprehensive measure of New Zealand's international trade in these services, and more detailed breakdowns of service types than were previously available from the quarterly sample survey-based estimates. In addition, the census updates New Zealand's practice in compiling international trade in services statistics, to align more closely with international best practice. The main impact is the classification of service types to more closely align with the guidelines set out in the Manual on Statistics of International Trade in Services, published in 2002 by six international organisations, including the International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD) and the World Trade Organization (WTO). This topic is further discussed in the technical notes to this release.

A key feature of the 2005 Census is the provision of detailed information about the countries with which New Zealand engages in international services transactions. The main countries that New Zealand engages in international commercial services trade are Australia and the USA, however several other countries such as the UK, Korea, Japan, and the Netherlands also feature. In many cases, direct investment between two economies is accompanied by trade in services, and this is particularly the case for New Zealand as Australia, the USA and the UK are also our main international investment partners.

Changes in composition of services sales and purchases

The value of total exports and imports of commercial services and royalties has grown significantly since the 1992 Census. Exports in the June 2005 year were \$2,628 million, compared with \$607 million in the June 1992 year and \$1,310 million in the June 1999 year. Imports were \$3,541 million in the June 2005 year, \$1,589 million in the June 1992 year, and \$2,554 million in the June 1999 year. The balance on commercial services, as measured by the censuses, has narrowed from a deficit of \$1,244 million in the June 1999 year, to a deficit of \$913 million in the June 2005 year. This narrowing has been due to stronger growth in exports than imports of these services, with exports (sales) of commercial services 100.6 percent higher than in the June 1999 year, and imports (purchases) 38.6 percent higher in the latest year. The relatively stronger growth in services exports is reflective of sustained growth in the services industries apparent from the national accounts.

These export and import values are in current prices so no adjustment has been made for price changes that occur over time. This means that the increase in commercial services and royalties exports and imports since the June 1999 year could reflect price increases, volume increases, or a combination of both.

Since the previous censuses, definitions and classifications of services used internationally have evolved, however the broad categories of service types remain consistent. The 2005 Census results in this release uses an Extended Balance of Payments Services classification (EBOPS) which can be compared across time periods for the main service types (classifications and changes in reporting across time periods is further discussed in the technical notes to this release).

The 2005 Census results

Comparing the commercial services and royalties sales and purchases as proportions of total services shows changes in relative significance over time. Exports of commercial services and royalties as a proportion of total international services exports (comprising transport, travel, insurance, government, commercial services and royalties) were 20.8 percent in the June 1992 year, 18.6 percent in the June 1999 year, and 21.3 percent in the June 2005 year. Imports of these services as a proportion of total services imports were 26.3 percent in the June 1992 year, 31.1 percent in the 1999 year, and 30.8 percent in the 2005 year. Comparing the 1999 and 2005 years at the aggregate level shows an increasing significance of exports of commercial services and royalties within the current account estimate of total services, and relative stability for imports. An indication of relative growth or contraction of the various commercial service types in New Zealand's international services trade can be gained from comparing the share of each service type with total exports and imports of commercial services and royalties.

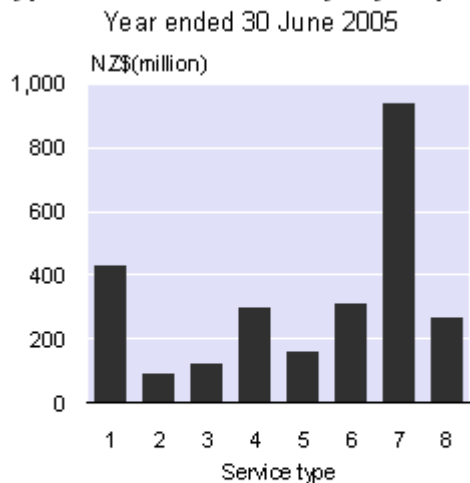
Exports of commercial services and royalties

Comparing the values for main service types in the Censuses of 1992, 1999 and 2005, shows that:

- *computer and information services* accounted for 11.3 percent of exports of commercial services and royalties in the June 2005 year, compared with 7.4 percent and 9.9 percent in 1992 and 1999, respectively.
- *merchanted and trade services* accounted for 11.8 percent of exports of commercial services and royalties in the June 2005 year, compared with 6.6 percent and 4.8 percent in 1992 and 1999, respectively. Merchanted is the main contributor; this value represents sales less purchases of goods by New Zealand enterprises, where the goods do not enter New Zealand, and is recorded as a net export value. Contributions to the growth in merchanted services includes situations where New Zealand companies have production of finished goods undertaken abroad. (The definition and measurement of merchanted is further discussed in the technical notes.)
- *personal cultural and recreational services* accounted for 10.3 percent of exports of commercial services and royalties in the June 2005 year, compared with 3.8 percent and 5.3 percent in 1992 and 1999, respectively; included in this item are fees for sports teams, film, TV and radio productions.
- *royalties and license fees* accounted for 6.2 percent of exports of commercial services and royalties in the June 2005 year, compared with 4.6 percent and 7.6 percent in 1992 and 1999, respectively.

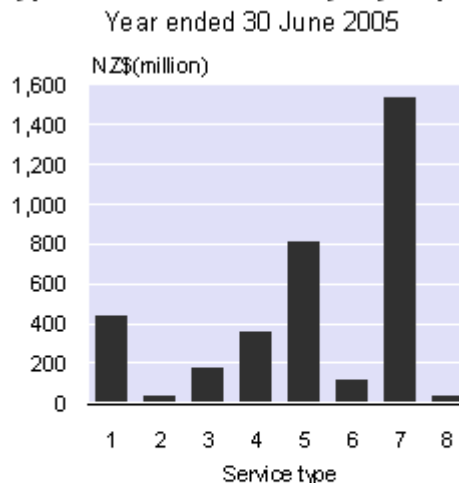
- *miscellaneous business, professional, technical and other services* accounted for 35.8 percent of exports of commercial services and royalties in the June 2005 year, compared with 40.5 percent in 1999. This item encompasses a wide range of services, among them are legal, accounting, management (including management fees between subsidiary and parent enterprises), engineering, research and development and other technical services.

Type of Service and Royalty Exports



1 Communication services; 2 Construction services; 3 Financial services; 4 Computer and information services; 5 Royalties and licence fees; 6 Merchating and other trade-related services; 7 Miscellaneous business, professional, technical and other services; 8 Personal, cultural and recreational services.

Type of Service and Royalty Imports



1 Communication services; 2 Construction services; 3 Financial services; 4 Computer and information services; 5 Royalties and licence fees; 6 Merchating and other trade-related services; 7 Miscellaneous business, professional, technical and other services; 8 Personal, cultural and recreational services.

Imports of commercial services and royalties

Comparing the values for main service types with total purchases for the June year censuses of 1992, 1999 and 2005, shows that:

- *computer and information services* accounted for 10.1 percent of imports of commercial services and royalties in the June 2005 year, compared with 6.1 percent and 7.5 percent in 1992 and 1999, respectively.
- *royalties and license fees* accounted for 22.9 percent of imports of commercial services and royalties in the June 2005 year, compared with 21.3 percent and 21.7 percent in 1992 and 1999, respectively.
- *miscellaneous business, professional, technical and other services* accounted for 43.5 percent of imports of commercial services and royalties in the June 2005 year, compared with 50.3 percent in 1999.

Both exports and imports of communication services (which includes Internet and telecommunications, and postal and courier services) have fallen as a proportion of their respective exports and imports of commercial services and royalties. Exports in the June 2005 year were 16.5 percent compared with 26.4 percent in 1999, and imports in 2005 were 12.6 percent compared with 13.5 percent in 1999. Communications is a highly competitive sector and this, combined with the falling cost of technology, may have contributed to the fall in exports and imports of communication services share of total commercial services exports and imports in the most recent period.

Commercial services and royalties trading partner countries

Australia is New Zealand's most important commercial services and royalties trading partner. Of commercial services and royalties measured in the 2005 Census, Australia was the destination for \$831 million (31.6 percent) of exports from New Zealand, and was the source of \$1,253 million (35.4 percent) of imports to New Zealand. New Zealand's next most important commercial services trading partner is the USA – \$529 million of exports are rendered to the USA (20.1 percent), and \$943 million (26.6 percent) of imports are rendered from the USA. Australia and the USA are New Zealand's most important international investment partners. Statistics New Zealand published New Zealand's *international investment* partner country statistics for the March 2005 year on 28 September 2005.

New Zealand's top two commercial services trading partners (Australia and the USA) accounted for 51.8 percent of all New Zealand's commercial services and royalties exports measured in the 2005 Census, and 62.0 percent of all New Zealand's commercial services and royalties imports. Other important commercial services trading partners are the UK (7.0 percent of exports and 7.5 percent of imports), Japan (2.3 percent of exports), and the Netherlands (3.8 percent of imports).

The 2005 Census benchmark and the current account

The 2005 Census of commercial services and royalties follows earlier censuses in 1999 and 1992. In the intervening periods, a sample survey has operated each quarter. Each census provides an updated benchmark level of services transactions to supplement the quarterly sample survey data, and an updated survey population. As a result of the new information from the benchmark 2005 Census, revisions to previous quarters will be introduced to the services estimates in the Balance of Payments current account when the September 2005 quarter statistics are published on 21 December 2005. The September 2005 quarter statistics released in December will also contain revisions to the travel component of the current account. The total impact of these revisions has yet to be determined.

For technical information contact:

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Technical notes

The Census of International Trade in Services and Royalties 2005 (ITSS 2005)

The census collected information about New Zealand's international trade in commercial services and royalties. Commercial services (primarily 'other' services in the Balance of Payments (BOP) Hot Off the Press tables) are defined as services other than transport, travel, insurance and government services. Examples of the types of commercial services measured by the census are business services, information technology and communication services, financial services, technical and professional services (a full list of the services encompassed by the census is presented later in these notes). The 2005 Census of International Trade in Services and Royalties surveyed New Zealand businesses who were asked to report, for the year ended June 2005, their sales (revenue, exports) of services to overseas, revenue from royalties and other intangible assets, purchases (expense, imports) of services from abroad, and payments for use of royalties and other intangible assets.

International developments in services statistics

The 1992 and 1999 Censuses used the classification of services as set out in the IMF's Balance of Payments Manual, Edition 4 and edition 5 respectively, as far as these could be applied in the New Zealand situation. Since 1999, extensive work has progressed internationally on the statistical framework for measuring international trade in services. As a result of this work The Manual on Statistics of International Trade in Services was published in 2002. This manual is a joint production by six international organisations – the United Nations Statistical Commission, the European Commission, the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), the United Nations Conference on Trade and Development (UNCTD), and the World Trade Organization (WTO).

The aim of the new services manual is to set out an internationally agreed framework for the compilation and reporting of statistics on international trade in services, in order to address the growing need for more detailed, comparable and comprehensive statistics on this type of trade in its various forms. The manual conforms with, and explicitly relates to, the System of National Accounts 1993 (SNA) and the fifth edition of the BOP manual (BPM5). It also prescribes the collection of data in a manner which is closer to the information set required to inform policy around General Agreement on Trade in Services (GATS).

The new manual provides a more detailed view on international trade in services delivered through conventional trade between residents and non-residents, includes a treatment of local delivery of services through a foreign commercial presence, and attempts to link the two systems. The main features of the manual are the redefinition of services into 12 main sectors (with regards to the WTO's requirements see the list below, and expanded into 120 service types, the W120), and the introduction of the concept of 'modes of supply', which categorise the ways in which services are delivered across territorial boundaries.

WTO and modes of supply

The 12 major categories of the WTO are:

- Business services
- Communication services
- Construction and related engineering services
- Distribution services
- Educational services
- Environmental services
- Financial services
- Health related and social services
- Tourism and travel related services
- Recreational, cultural, and sporting services
- Transport services
- Other services not included elsewhere (nie).

The four modes of supply identified by the WTO are:

Mode 1 **Cross border** supply applies when suppliers of services in one country supply services to consumers in another country without either supplier or consumer moving into the territory of the other. (For example, an architect in New Zealand providing plans and advice to a client in Singapore, through one or more mediums of communication, eg Internet/phone/fax/mail).

Mode 2 **Consumption abroad** describes the process by which a consumer resident in one country moves to another country to obtain a service. (For example, a tertiary student from Hong Kong travelling to New Zealand to study, which is a New Zealand export; or a New Zealand tertiary student travelling to the United States to study, which is a New Zealand import).

Mode 3 **Commercial** presence applies where an enterprise establishes a foreign affiliate abroad in order to deliver services internationally. (For example, a New Zealand engineering firm establishing a branch in China to provide engineering services to Chinese customers).

Mode 4 **Presence of natural** persons describes the process by which an individual resides temporarily in the country of the consumer in order to provide a service, whether on his/her own behalf or for an employer. (For example, a New Zealand professor of law visiting the United States for several months to give a series of lectures at the invitation of a local university).

The 2005 Census and the Extended Balance of Payments Services classification (EBOPS)

The focus of this census was to collect data on 'other' services based on the Extended Balance of Payments Services classification (EBOPS). The EBOPS classification of trade in services is an extension of the BOP IMF Manual Edition 5 standard component for services. To this classification of services, Statistics New Zealand expanded some categories of services to broadly meet the W120 classification. This extension was for: Computer services, Financial services, and Other personal services.

The EBOPS classification of services

- Transportation
- Travel
- Communication
- Construction
- Insurance
- Financial
- Computer and information
- Royalties and license fees
- Other business
- Personal cultural and recreational
- Government services not included elsewhere (nie).

In the New Zealand presentation of BOP services statistics, transportation, travel, insurance, and Government services not included elsewhere (nie) are separate components in the current account. The subject of the census was the remainder of the service categories, which in Table 5 of the Balance of Payments and International Investment Position Hot off the Press are: Other services; and Personal, cultural and recreational services (collectively categorised as 'other services'). In this release, for ease of reference, these 'other' services are collectively described as 'commercial' services.

The 2005 Census questionnaire used the following categories of services (more detailed descriptions are available on request from Statistics New Zealand, phone Salendra Kumar or Peter Roche, 04 931 4600):

- Information and communication technology (ICT)
- Financial
- Trade and sales
- Business
- Entertainment and recreational
- Technical and professional
- Intellectual property
- Miscellaneous.

Previous censuses

Previous censuses of international trade in services and royalties were conducted in 1992 and 1999. Each of these censuses, and the 2005 Census, has used a June year reference period. In that respect, the data for each census can be used to track changes over time. These export and import values are in current prices, so no adjustment has been made for price changes that occur over time. This means that the increase in commercial services and royalties exports and imports since the June 1999 year could reflect price increases, volume increases, or a combination of both. However, some useful conclusions about the series over time can be made by assessing the relative importance to New Zealand's international trade in commercial services to total services, and to the contribution over time of specific commercial service types to total commercial services.

Since the previous censuses, definitions and classifications of service activity which are used internationally have evolved. While the broad categories of service types remains (the EBOPS classification used in the census is an extension of the IMF's Balance of Payments Manual, Edition 5, (BPM5) classification), the 2005 Census questionnaire used more disaggregated and explicit descriptions of services under each category, drawing on the developments in the 2002 Manual on Statistics on International Trade in Services. This has assisted respondents to the Census to report more accurate data than in earlier censuses, and in the regular quarterly sample survey.

The census and the BOP quality plan

The need to improve the measurement of New Zealand's international trade in services statistics was identified in the BOP quality plan, which was developed in 2004. Specific areas identified as requiring improvements to the services statistics were the need to meet the data requirements of users (for disaggregated statistics and for country data) and concerns about the quality of the non sampled estimate. This estimate, derived from the 1999 Census benchmark, is added to the regular quarterly sample survey estimates to represent data for the whole population. While the sample of enterprises for the regular quarterly survey is updated each year, the services sector is dynamic and in the national accounts has shown sustained growth since the last services census in 1999. In addition, the size and direction of the net errors and omissions (residual, a balancing item in the balance of payments accounts and an overall indicator of the quality of the accounts) has indicated a need to improve the quality of the source data used in compiling the accounts. These factors indicated a need for a new benchmark measure of New Zealand's international trade in 'other' services and royalties.

The 2005 Census

The 2005 Census was directed at a population of approximately 4,000 New Zealand businesses. These businesses were identified as being relevant to the census, primarily from the Statistics New Zealand Business Frame, a database of New Zealand businesses, which uses GST registration information as a primary source. New Zealand businesses are required to register for GST once their taxable turnover exceeds \$30,000. Therefore, the census population generally excluded enterprises below that threshold. Also excluded from the census coverage were New Zealand individuals engaged in international service transactions with non-residents. In determining the census population, Statistics New Zealand added further enterprises determined to be relevant to the census, using information from other sources. These other sources included other official and industry sources, and the business and news media.

The response rate to the Census was 89 percent. Of all the enterprises surveyed, 54.3 percent responded with data, ie the enterprises did engage in and report international service and royalty transactions for the reference period; 34.7 percent reported no data, ie no transactions engaged in; and 11 percent did not respond. Many of the census respondents spent considerable time and effort in providing data: Statistics New Zealand is very appreciative of all the contributions by the survey respondents, a contribution which makes the production of quality statistics possible.

In order to maximise data quality and mitigate the effects of reporting errors arising from, for example unintended interpretations of the data requirement and reporting and processing, the census data was subjected to a variety of quality checks. These checks, which, due to resource and time constraints, focused on the more significant apparent anomalies, included:

- At the aggregate level significant values (outliers) were identified and queried, usually by contacting respondents and obtaining either confirmation of reported values, or their replacement with correct values.
- For those enterprises which reported to both the census and the quarterly sample, comparison of data was performed and significant differences queried with respondents. Changes were made as appropriate to either the census or quarterly data.
- Logic checks were performed on the data disaggregated by country, and by service type. Types of errors identified included mis-coding of country, mis-classification of services, and incorrect interpretation of the data requirement.

The treatment of merchanting services

'Merchanting' occurs where, for example, a New Zealand company buys goods from abroad, and then sells those goods abroad without the goods entering New Zealand. In the New Zealand statistics, the data collection for merchanting does not distinguish between trading in goods which are not further processed, and situations where the goods are processed or transformed (eg materials bought abroad, manufactured into finished products in a factory abroad, and then sold abroad). The merchanting data is reported to the survey questionnaire gross (ie purchases of goods and sales of goods) and recorded in the statistical outputs as a net value; the sales are netted against purchases and recorded on the exports side in the account. This net exports value is attributed to 'country unknown', as the net value cannot be attributed to particular countries.

The merchanting component has shown significant growth in the 2005 Census compared with the 1999 result. While some of the growth in this net service is from the purchase and sale of goods without further transformation, an important element in the 2005 period is growth in New Zealand companies having goods transformed into finished products abroad. How this activity is recorded in the BOP accounts depends on how the New Zealand company undertakes this activity. For example, where a New Zealand company establishes a subsidiary company abroad to undertake manufacturing, then the impact is in the financial account and the IIP (New Zealand direct investment abroad), and the current account item investment income. There are also likely to be services transactions between the New Zealand parent and its overseas subsidiary. An alternative scenario is for the New Zealand company to contract a factory in an overseas country to undertake manufacturing to its specification; this type of situation will be recorded in the services component merchanting as a net exports value.

How the census results are used

While the census results are used in GDP estimates and trade indexes, the main use is in respect of the BOP current account. The census provides new benchmark data to re-estimate the quarterly services series back to the December 2000 quarter, and to generate a new non-sampled estimate for use in the ongoing quarterly sample survey. From the 2005 Census population a new sample of enterprises has been selected for the ongoing quarterly (September 2005 quarter) services survey. The new sample going forward is approximately 1,000 enterprises, versus approximately 700 in the previous sample. In addition, the census provides more comprehensive information about disaggregations at country and service type levels than are available from the regular quarterly sample survey. This more comprehensive data is used to inform international trade policy.

Relationship between the census and the currently published quarterly series: June 2005 year

Indications are that the quarterly series for the year ended June 2005 will be revised upwards, on both revenue and expenditure, as a result of the application of the new Census benchmark to the previous quarterly sample survey results. The revisions to the quarterly series will extend back to the December 2000 quarter. These revisions will be published on 21 December 2005, with the release of the September 2005 quarter BOP and IIP statistics. In addition, the census results will contribute to the 17 November 2005 release of National Accounts (Year ended March 2005) statistics and revisions to the series.

The level of both revenue and expenditure measured by the census shows change compared with the previous sample based quarterly series. The main reasons for the changes are:

- quality of the non-sampled estimate in the quarterly series; this was previously identified as a reason for conducting a new census.
- growth in the sector which is not reflected in the quarterly series and non-sampled estimate.
- better reporting to the census versus the quarterly survey. The new questionnaire used in the census used improved definitions and classifications of services; this may have prompted more accurate reporting by survey respondents. For those enterprises which reported to both the census and the quarterly sample, comparison of data identified reporting issues in both the census and the quarterly sample survey.

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Next release ...

Balance of Payments and International Investment Position: September 2005 quarter will be released on 21 December 2005.

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Tables

The following tables can be downloaded from the Statistics New Zealand website in Excel

97 format. If you do not have access to Excel 97 or higher, you may use the [Excel file viewer](#) to view, print and export the contents of the file.

List of tables

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and economic group

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and economic group

5. Census of International Trade in Services and Royalties by selected countries