

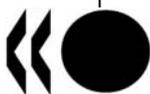
STATISTICS DIRECTORATE

Working Party on International Trade in Goods and Trade in Services Statistics**THE BRAZILIAN EFFORT IN MEASURING ITS FOREIGN TRADE IN SERVICES****16-18 November 2009, OECD Headquarters, Paris.***Item 6.3. of the Agenda. For discussion.*

This paper reports on new developments in Brazil to better measure service activities. Recognizing the fact that there is not a unique service classification system that would allow compiling agencies in Brazil to define trade in services following a national set of pre-determined definitions, new initiatives in 2008 have been carried out to overcome these: the Brazilian Ministry of Development, Industry and Foreign Trade, through its Secretariat of Commerce and Services (SCS), has created the Integrated System of Foreign Trade in Services, Intangibles and Other Operations that Produce Variations in the Capital of the Entities (or SISCOSERV). The SISCOSERV will be a web system in which the transactions between residents and non-residents involving the provision of services will be registered. It will thus integrate the actions of the Secretariat of Commerce and Services (SCS), the Central Bank and the Federal Revenue of Brazil with respect to the monitoring and overseeing of the country's foreign trade in services. The focus is rather on commerce and business rather than on BOP compilation. The second initiative is the Brazilian Nomenclature of Services, Intangibles and Other Operations that Produce Variations in the Capital of the Entities (or NBS), which will work not only as an important and necessary tool of the SISCOSERV but also as a national classification for services – with concrete applications for commercial and tax policies. Both of these initiatives will be described in more detail in this paper.

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**MINISTRY OF DEVELOPMENT, INDUSTRY AND FOREIGN TRADE
SECRETARIAT OF COMMERCE AND SERVICES – SCS
DEPARTMENT OF COMMERCE AND SERVICES POLICIES - DECOS**

The Brazilian Effort in Measuring its Foreign Trade in Services:

The Integrated System of Foreign Trade in Services, Intangibles and Other Operations that Produce Variations in the Capital of the Entities (SISCOSERV) and the Brazilian Nomenclature of Services, Intangibles and Other Operations that Produce Variations in the Capital of the Entities (NBS)

1. Importance of the Service Sector for the Brazilian economy

Traditionally, the service sector in Brazil represents a large part of the country's economic activity. In 2008, this sector accounted for over 65% of the nation's Gross Domestic Product and for more than 70% of the formal employment. It was also the greatest recipient of Foreign Direct Investment, accounting for over 38% of the total inflow of FDI. Judging by the Brazilian experience of the past decade, as well as those of other developing countries, these percentages tend to grow in the coming years.

The service sector has also grown as a share of Brazilian exports. In 2008, exports of services reached US\$ 28.8 billion (or 14.6% of total exports of goods and services), an increase from the previous year higher than that in Brazilian exports of goods (27.4% against 23.2%), as well as in the world's total exports of services (which grew 11.3% according to the WTO).

This shows that Brazil is increasingly trying to take advantage of its potential as an exporter of services to the world. However, several barriers stand in the way of Brazilian service exporters, including limited availability (and soundness) of current statistics in services trade and the late development (when compared to what was already developed for goods) of a specific service export promotion strategy (especially with regard to tax exemptions and proper financing mechanisms). These two obstacles remain a big part of the reason why Brazilian exports of services still account for less than 0.78% of the world's exports in the sector.

2. Brazilian framework for collecting statistics on international trade in services

In Brazil, the compilation and publication of the country's Balance of Payments (BOP) statistics is the responsibility of the Central Bank, in accordance with the Brazilian law. Since January 2001, the Central Bank follows the recommendations of the fifth edition of the *IMF Balance of Payments Manual* with respect to the definition, valuation, classification and recording of services operations between residents and non-residents.

For the service balance of the BOP, most data sources are based on “exchange contracts”. These are specific contracts that the seller and the buyer of foreign currencies in Brazil must sign in which the characteristics and conditions concerning the operation are defined. These operations must be registered in the Central Bank System of Information (Sisbacen) by the financial institution authorized to operate in the exchange market – each operation receives a specific code according to its nature.

These exchange contracts are the primary source of data on Brazilian foreign trade in services, according to the BOP methodological notes published in 2001 by the Central Bank. With the exception of data on transportation, for which the Central Bank relies on data reported directly by sea transportation companies and the Ministry of Transportation, as well as by Brazilian commercial aviation companies and the National Agency of Civil Aviation (ANAC). Still, other agencies, such as EMBRATUR, the national agency for the development of tourism in Brazil, also assist the Central Bank in the compilation of related data.

Despite the many improvements over the years in these methods of compiling trade in services statistics (the registration of the exchange contracts for instance is now largely an online process), several constraints remain in the way of creating a sound statistical database for trade in services.

For instance, current sources provide only limited data for the assessment of other modes of supply like commercial presence or presence of natural persons. Also, they have trouble accounting for the transactions in which exporters hold accounts with nonresident banks and use the revenues for specific purposes determined by the Brazilian law. In fact, the recent changes in foreign exchange legislation (aimed at simplifying legal controls on exchange contracts) were not accompanied by changes in the methods of compiling data for the services balance in the BOP. The effectiveness of exchange controls to provide data on foreign trade in services will also most likely diminish with the establishment of a system that will allow Brazilian residents to use local currencies as the means of paying for the provision of services to non-residents, as already envisioned by Brazilian legislation.

Besides, not all transactions related to foreign trade (export/import) are registered specifically in the Services Account of the BOP. A concrete example refers to what is possibly the most competitive exporting service sector in Brazil: that of construction services, which have their foreign operations usually funded by financing mechanisms and are thus recorded in another account of the BOP, other than the Services Account.

More fundamental still, there isn't a unique service classification system that would allow compiling agencies in Brazil to define trade in services following a national set of pre-determined definitions. Because many services are categorized through abstract concepts rather than by any physical attribute (unlike trade in goods), different ways of defining them abound among agencies. To further complicate matters, the definitions are also dependent on reaching a common understanding of concepts with data providers.

In order to solve at least part of these limitations, the Brazilian Ministry of Development, Industry and Foreign Trade, through its Secretariat of Commerce and Services (SCS), has increasingly focused its attention on collecting and improving statistics in foreign trade in services. With the aim of addressing the demands for more relevant, detailed and internationally comparable statistics on services trade, two main initiatives have been simultaneously pursued by the SCS.

The first is the Integrated System of Foreign Trade in Services, Intangibles and Other Operations that Produce Variations in the Capital of the Entities (or SISCOSERV). The SISCOSERV will be a web system in which the transactions between residents and non-residents involving the provision of services will be registered. It will thus integrate the actions of the Secretariat of Commerce and Services (SCS), the Central

Bank and the Federal Revenue of Brazil with respect to the monitoring and overseeing of the country's foreign trade in services, but without the "accounting focus" of the compilation of the BOP and instead with a more commercial and business focus. The second is the Brazilian Nomenclature of Services, Intangibles and Other Operations that Produce Variations in the Capital of the Entities (or NBS), which will work not only as an important and necessary tool of the SISCOSERV but also as a national classification for services – with concrete applications for commercial and tax policies. Both of these initiatives will be described in more detail after brief considerations are made about how they are being pursued.

3. How the SISCOSERV and the NBS are being developed

In August 20, 2008, the Minister of Development, Industry and Foreign Trade, the Minister of Finance and the President of the Central Bank created the SISCOSERV Commission and entrusted it with the conception, establishment and implementation of the System. The development of the SISCOSERV had already been included as Action 1H20 in the federal government's Pluriannual Plan for 2008-2011 and the main priority of the Services Complex which integrates the Productive Development Policy launched by President Lula in May 2008.

The Commission has members from the SCS (whose Secretary presides it), the Federal Revenue and the Departments for International Affairs and for Economic Policy of the Central Bank. As planner, organizer, coordinator and controller of policies, the Commission is assisted by a Technical Secretariat (headed by the Department of Commerce and Services Policies at the SCS), as well as a Technical Group, who can invite other members from different government agencies and even the private sector. This Technical Group is assisted by three subgroups: Subgroup nr. 1 – Legislation, Subgroup nr. 2 – Development and Subgroup nr. 3 – Nomenclature.

The Legislation Subgroup is charged with the task of analyzing the legal ramifications of the implementation of the SISCOSERV and the adequate way to determine how the System will be established, i.e. which legal measure should be used (a Presidential Decree, an Ordinary Law or even an Executive Order), the nature of the registries, the kind of transactions that will be registered, the procedures and details of the System's operations, etc. The Subgroup is also responsible for elaborating the drafts of these documents, being coordinated by the Federal Revenue of Brazil and composed of representatives of the SCS and the Legal Advisory of the Ministry of Development, Industry and Foreign Trade (MDIC), the Central Bank of Brazil and the Chamber of Foreign Trade (the CAMEX, which works as a governmental council).

Another Subgroup within the Commission was created to coordinate the development of the SISCOSERV. The work of the System Development Subgroup is headed by the SCS and counts with the contribution of the Federal Service of Data Processing (SERPRO), a public company that provides IT and ITC services to the public sector in Brazil. The SERPRO is the organization hired by the Commission to develop the System's envisioned functionalities as well as an active participant of the Subgroup. This subgroup also includes the participation of Brazil's Federal Revenue.

The Nomenclature Subgroup aims at the advancement of the NBS (which, as mentioned, is a central feature of the SISCOSERV). It is made up of representatives from the SCS, the Central Bank and the Federal Revenue plus a member from the Brazilian Institute of Geography and Statistics (IBGE).

The Nomenclature Subgroup developed the first drafts of the NBS. In late December 2008, the Commission opened the draft for public consultations whereby government agencies would advance suggestions for the texts of the NBS. In February 2009 it extended the deadline for suggestions to March 31, 2009. The incorporation of the results of these consultations is almost finished, and the Subgroup now

has most of its attention directed towards the development and revision of the NBS Explanatory Notes (also based on the CPC Explanatory Notes, as will be explained in more detail ahead). When all work is completed, a Presidential Decree will order the institution of the Nomenclature.

For the proper development of the SISCOSERV, two Modules will be developed (each at its own time): the Sales Module, which includes the exports of services, and the Acquisition Module, for the imports, to allow the registry of tax and commercial information related to the transactions between residents or domiciled in the country and residents or domiciled abroad, as well as transactions through commercial presence abroad linked to the person or entity resident or domiciled in Brazil and related to services, intangibles and/or other operations that produce variations in the capital of the entities.

After months of analyzing each field and tool of the System, as well as consulting with governmental agencies and private institutions alike, the Sales Module of the SISCOSERV started its test phase in October 2009. Over a hundred service companies volunteered to take part in the tests. In January 2010, the Sales Module will enter its production phase. The development of the Acquisition Module began in the second semester of 2009 after the mapping of the private sector needs and with the body of knowledge acquired from the development of the first module.

4. The Integrated System of Foreign Trade in Services, Intangibles and Other Operations that Produce Variations in the Capital of the Entities.

The SISCOSERV will be a pioneering web system aimed at providing accurate data on transactions between residents and non-residents involving the provision of services (such as construction, engineering or consultancy services), intangibles (licensing of property rights, for instance) or other operations that produce variations in the capital of entities (like wholesale and retailing services or financial leasing of machinery). The system will have two modules, the Sales Module and the Acquisition Module. A Commercial Sub-Module will register all transactions related to sales and acquisition of services by residents and non residents and will be administered by the Secretariat of Commerce and Services. A Revenue/Billing Sub-Module will be administered by the Federal Revenue of Brazil and the data it gathers will be integrated with the other information provided by the taxpayers, thus allowing for a better control over the taxes involved in the operations. A Commercial Presence Sub-Module will also be developed targeting the creation of more accurate statistics on the services supplied under GATS Mode 3 and ultimately on foreign affiliates trade in services (FATS) – thus following a recurrent recommendation of the Manual on Statistics of International Trade in Services.

The SISCOSERV was conceived following the Government's successful experience with the Integrated System of Foreign Trade (SISCOMEX), which is the system used in the measurement of foreign trade in goods and merchandises. The SISCOMEX entered in operation in 1993 and is also co-administrated by the Federal Revenue, the Central Bank and the Ministry of Development, Industry and Foreign Trade (more specifically, its Secretariat of Foreign Trade). It has two Modules, the Import and the Export Modules, and over the years has consolidated itself as the greatest source of data for the compilation of the Brazilian trade balance. The main difference between the SISCOSERV and the SISCOMEX is that the latter has also a controlling function: the legal documents required for export or import operations are only issued upon registration in that system.

The registration of the transactions in the Sales Module of the SISCOSERV will begin with the inclusion of the relevant data by the user, i.e., the service provider (legal or natural person) or his/her rightful representative. In order to guarantee the security of the information registered in SISCOSERV, access to the system will be made only by Digital Certificate holders. A rightful representative will also have to hold an Electronic Warrant given by the service provider. The technology behind the Digital

Certificate and the Electronic Warrant has been increasingly employed by the Federal Revenue in other tax operations carried on through the internet.

One of the trademarks of the SISCOSERV will be the need for celerity in the registration process because there will only be a few data fields to fill. As a general rule, the needed commercial information will be provided by the user through four main stages. Firstly, he/she will inform the buyer's name, country of residence and address. Secondly, he/she will inform the data of the service provision or licensing of right: the code assigned by the NBS (he/she can use a search engine to find the exact code); the country of destination; the currency in which the contract was signed; the mode of supply, as defined by the General Agreement on Trade in Services (GATS); the dates of beginning and finish of the service provision; and the total amount (in the currency informed) that was contracted. It is important to note that only a running or completed service will be registered, which reinforces that there will be no need for previous approval of the registry by the government.

At this time, the user will indicate whether the service provision is related to any of the export incentives that the federal, state or local government provides, and if so, to which one. As is widely known, Brazil has been trying to foster an export culture among its entrepreneurs, in a clear departure from its previous orientation towards the domestic market. But it does so with a clear determination to ensure those incentives are consistent with WTO rules and the country's specific commitments under the GATS. The SISCOSERV will thus play an important part in revealing which of these incentives are making the greatest difference and which sectors need the most assistance, as well as making those incentives known to the business community – thus allowing for the proper monitoring of their efficiency by the relevant agencies.

Continuing with the registration, in the third stage the user will inform whether the operation being registered also involves the export of goods or merchandise. If so, he/she will have to provide the number of the corresponding Export Registry in the SISCOMEX. Lastly, in the fourth and final stage the user will be given the opportunity to provide any complementary information he/she deems relevant for the creation of the registry.

As mentioned above, the main goal of the SISCOSERV will be the compilation of more accurate and timely statistics on international trade in services. In order to do so, it will enable officials and administrators in the SCS, the Central Bank and the Federal Revenue to access the information in the registries database of the system. They will then be able to manipulate gathered data to find the statistics they need, selecting that data, sorting, filtering, viewing, averaging, dispersing or even refining the many economic variables which will be available in the system.

The Reports generated by the system with the selected data will be a central feature of the SISCOSERV. Administrators with access to the system's resources will make various crossings of information, for instance between each service in the NBS and the countries of destination; each GATS mode and the services supplied; each individual service provider and the countries of destination; and each government incentive and services supplied. Selected data will also be able to be compared across time, averaged, consolidated, have its standard deviation calculated and much more.

5. The Brazilian Nomenclature of Services, Intangibles and Other Operations that Produce Variations in the Capital of the Entities

In addition to serving as an important part of the SISCOSERV (as mentioned above, one of two main initiatives of the Brazilian government towards the development of a sound statistical database for the trade in services), the Brazilian Nomenclature of Services, Intangibles and Other Operations that Produce

Variations in the Capital of the Entities (or NBS) will also work as a much-needed national classification system for services.

The NBS is thus being advanced as the government solution to the problem of defining services properly. It has been developed based on the United Nations Central Product Classification (CPC) version 2.0 and as a result of direct consultations to almost every government agency with a stake in the service sector and also to the business community.

The NBS contains six Sections comprising a total of twenty-seven Chapters. The sections refer to: “construction services”; “distribution services, hotel and food and beverage supply services, transportation services and distribution of public services”; “financial and related services, real estate services and operational leasing”; “business and production services”; “community, social and personal services”; and “other services or rights not included in previous sections”.

Each service or right is assigned a 9-digit code by the Nomenclature. The first digit is the number 1 and it indicates that the code refers to a service or right. The second and third digits indicate the Chapter in the NBS, whereas the fourth and fifth digits point to the position inside that Chapter. The sixth and seventh digits reveal the sub-positions of first and second degree respectively. And, finally, the eighth digit is the so-called “item” and the ninth digit the “sub-item”.

The interpretation and application of the definitions contained in the NBS will have to follow four specific rules. Firstly, the titles of the Sections and Chapter have only indicating value. For legal purposes, the classification of the service or right is determined by the texts of the positions and the Section Notes and Chapter Notes when available – and, unless contrary to those texts, by the other rules.

Secondly, when there is ambiguity involving the definition of the service or right in two or more categories, the more specific one will prevail over the more generic. However, when the service or right that is been defined contains more than one service or right, and the definitions pertain to only one of them, then the positions are considered equally specific, despite its more or less complete description.

Thirdly, for legal effects the classification of the services or rights in the sub-positions inside the same position (bearing in mind that only sub-positions inside the same positions are comparable) is determined by the texts of these sub-positions and the respective Notes of Sub-position (when available), as well as the other rules. The Section and Chapter Notes can also be used, unless otherwise noted.

Finally, the above mentioned rules are also applicable to the definition of each item or sub-item – again noting that only items and sub-items of the same level are comparable.

6. Final Remarks

In today’s world, governments must arm themselves with more appropriate statistical tools for their policy-making, whether with respect to economic development or international trade negotiations. The Brazilian government, having realized the importance of addressing the necessities of its most important sector of economic activity, has been taking clear and decisive steps towards that end through the creation and implementation of the NBS and the SISCOSERV.

On the international front, it has been increasingly recognized that the absence of adequate data has prevented negotiators at the WTO to assess the costs and benefits of the commitments undertaken as well as well as the ones currently on the table. The Brazilian recent experience will hopefully provide an example to other nations on how to improve the measurement of their trade in services. In this sense, it is also worth noting that international talks are already in place to adopt the NBS as the classification system for the Mercosur. Both the SISCOSERV and the NBS have also been discussed in the meetings of the

Second European Community-MERCOSUR Statistical Cooperation Project, more specifically its Working Group n° 6, currently in charge of conceiving a plan for the production of statistics on international trade in services.

One final project of the SCS that has not yet been mentioned involves the (equally important) dissemination of available data on Brazil's foreign trade in services. With the annual publication of the Outlook of International Trade in Services, the SCS aims at publicizing all relevant statistics available from official sources on international trade in services. Through a partnership with the Central Bank, the Outlook contains many of the data not included in the publicized version of the BOP, including with respect to the main exporting sectors by economic activity, the number of service exporters, the leading countries of destination and the leading exporting states. The 2009 Outlook of International Trade in Services, containing data from 2008, can be downloaded at www.mdic.gov.br/portalmdic/arquivos/dwnl_1247775045.pdf.