

Angus Brendan MacNeil MP
Chair, International Trade Committee
House of Commons
London
SW1A 0AA

04 April 2019

Dear Mr MacNeil,

Following my recent appearance before the Committee for your inquiry considering UK Trade in Services on 13 March, I understand members are seeking further detail on the UK's trade in services by country and service type, the sample size and typical response rates for the International Trade in Services (ITIS) survey and some additional details about the planned next steps to trade asymmetries analysis and reduction.

We are providing this information to assist your inquiry and would be very happy to provide further clarification and advice on any points of interest to yourself and the Committee, as required.

Yours sincerely,



Jonathan Athow

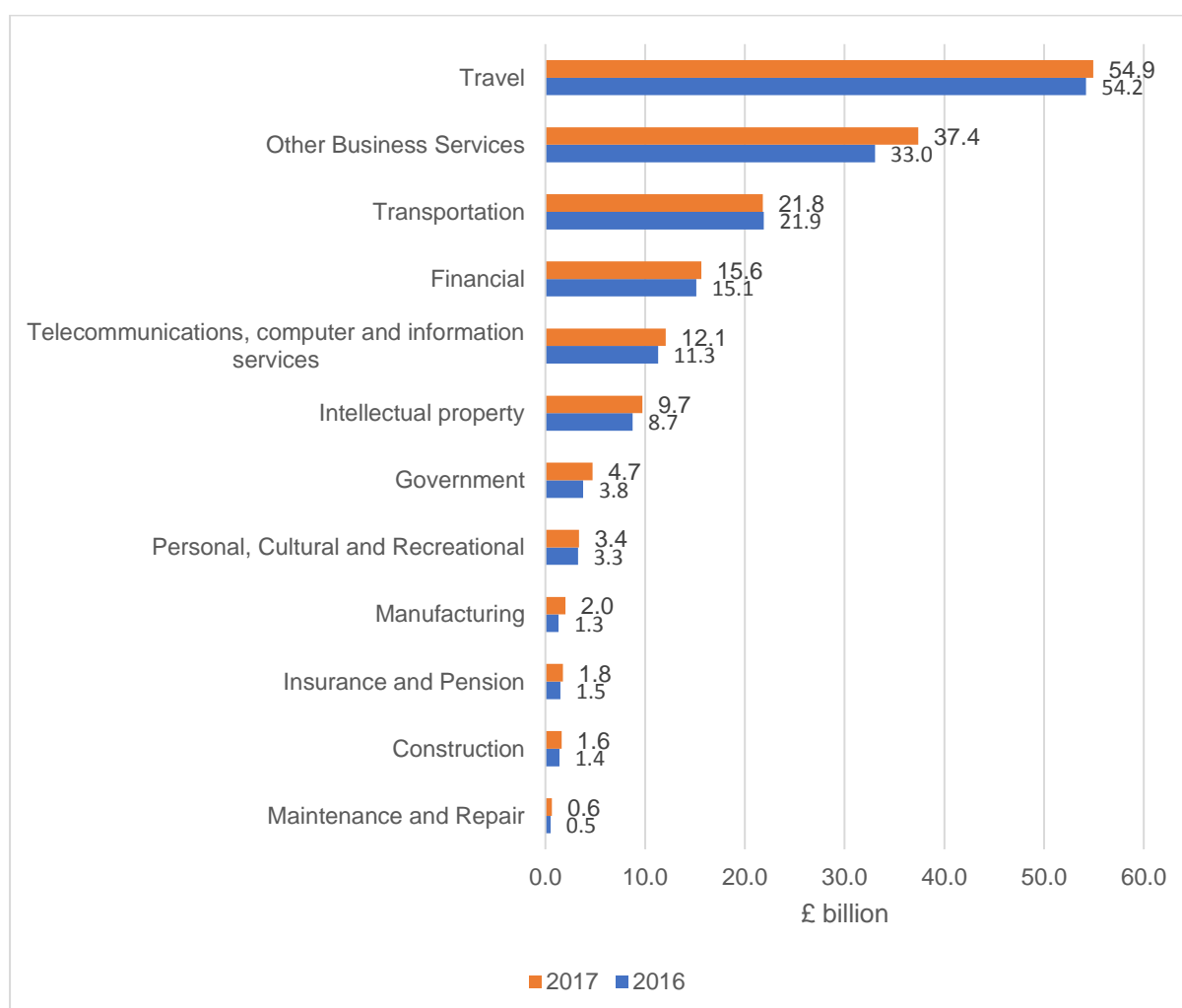
Deputy National Statistician and Director General, Economic Statistics
Office for National Statistics

UK Trade in Services

Imports

The UK imported £166 billion of services in total in 2017, an increase of £10 billion compared with 2016. Services can be broken down by 12 main service types, using the Extended Balance of Payments Services classification (EBOPS 2010). Figure 1 shows the breakdown of UK imports by these service types in 2016 and 2017. The largest service type imported in 2017 was travel services, at £55 billion¹, followed by other business services, at £37 billion.

Figure 1: Value of UK imports by service type in 2016 and 2017



Source: Office for National Statistics (2019)²

Table 1 shows the UK's top 10 import trading partners in 2017. Analysing UK trade in services by country, the United States is the UK's top import trading partner, with £30 billion imported in 2017. This represented 17.9% of all UK imports. This was followed by Spain, whom the UK imported £15 billion from in 2017.

¹ Travel imports refer to expenditure of UK residents whilst travelling abroad

²<https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/bulletins/exportsandimportsstatisticsbycountryforuktradeinservices/julytoseptember2018>

Table 1: Top 10 UK import trading partners in 2017

Rank	Country	2017 (£ billion)	% of total UK imports
1	United States inc Puerto Rico	29.7	17.9
2	Spain	14.9	9.0
3	France	13.0	7.9
4	Germany	9.7	5.9
5	Ireland	7.5	4.5
6	Netherlands	6.6	4.0
7	Italy	5.3	3.2
8	Japan	4.5	2.7
9	Switzerland	4.2	2.5
10	India	3.7	2.2

Source: ONS (2019)

The Office for National Statistics new quarterly trade in services by partner country release³, most recently published 23 January 2019, enables the analysis of country by service type relationships. Table 2 shows the top 10 country by service type imports. In 2017, the single largest country by service type import was of travel services from Spain, at £11 billion. This represented 6.6% of total UK imports. This was followed by imports of other business services from the United States at £10 billion. These were the two largest import transactions by a substantial margin, with the next largest country by service import from the United States of travel services at £5 billion.

The United States appears the most frequently in the top 10 country by service type imports seen in Table 2. As shown before, the US is the UK's single largest import partner, with the UK importing a wide range of US services. Whereas, imports from Spain, our second top import partner, are mainly comprised of travel services, which make up 73% of all the UK's imports from Spain.

Table 2: Top 10 UK country by service type imports⁴

Rank	Service type	Country	2017 £ billion	% of total UK imports
1	Travel	Spain	10.9	6.6
2	Other Business Services	United States inc Puerto Rico	10.4	6.3
3	Travel	United States inc Puerto Rico	5.4	3.2
4	Travel	France	5.0	3.0
5	Financial	United States inc Puerto Rico	4.6	2.8
6	Intellectual property	United States inc Puerto Rico	3.3	2.0
7	Travel	Italy	3.0	1.8
8	Other Business Services	Germany	2.7	1.7

³<https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/bulletins/exportsandimportsstatisticsbycountryforuktradeinservices/julytoseptember2018>

⁴ For more detailed data on UK trade in services by detailed service type and partner country, see the latest [quarterly release](#)

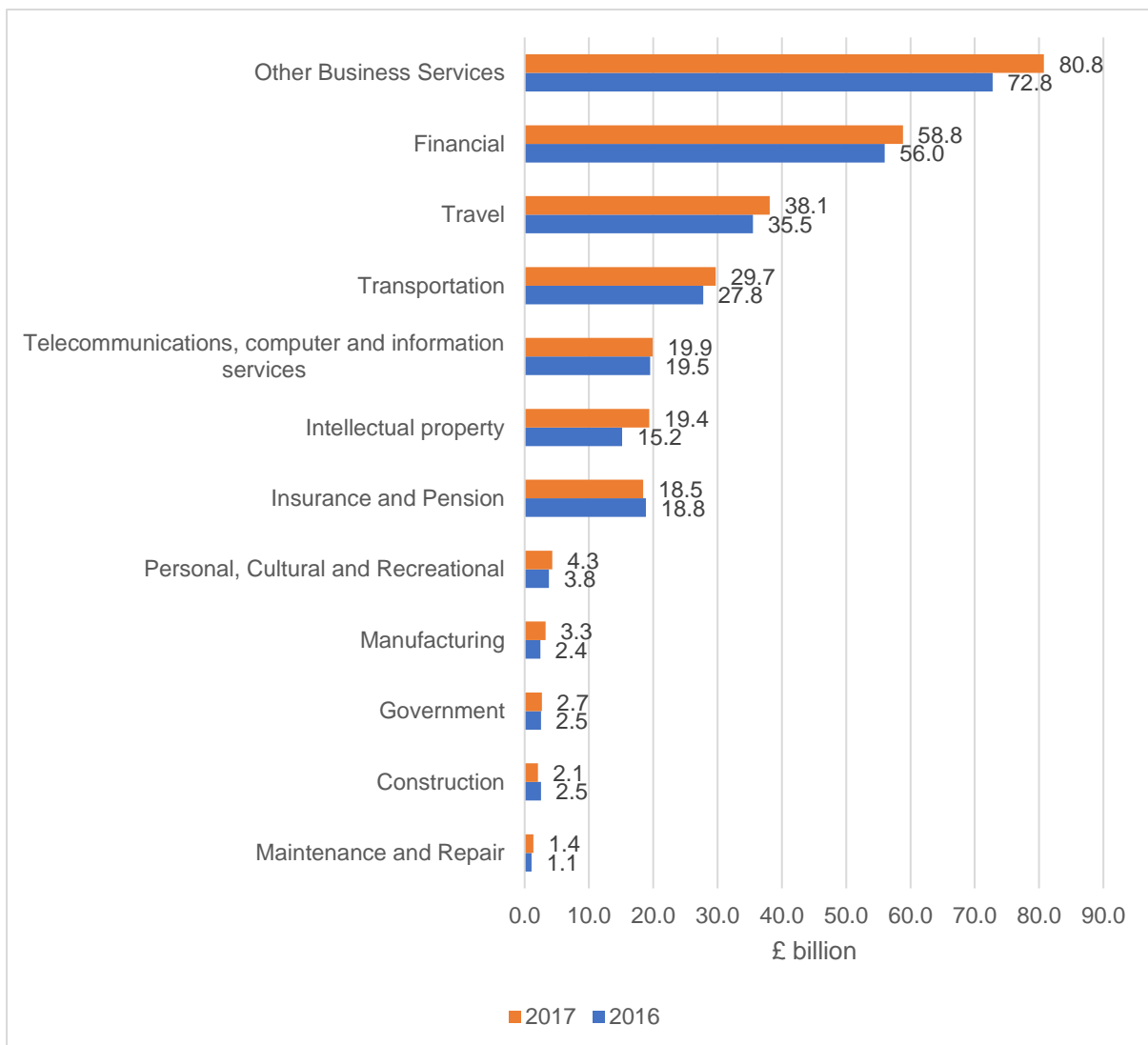
9	Other Business Services	Ireland	2.7	1.6
10	Other Business Services	France	2.5	1.5

Source: ONS (2019)

Exports

The UK exported £279 billion of services in total in 2017, an increase of £21 billion compared with 2016. Figure 2 shows the breakdown of UK exports by these service types in 2016 and 2017. The largest service type exported in 2017 was other business services at £81 billion, which represents 29% of total UK exports. This was followed by financial services at £59 billion, which represents 21% of total UK exports.

Figure 2: Value of UK exports by service type in 2016 and 2017



Source: ONS (2019)

Table 3 shows the UK's top 10 export trading partners in 2017. Analysing UK trade in services by country, the United States is the UK's top export trading partner, with £62 billion exported to the US in 2017. This represented 22.4% of all UK exports. This was followed by Germany, who the UK exported £19 billion to in 2017.

Table 3: Top 10 UK export trading partners in 2017

Rank	Country	2017 £ billion	% of total UK exports
1	United States inc Puerto Rico	62.4	22.4
2	Germany	19.2	6.9
3	France	16.8	6.0
4	Netherlands	16.5	5.9
5	Ireland	16.3	5.9
6	Switzerland	12.5	4.5
7	Italy	8.9	3.2
8	Spain	6.9	2.5
9	Japan	6.9	2.5
10	Australia	5.6	2.0

Source: ONS (2019)

Table 4 shows the top 10 country by service type exports. In 2017, the single largest country by service type export was of other business services to the United States, at £23 billion. This represented 8.3% of total UK exports. This was followed by exports of financial services, also to the United States, at £14 billion, and exports of other business services to Ireland, at £10 billion. These were the three largest exports transactions by a substantial margin, with the next largest country by service export to France of financial services at £6 billion.

Table 4: Top 10 UK country by service type exports⁵

Rank	Service type	Country	2017 £ billion	% of total UK exports
1	Other Business Services	United States inc Puerto Rico	23.1	8.3
2	Financial	United States inc Puerto Rico	14.0	5.0
3	Other Business Services	Ireland	10.1	3.6
4	Financial	France	5.8	2.1
5	Transportation	United States inc Puerto Rico	5.4	1.9
6	Other Business Services	Netherlands	5.0	1.8
7	Telecommunications, computer and information services	United States inc Puerto Rico	4.9	1.8
8	Financial	Germany	4.8	1.7
9	Travel	United States inc Puerto Rico	4.7	1.7
10	Other Business Services	Germany	4.6	1.7

The United States appears five times in the top 10 country by service type exports seen in Table 2. The US is the UK's single largest export partner with the UK exporting a wide range of services to the US.

⁵ For more detailed data on UK trade in services by partner country, see the latest [quarterly release](#)

International trade in services (ITIS) survey response rates

The ITIS survey is the main source of UK trade in services data used in our estimates, representing approximately 58% and 45% of total trade in services exports and imports respectively. Table 5 shows the response rates for the quarterly ITIS survey, approximately 8 weeks after the surveys are dispatched to businesses. Data are processed at this point and are used within the second estimate of GDP in the Quarterly National Accounts, which are published approximately 90 days after the latest period being measured. The response rates at this point in the production process have not fallen below 76% in the past 3 years of data collection.

Table 5: Quarterly ITIS response rates 2016 Q1 to 2018 Q4

Period	Sample size	Total Response at 2nd GDP estimate
2016Q1	1,089	88.5%
2016Q2	1,077	79.0%
2016Q3	1,068	77.3%
2016Q4	1,060	78.0%
2017Q1	2,163	76.2%
2017Q2	2,122	79.7%
2017Q3	2,106	83.2%
2017Q4	2,082	77.6%
2018Q1	2,196	78.0%
2018Q2	2,169	81.5%
2018Q3	2,158	80.9%
2018Q4	2,150	77.5%

Due to increased user demand for more timely and granular trade in services statistics, the sample size of the quarterly ITIS survey was increased from approximately 1,100 to 2,200 businesses from 2017 Q1 onwards. The quarterly sample is now optimised by product group, industry and country, which allows the production of robust estimates regarding which countries UK businesses trade with. This increased and optimised by geography quarterly ITIS sample enabled the publication of more detailed trade in services data than had ever been available before on a quarterly basis. For example, we now publish estimates of services trade by 67 countries and 31 service types.

Tables 6 and 7 show the response rates for the annual ITIS survey in 2016 and 2017. Two data deliveries are made in the annual cycle. One delivery is made for Pink Book with the date of processing changing, depending on whether Pink Book is published in July or October. If Pink Book is published in July, ITIS results are processed in March (as was the case in 2017), whereas if Pink Book is published in October, ITIS results are processed in March (as was the case in 2016). This has implications for response rates, with a lower response rate available in an earlier Pink Book production cycle. The second annual delivery is in September, when final results are produced and this delivery is not affected by the Pink Book publication date.

Table 6: Annual ITIS response rates 2016

AITIS 2016	Sample size	Total Response
Pink Book – 17 th May	15,637	72.9%
Finals – 11 th Sept	15,637	86.9%

Table 7: Annual ITIS response rates 2017

AITIS 2017	Sample size	Total Response
Pink Book – 27 th March	16,452	60.0%
Finals – 11 th Sept	16,452	87.5%

Modes of Supply

There has been a rapid increase in demand for granular trade statistics following the EU referendum result. In addition to requiring timely trade in services data by country and industry, one of the key requirements from the Department for International Trade and other users was for new information that explains *how* trade in services is conducted – referred to as modes of supply – to support the evidence base available ahead of trade negotiations. Table 8 provides descriptions of the different modes of supply.

Table 8: Description of the different modes of supply.

Mode	Mode description
1	Cross-border supply (services traded remotely)
2	Consumption abroad (services traded via movement of consumers)
3	Commercial presence (services traded through foreign affiliates)
4	Presence of natural persons (services trade by the movement of suppliers)

International methodological guidance and practical examples of how to measure trade in services by modes of supply are in their infancy, with very few countries having produced these statistics so far. ONS responded to this requirement by launching a feasibility study to examine whether businesses are able to provide such breakdowns. This initially started with a voluntary questionnaire sent to businesses that ONS had established contact with via the International Business Unit to explore whether businesses were able to provide this information, before proceeding with new survey question design and cognitive testing, and piloting the new survey questions on 100 respondents via the ITIS survey for the Q3 2018 reference period (dispatched September 2018).

Having determined that businesses were able to provide modes of supply breakdowns, and that response rates were not adversely affected, a decision was made to add the new questions to the annual 2018 ITIS survey dispatched to 5,000 businesses known to engage in trade in services. Results will be analysed over the coming months with the aim of publishing a paper in the summer of 2019 presenting experimental estimates and reporting on the feasibility of collecting data on modes of supply.

To note, the four modes discussed above are defined in the General Agreement on Trade in Services (GATS)⁶, however, there have been proposals for a mode 5 due to the view that there are other forms of services supply that are not covered by the four traditional modes of supply. Mode 5 refers to the services inputs that make up a part of manufactured goods. The growing importance of these services inputs has been referred to as the "*servicification*" of manufacturing. Typical mode 5 services include design, engineering and software that are incorporated and traded as part of manufactured products. ONS has thus far not considered mode 5 in its measurement of trade in services by Modes of Supply.

⁶ [GATS](#)

UK Trade Asymmetries Analysis

The UK has been working collaboratively with its priority bilateral trading partners to identify, analyse, explain, and ultimately reduce the asymmetries in its bilateral trade data. The focus has been on trade in services as this is where the largest trade data asymmetries are found, and also because HM Revenue and Customs conduct annual asymmetries analysis and work to reduce trade in goods asymmetries.

To progress this work, the UK has developed and obtained approval for a methodological approach to bilateral trade data analysis which includes:

- downloading bilateral trade data from appropriate websites (e.g. bilateral partner country websites, Eurostat) and conducting asymmetries analyses;
- obtaining and comparing published information on bilateral partner trade data sources and methods;
- identifying appropriate contacts, and engaging and collaborating with trade data counterparts at national statistical institutions and/or central banks as appropriate;
- sharing lower level bilateral data, which although unpublished, are not disclosive, where permitted by national data security legislation;
- investigating the possibility of sharing business level data, subject to approval of the appropriate authorities and completion of the appropriate data sharing and confidentiality documentation;
- sharing additional, more detailed (and sometimes unpublished) information on trade data sources and methods;
- comparing bilateral trade data concepts, sources and methods to identify causes of asymmetries, and quantify these where possible;
- agreeing with bilateral partners the bilateral asymmetries analysis to be published;
- publishing articles on asymmetries analysis, including updates on progress and results;
- using the information identified on the causes of asymmetries to improve trade data and reduce asymmetries in official trade statistics.

The UK has focused its trade data asymmetries work on its priority bilateral partners, which include the USA, Republic of Ireland, Germany, France, Netherlands, Belgium and Luxembourg. These are also the bilateral partners with which the UK has its largest trade in services data asymmetries. To date, the UK has published three articles on its bilateral trade data asymmetries work, in July 2017⁷, January 2018⁸ and most recently August 2018⁹.

So far, this analysis and collaborative work has shown the bilateral asymmetries with each partner country, and the lower level service types with the largest asymmetries as shown in Table 9.

⁷ [Asymmetries in trade data: a UK perspective, July 2017](#)

⁸ [Asymmetries in trade data: diving deeper into UK bilateral trade data, January 2018](#)

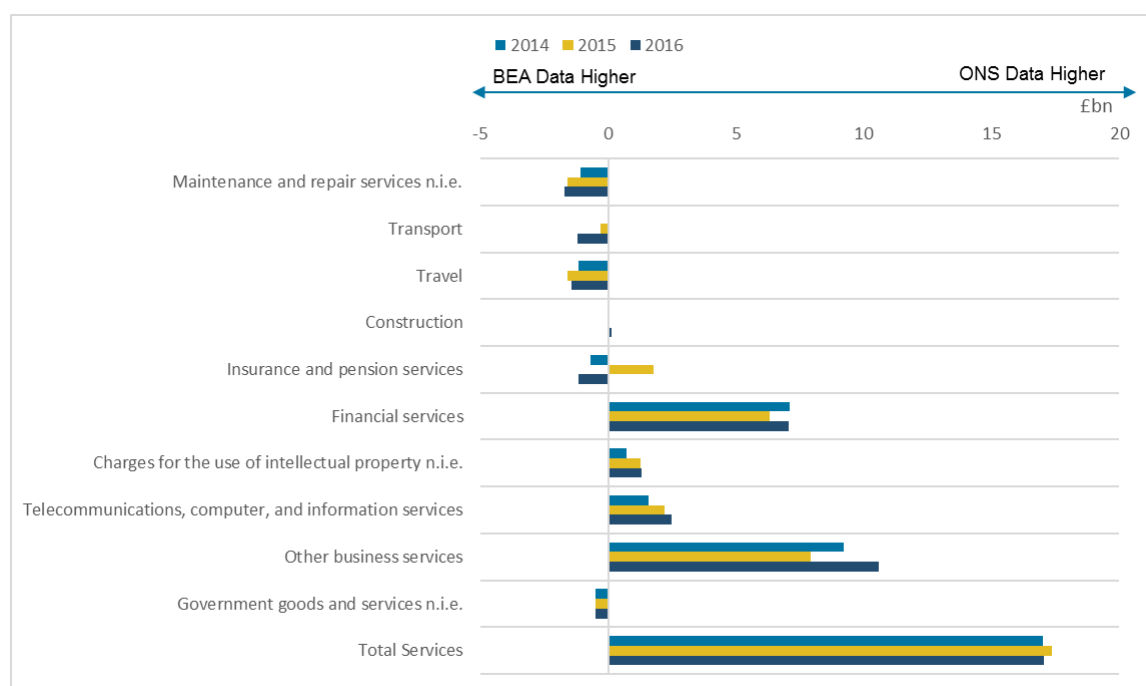
⁹ [Asymmetries in trade data: extending analysis of UK bilateral trade data, August 2018](#)

Table 9: Summary of export and import asymmetries by partner country 2016 (£bn)

Partner Country	Export Asymmetry (£bn)	Service type(s) displaying largest export asymmetry & value (£bn)	Import Asymmetry (£bn)	Service type(s) displaying largest import asymmetry & value (£bn)
US	17.1	Other business services (10.6)	-19.6	Financial services (-5.6)
Republic of Ireland	1.4	Insurance & pension services (-1.1)	-11.4	Telecommunications, computer & information services (-4.8)
Germany	-1.6	Financial services (2.5) Other business services (-2.5)	-10.5	Other business services (-3.0)
France	-2.7	Financial services (4.2)	-7.5	Other business services (-3.4)
The Netherlands	-0.8	Financial services (3.6)	-10.4	Other business services (-3.8)
Belgium	-2.7	Other business services (-2.0)	-4.8	Other business services (-1.9)
Luxembourg	-7.2	Financial services (-4.9)	-8.4	Financial services (-5.2)

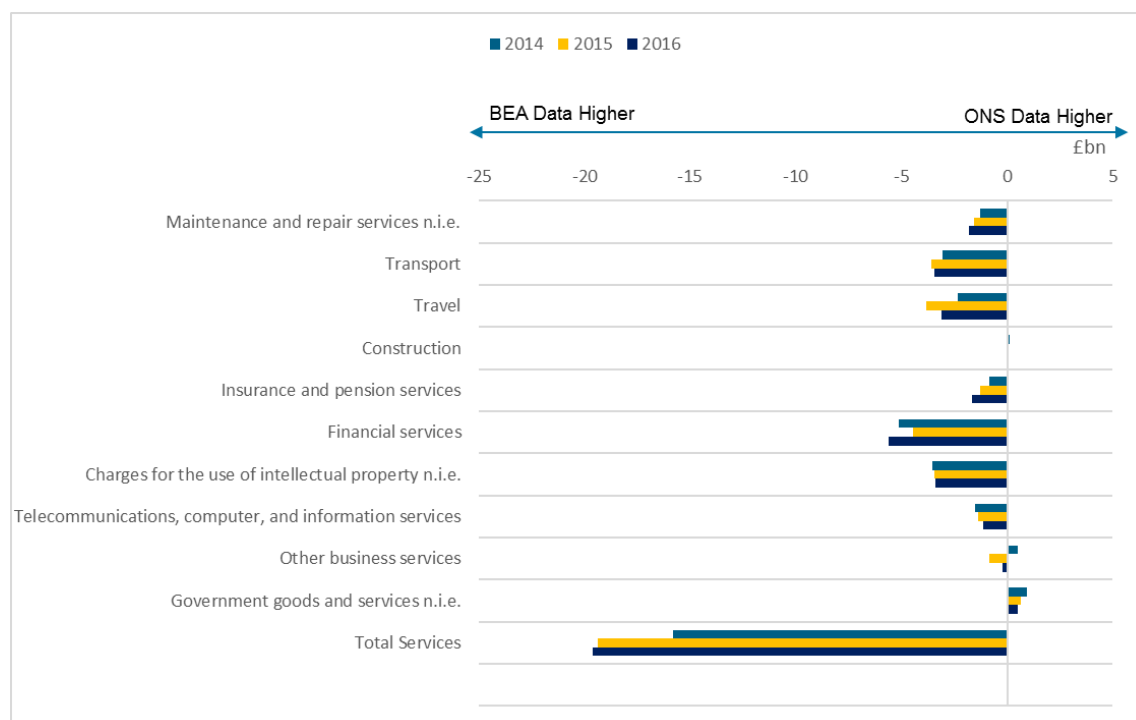
For example, the charts below display UK/US trade in services data asymmetries by service type.

Figure 3: UK-US trade in services asymmetries: UK exports – US imports by service type (£bn)



For 2016, ONS reports that UK exports to the US are higher than imports from the UK recorded by the US Bureau of Economic Analysis (BEA) (Figure 3). The total exports asymmetry with the US is £17.1bn. Breaking down this asymmetry by individual services, ONS data are higher than the BEA for other business services (£10.6bn); financial services (£7.1bn); telecommunications, computer and information services (£2.5bn); charges for the use of intellectual property (£1.3bn), and construction (£0.1bn).

Figure 4: UK-US trade in services asymmetries: UK imports – US exports by service type (£bn)



The import asymmetry is presented in Figure 4, the total asymmetry is -£19.6bn which means the BEA estimates of exports to the UK are higher than imports from the US reported by ONS. Where there are negative asymmetries, that is BEA data are higher than ONS data, financial services has the largest asymmetry (-£5.6bn). For imports, there is a small asymmetry of -£238 million for other business services, which has the largest exports asymmetry (£10.6bn).

There are some differences by service type as ONS reports imports from the US greater than the BEA reports exports from the US for two services. Government goods and services (n.i.e.) has an asymmetry of £0.5 billion and construction has a small asymmetry of £5 million

Asymmetries can be understood as having methodological, definitional and statistical causes. There are also differences in the timeliness of taking on international best practice. The UK is compliant with the international standards for the production and presentation of balance of payments, including trade in goods and services, as specified in the IMF Balance of Payments Manual Version 6 (BPM6)¹⁰. For methodological differences, we present components that are classified in one service type by ONS and in another service type by

¹⁰ [IMF Balance of Payments Manual Version 6 \(BPM6\)](#)

the BEA. These methodological differences do not help explain the trade asymmetry at a total services level, as the component is included somewhere in total services, but can help explain asymmetries between service types. The methodological differences that have currently been identified are shown in Table 10.

Table 10: Currently identified methodological differences where UK and US classify a particular type of trade in different service categories (£bn)

Component	Service category where ONS classify component	Service category where BEA classify component	UK Exports/US Imports (£bn)	UK Imports/US Exports (£bn)	Source for quantification
			2016	2016	
Personal, cultural and recreational (PCR) services	PCR services. Separately identified.	Within intellectual property & other business services. Not separately identified.	1.2	0.2	ONS
Construction services	Construction services. Separately identified.	Within other business services. Separately identified.	0.2	0.1	ONS
Outright sales/purchases of patents	Within research & development services within other business services. Not separately identified.	Within intellectual property. Not separately identified.	ONS
.. Indicates that data might be disclosive and have therefore been omitted					
Source: Office for National Statistics					

Definitional differences can help explain the total services asymmetry as well as the asymmetry for a particular service type. These differences are where one country includes a type of activity in their services trade, whilst the other excludes this activity from their services trade and may or may not include it in other accounts. Depending on the nature of the definitional difference, adjusting for it may reduce or increase the asymmetry.

Table 11 shows the definitional differences that have been identified through discussions with the BEA and an indicative estimate of the magnitude of each difference, where available. The inclusion of Crown Dependencies in US trade statistics by the BEA has been identified as a source of asymmetry, and indicative estimates from the BEA indicate the value, although it is important to note that these are not official statistics as trade with the crown dependencies is not separately identifiable in the BEA's data.

Table 11: Currently identified definitional differences between UK and US trade figures which affect total services trade and indicative estimates (£bn)

Difference	Services category affected	Conceptual basis	UK Exports/US Imports (£bn)	UK Imports/US Exports (£bn)	Source for quantification
			2016	2016	
BEA include Crown Dependencies in definition of UK, ONS excludes as conceptually incorrect to include (European System of Accounts 2010)	All	Crown Dependencies should be excluded	1.2	0.6	BEA
Manufacturing services on physical inputs owned by others are included in services trade by ONS and in goods trade by BEA	Manufacturing services on physical inputs owned by others	Should be included in services trade	0.1	0.1	ONS
Passenger sea transport is included in services trade by ONS, not captured by BEA	Transport	Should be included in services trade	1.6	+0.0	
Construction imports related to work done in the US are included by ONS, not captured by BEA	Construction	Should be included in services trade	+0.0	0.1	ONS
Pensions trade is included in services trade by ONS, not captured by BEA	Insurance and pension services	Should be included in services trade	ONS
Financial Intermediation Services Indirectly Measured (FISIM) included in services trade by ONS and implicitly	Financial services	Should be included in services trade	1.9	1.0	ONS

included in income in the balance of payments statistics by BEA					
'Margins on Buying and Selling Transactions': Net Spread Earnings (NSE) included in services exports by ONS, not captured by BEA ¹¹	Financial services	Should be included in services trade	4.7		ONS
Outright sales/purchases of franchises and trademarks are included in services trade by BEA and in the capital account by ONS	Intellectual Property	Should be included in the capital account			ONS
Total of currently identified definitional differences			9.5	1.8	
.. Indicates that data might be disclosive and have therefore been omitted. Components may not sum to totals due to rounding.					
Source: Office for National Statistics					
Notes:					
1. The estimates for a particular activity are given a positive sign where we include the activity in trade in services and the BEA excludes the activity in trade in services. The estimates for a particular activity are given a negative sign where we exclude the activity in trade in services and the BEA includes the activity in trade in services. Therefore, the signs are consistent with the total asymmetry shown (ONS - BEA data). Therefore, the sum of each of the differences shows how much of the total asymmetry has been estimated.					
2. Where estimates are between £0 and £0.05bn, a value of +£0.0bn is shown. Where estimates are between £0 and -£0.05bn, a value of -£0.0bn is shown.					
3. NSE estimates shown are calculated using monetary financial institutions data only.					

Since the publication of its third article in August 2018, the UK has continued its trade data asymmetries work with its priority bilateral partners. This work has included:

- updating trade in services asymmetries analyses to include the latest UK and bilateral partner trade data;
- exchanging information on trade in services data sources and methods, including the use of benchmarking Censuses (e.g. 5 yearly US Benchmarking Census), regulatory data (e.g. German regulatory monthly reporting system for international transactions),

¹¹ Users should note that Net Spread Earnings have been revised in Pink Book 2018

and VAT data (e.g. EC Sales List, VAT Monthly One Stop Shop (MOSS), and the EU VAT Information Exchange System (VIES));

- conducting analysis of UK International Trade in Services (ITIS) survey microdata to identify trade in services by business size for specific service types;
- conducting analysis of the largest contributors to the services types displaying the largest trade in services data asymmetries;
- conducting 'triangulation' of trade in services data asymmetries to compare the size and direction of the UK's bilateral asymmetries with priority bilateral partner trade in services asymmetries.

The next steps in the UK's work on trade data asymmetries include:

- sharing analysis of the largest contributors to the services types displaying the largest trade in services data asymmetries, pending approval of the ONS Legal Branch, the UK Government Legal Service and the UK National Statistician;
- obtaining access to VAT data (EC Sales List, VAT MOSS, VIES data) for use in linking VAT-registered traders to the UK's business register (IDBR) to improve coverage of the International Trade in Services Survey (ITIS); to quality assure ITIS survey data; and possibly to benchmark survey data;
- applying Thomas Baranga's (Harvard University) theoretical approach to trade in services reconciliation to UK trade in services data, analysing results, including comparison with alternative approaches to asymmetries reconciliation;
- Publishing a fourth UK article to inform stakeholders of progress in reducing and/or reconciling trade data asymmetries;
- Pursuing opportunities and making recommendations for how our UK work can help others engaged in or planning trade asymmetries analysis;
- working with international organisations such as the OECD to aid their efforts to develop and improve international trade statistics and further reconcile trade data by reducing asymmetries.