

**SUPPORTING STATEMENT FOR FORM BE-125 QUARTERLY SURVEY OF
TRANSACTIONS IN SELECTED SERVICES AND INTANGIBLE ASSETS
WITH FOREIGN PERSONS**

SUMMARY

This request is for a revision of a currently approved collection of the BE-25, Quarterly Survey of Transactions with Unaffiliated Foreign Persons in Selected Services and in Intangible Assets (OMB no. 0608-0067). The survey is being reconfigured to reflect changes in BEA's survey program for international services and to align it with the BE-120, Benchmark Survey of Transactions in Selected Services and Intangible Assets with Foreign Persons, 2006. Because the revised survey will begin collection of data on transactions with affiliated foreigners using the same survey instruments as are used to collect information on transactions with unaffiliated foreigners, the agency form number and survey title will be changed. The agency form number will be changed to Form BE-125, and the survey title will be changed to Quarterly Survey of Transactions in Selected Services and Intangible Assets with Foreign Persons. The data collected on the proposed BE-125 survey will be used to estimate the universe of selected services transactions and transactions in intangible assets with foreign persons. These data are needed to monitor trade in services and intangible assets; analyze their impact on the U.S. and foreign economies; compile and improve the U.S. international transactions, national income and product, and input-output accounts; support U.S. commercial policy on services and intangible assets; assess and promote U.S. competitiveness in international trade in services; and improve the ability of U.S. businesses to identify and evaluate market opportunities.

BEA maintains a continuing dialogue with respondents and with data users, including its own internal users through the Bureau's Source Data Improvement and Evaluation Program, to ensure that, as far as possible, the required data serve their intended purposes and are available to the maximum extent possible from existing records, that instructions are clear, and that unreasonable burdens are not imposed. In designing the survey, BEA contacted potential survey respondents to obtain their views on the survey. In addition, in March 2006, in preparation for the related BE-120 benchmark survey of transactions in selected services and intangible assets, BEA sent letters and prototypes of the proposed survey to a number of large potential survey respondents, Government user agencies, and non-Government data users. The comments received were addressed in the supporting statement for the BE-120 survey. The design of the proposed BE-125 quarterly survey incorporated the solutions to the comments made on the BE-120 benchmark survey, where appropriate. In reaching decisions on what questions to include in the survey, BEA considered the Government's need for the data, the burden imposed on respondents, the quality of the likely responses (for example, whether the data are available on respondents' books), and BEA's experience in previous quarterly services surveys.

Major changes proposed by BEA from the previous (2006 BE-25) quarterly survey are:

1. Include services transactions that were previously collected on an annual survey that will be discontinued—the BE-22, Annual Survey of Selected Services Transactions Between U.S. and Unaffiliated Foreign Persons. (Upon OMB approval of the proposed BE-125 survey, BEA will file a Collection Discontinuation Form (83-D) with OMB for the BE-22 survey.)
2. Include services transactions with affiliated parties (i.e., with foreign affiliates, foreign parents, and foreign affiliates of foreign parents). BEA is currently collecting these transactions on its quarterly direct investment surveys (the BE-577, Direct Transactions of U.S. Reporter with Foreign Affiliate, the BE-605, Transactions of U.S. Affiliate, except a U.S. Banking Affiliate, with Foreign Parent, and the BE-605 Bank, Transactions of U.S. Bank Affiliate with Foreign Parent). BEA proposes to remove quarterly collection of data on these affiliated services transactions from these surveys beginning with reports for the first quarter of calendar year 2007.
3. Add a new schedule to collect more comprehensive data on construction services, mining services, and engineering, architectural, and surveying services.

The respondent burden will differ from that estimated when the BE-25 was last cleared by OMB, due to an increase, to 1,000 from 550, in the estimated number of respondents filing the survey on a quarterly basis. The average respondent burden will remain at 16 hours per response, per quarter (64 hours per year). The new estimated annual burden is 64,000 hours. In addition, the data to be collected on the proposed BE-125 will include data that had been collected on Form BE-22, Annual Survey of Selected Services Transactions with Unaffiliated Foreign Persons (9,200 burden hours) and data collected on Form BE-25, Quarterly Survey of Transactions with Unaffiliated Foreign Persons in Selected Services and in Intangible Assets (35,200 burden hours). In addition, some of the burden for the BE-125 will be offset by the reductions in burden that will occur when the data on services and royalties and license fee transactions between affiliated parties are dropped from the direct investment surveys on which they now are collected (Forms BE-577, BE-605 and BE-605 Bank). Additional offsetting reductions in burden will occur as a result of consolidating reporting of affiliated and unaffiliated services transactions on a single survey. Respondents will have a single set of instructions, and they will need to pass through their internal accounting records a single time, to complete the new survey, instead of receiving as many as four separate surveys, each requiring a separate pass through the instructions and the respondents' internal accounting records.

Supporting Statement for Form BE-125, Quarterly Survey of Transactions
in Selected Services and Intangible Assets with Foreign Persons

A. Justification

1. The BE-125, Quarterly Survey of Transactions in Selected Services and Intangible Assets with Foreign Persons, is required in order to obtain reliable, up-to-date, and detailed information on transactions between U.S. and foreign persons in selected services and in intangible assets. The survey is mandatory and is conducted under the International Investment and Trade in Services Survey Act (P.L. 94-472, 22 U.S.C. 3101 through 3108), hereinafter “the Act” (attachment 1).

Section 4(a) of the Act (22 U.S.C. 3103(a)) provides that:

“The President shall, to the extent he deems necessary and feasible --

(1) conduct a regular data collection program to secure current information on international capital flows and information related to international investment, including (but not limited to) such information as may be necessary for computing and analyzing the United States balance of payments, the employment and taxes of United States parents and affiliates, and the international investment position of the United States;

(2) conduct such studies and surveys as may be necessary to prepare reports in a timely manner on specific aspects of international investment and trade in services which may have significant implications for the economic welfare and national security of the United States;”

In Section 3 of Executive Order 11961, as amended by Executive Orders 12318 and 12518, the President delegated the responsibility for performing functions under the Act as concerns international trade in services to the Secretary of Commerce, who has redelegated it to the Bureau of Economic Analysis (BEA). Reports are mandatory under Section 5(b)(2) of the Act (22 U.S.C. 3104(b)(2)).

The implementing rules and regulations for the international services surveys conducted under the Act may be found in 15 CFR Part 801 (attachment 2).

2. Data from the proposed BE-125 quarterly survey are needed to monitor U.S. exports and imports of selected services and intangible assets; analyze their impact on the U.S. and foreign economies; compile and improve the U.S. international transactions, national income and product, and input-output accounts; support U.S. commercial policy on services and intangible assets; assess and promote U.S. competitiveness in

international trade in services; and improve the ability of U.S. businesses to identify and evaluate market opportunities. Some specific uses of the data to be collected are discussed in greater detail below.

(a) Compile and improve the U.S. international transactions, national income and product, and input-output accounts:

Data from the BE-125 quarterly survey will update universe data collected on the benchmark survey of transactions in selected services and intangible assets and are used to assure accurate estimates of these transactions in the U.S. international transactions and national income and product accounts (NIPA's) of the United States. The NIPA's track purchases and sales of goods and services by all industries in the economy. The survey data will provide accurate current dollar estimates of exports and imports of services, which will serve to improve the overall accuracy of the NIPA's .

The international transactions statistics, including those on transactions in selected services and intangible assets, are general purpose statistics that have a variety of important uses. For example, they are used as an analytical and predictive tool to, among other things, analyze and forecast international economic developments, such as foreign exchange rate changes and trade and investment flows. They are also used by the U.S. Government and others as a basis for formulating, implementing, and evaluating U.S. international economic policies. Most recently, they have come to be used as key indicators of the "Offshoring" phenomenon. Accurate and timely measurement of U.S. services transactions is important for these purposes, as sales and purchases of such services have grown rapidly and become quite large.

(b) Support U.S. commercial policy on services and transactions in intangible assets:

The U.S. Government pursues several services policy initiatives that, to be fully effective, require accurate and up-to-date data on trade in selected services and intangible assets. The Office of the U.S. Trade Representative, the United States International Trade Commission (USITC), and the International Trade Administration in the Department of Commerce are the primary Federal Government users of the data for this purpose.

For example, the Uruguay Round of trade negotiations produced an agreement, the General Agreement on Trade in Services (GATS), that liberalized market access rules and promoted more equal treatment of U.S. services providers. The proposed BE-125 quarterly survey data are needed to help measure gains, by individual foreign country, obtained in selected services and intangible assets. Similar needs arise with respect to the North American Free Trade Agreement among the United States, Canada, and Mexico, as well as various bilateral agreements. Finally, the data are needed to help gauge the effects of foreign economic developments on U.S. business interests abroad.

In addition to these uses by U.S. Government agencies, foreign governments and international organizations, such as the Organisation for Economic Co-operation and Development, Statistical Office of the European Communities, the United Nations, the World Trade Organization, and the International Monetary Fund, use BEA's services data in their analyses of international trade.

(c) Assess U.S. international competitiveness in services:

* USITC uses. -- The United States International Trade Commission includes BEA's data on international services transactions in reports to Congress that are used for assessing U.S. trade competitiveness and in setting and evaluating U.S. trade policies on services. The data from the proposed BE-125 quarterly survey are needed for these purposes.

* Export promotion program. -- The International Trade Administration in the Department of Commerce conducts a program to promote U.S. exports of goods and services to foreign countries. The detailed data from the proposed BE-125 quarterly survey can facilitate an effective and precisely targeted promotional program for exports of selected services and intangible assets.

(d) Improve the ability of U.S. businesses to identify and evaluate foreign market opportunities:

Data collected in the proposed BE-125 quarterly survey can help U.S. companies gauge the extent to which they, collectively, have bought or sold, or can expect to buy or sell, selected services and intangible assets in international markets. The availability of these data will provide detail by individual foreign country that enables them to obtain a more accurate and complete picture of U.S. participation in specific foreign markets than would otherwise be possible and help to determine how offshoring may affect their company.

3. BEA will offer an electronic filing option, its Automated Survey Transmission and Retrieval (ASTAR) system, for use in reporting on the proposed Form BE-125, as an alternative to using paper forms. After the information has been entered, ASTAR directs the reporting company to transmit the data back to BEA via the Internet. ASTAR employs state-of-the-art encryption security features to protect confidential information transmitted in electronic form. BEA offered the ASTAR system to respondents when conducting the most recent services surveys; approximately 15 percent of the respondents used it to file reports.

Additionally, BEA will offer respondents the option to file using a pre-programmed spreadsheet format; on recent services surveys, approximately 15 percent of the respondents have used this method of filing their reports.

Finally, BEA places its survey forms, reporting instructions, and reporting requirements on its Internet web site (www.bea.gov), which provides an alternative and, for some, a more convenient way to access information about BEA's surveys. The survey data are published and analyzed in BEA's monthly journal, the Survey of Current Business. All of the data tabulated from the survey that are released to the public and analyses of the data, published in the Survey, are placed on BEA's web site.

4. Data on U.S. international transactions in selected services and in intangible assets are available only from surveys conducted by BEA. As a quarterly survey, the proposed BE-125 survey will provide an update to comprehensive information on services for which data were collected on a benchmark survey of transactions in selected services and intangible assets. The quarterly collections are required to provide timely indicators of quarterly movements in transactions. Finally, if data on a particular service were available from other sources, or if available data could be modified to meet informational needs, the service was not included on the BE-125.

The Census Bureau conducts economic surveys of establishments in services industries and includes on those surveys broad questions pertaining to revenues derived from sales to foreign persons. BEA has used the information reported to improve mailing lists for several of its surveys. In addition, at BEA's request, the Census Bureau will add a question to its Report of Organization survey to determine if the U.S. entity filing the report had any imports of services. The responses to this question will help identify possible respondents for the proposed BE-125 quarterly survey. These questions will not duplicate information collected on the proposed BE-125 survey, because no information is provided by dollar value, by type of service, or by country of foreign seller of the service.

5. The information collection excludes most small businesses from mandatory reporting. The BE-125 quarterly survey will be required from U.S. persons whose sales to foreign persons of covered services or intangible assets exceeded \$6 million for the previous fiscal year or are expected to exceed that amount during the current fiscal year, or whose purchases from foreign of covered services or intangible assets exceeded \$4 million for the previous fiscal year or are expected to exceed that amount during the current fiscal year. Thus, the exemption level will exclude most small businesses from mandatory reporting. Of those smaller businesses that must report, most will tend to have specialized operations and activities, so they will likely report only one type of transaction, often limited to transactions with a single partner country; therefore, the burden on them should be small. To further reduce burden, respondents may provide estimates of their transactions with foreign persons where precise data cannot be obtained without undue burden.

6. The proposed BE-125 survey is a sample survey of transactions in selected services and intangible assets with foreign persons. The sample data are used to derive universe estimates from similar data reported on the BE-120, Benchmark Survey of

Transactions in Selected Services and Intangible Assets with Foreign Persons, which is taken every five years.

The data are needed to update data collected on the BE-120 benchmark survey, as well as to monitor U.S. international services trade, especially in the current economic environment, when such trade is growing rapidly in size, variety, and complexity, and when the geographic pattern of trade is changing, due partly to expansion of trade with emerging economies such as China and India.

The quality and accuracy of the international transactions and national income and product accounts, which are produced quarterly, have been improved with the conduct of a quarterly survey. Additionally, the quarterly data are used to enhance monthly estimates of trade in goods and services, which are included in a joint BEA-Census Bureau press release. The accuracy of all these estimates would also be impaired if the data were collected less frequently.

Quarterly surveys also provide more accurate current information on U.S. trade in selected services and in intangible assets for use in connection with trade negotiations and for other international economic policy uses.

7. No aspects of the proposed BE-125 information collection require a special justification.

8. This submission supports a proposed rulemaking, which will solicit comments on this survey. In April 2006, in an effort to solicit feedback from respondents, BEA sent letters and prototypes of the proposed BE-125 survey to a number of large potential survey respondents. BEA received one response to these letters from a potential respondent. The respondent replied, "I appreciate the efforts to consolidate reporting in the area of transactions with foreign affiliates and see much value in consolidating these types of requests."

In addition, in March 2006, in preparation for the BE-120 benchmark survey of transactions in selected services and intangible assets, BEA sent letters and prototypes of the proposed BE-120 survey to a number of large potential survey respondents, Government user agencies, and non-Government data users. The comments received were addressed in the submission of the supporting statement for the BE-120. The design of the proposed BE-125 quarterly survey incorporated the solutions to the comments made on the BE-120 benchmark survey, where appropriate.

In addition to the outreach efforts detailed above, BEA maintains a continuing dialogue with respondents and with data users, including its own internal users through the Bureau's Source Data Improvement and Evaluation Program, to ensure that, as far as possible, the required data serve their intended purposes and are available to the

maximum extent possible from existing records, that instructions are clear, and that unreasonable burdens are not imposed.

9. No payments or gifts to respondents are made.

10. Section 5(c) of the Act (22 U.S.C., 3104) provides that the information collected may be used only for analytical and statistical purposes and access to the information shall be available only to officials and employees (including consultants and contractors and their employees) of agencies designated by the President to perform functions under the Act. The President may authorize the exchange of the information between agencies or officials designated to perform functions under the Act, but only for analytical and statistical purposes. No official or employee (including consultants and contractors and their employees) shall publish or make available any information collected under the Act in such a manner that the person to whom the information relates can be specifically identified. Reports and copies of reports prepared pursuant to the Act are confidential, and their submission or disclosure shall not be compelled by any person without prior written permission of the person filing the report and the customer of such person where the information supplied is identifiable as being derived from the records of such customer.

11. No questions of a sensitive nature are asked.

12. The BE-125 survey as proposed is expected to result in the filing of approximately 1,000 reports on a quarterly basis, or 4,000 responses annually. The average burden for completing the quarterly survey is estimated at 16 hours, and so the estimated total respondent burden is 64,000 hours (4,000 responses times 16 hours average burden). This covers the amount of time for respondents to review the instructions, search existing data sources, gather and maintain the data needed, and complete and review the collection of information. The burden estimates used in this submission reflect BEA's experience with the similar BE-25 quarterly survey form since 2004.

The BE-125 quarterly survey will be required from U.S. persons whose sales to foreign persons of covered services or intangible assets exceeded \$6 million for the previous fiscal year or are expected to exceed that amount during the current fiscal year, or whose purchases from foreign persons of covered services or intangible assets exceeded \$4 million for the previous fiscal year or are expected to exceed that amount during the current fiscal year.

Respondents that fall below the exemption levels account for a small share of transactions. BEA will estimate data for those companies that fall below the BE-125 quarterly survey exemption level. Estimates will be based on the prior reports, growth in the transactions of a current-quarter matched sample of respondents, voluntarily provided data, and data provided in the exemption claims. BEA will allocate these amounts by country and by type of transaction for inclusion in the published totals.

Thus, the estimates will cover the universe of transactions.

The actual burden will vary from reporter to reporter, depending upon the number and size of their transactions and the ease of assembling the data.

From the perspective of the overall burden associated with BEA surveys, it should be noted that reductions in the burden can be expected to result from the consolidation of reporting of affiliated and unaffiliated services transactions on a single survey. Respondents will have a single set of instructions, and they will need to pass through their internal accounting records only once, to complete the new survey, instead of receiving as many as four separate surveys, each requiring a separate pass through the instructions and the respondents' internal accounting records.

Of the 1,000 reports BEA expects to receive on a quarterly basis, approximately 920 of those reports will be filed by for-profit entities, 55 will be filed by not-for-profit entities, and 25 will be filed by State, Local and Tribal Governments. Thus, the estimated annual burden for the for-profit entities is 58,880 hours (920 responses times 64 hours average burden); the estimated burden for the not-for-profit entities is 3,520 hours (55 responses times 64 hours average burden); and the estimated burden for the State, Local and Tribal Governments is 1,600 hours (25 responses time 64 hours average burden).

BEA believes its proposal reflects a reasonable balance between the needs of data users for complete, accurate, detailed, and timely data, and the concerns of respondents about the burden imposed.

The estimated cost to the public is \$2,560,000, based on an estimated reporting burden of 64,000 hours and an estimated hourly cost of \$40.

13. Other than respondent costs associated with the 64,000 hours of estimated annual reporting burden (see item 12), the total additional cost burden to respondents is expected to be minimal. Total capital start-up costs are insignificant, because new technology or capital equipment would not be needed to prepare responses to the survey. As a consequence, the total cost of operating and maintaining the technology and capital equipment will also be insignificant. Purchases of services to complete the information collection are also expected to be insignificant.

14. The annual project cost to the Federal Government for this survey is estimated at \$535,000, which consists of \$385,000 for salaries and related overhead and \$150,000 for equipment, supplies, form design, mailing, printing, and computer processing.

15. This request is for revision of a currently approved collection. Currently, there are 35,200 burden hours for the BE-25 quarterly survey shown under control number 0608-0067 in the inventory maintained by the Office of Management and Budget. The

estimated burden for the proposed BE-125 survey is 64,000 hours. Thus, the total annual burden hours requested in item 13. c. on Form 83-I represents an increase of 28,800 hours; this increase is entered under item 13. f. as a program change. This increase in burden is a result of several factors – more U.S. persons with transactions in international services, the inclusions of services previously collected on the annual BE-22 survey (which will be discontinued), and the inclusion of transactions with affiliated foreign persons.

16. Estimates based upon the data obtained are published in articles in BEA's monthly journal, the Survey of Current Business and in news releases; the articles and news releases are placed on BEA's web site (www.bea.gov).

The BE-125 survey will be conducted covering the first quarter of the 2007 calendar year and every quarter thereafter. The survey forms will be mailed to respondents in March 2007. Responses will be due May 15, 2007. Preliminary estimates will be released in June 2007 as part of a press release on the U.S. international transactions accounts. Additional details will appear in the July 2007 issue of the Survey of Current Business and will be placed on BEA's web site. Detailed annual estimates will be included in an article on U.S. international services published each year, usually in the October issue of the Survey. The Survey is available on BEA's web site. Estimates for subsequent quarters will be disseminated following a similar schedule.

17. The OMB expiration date will be displayed on the form.

18. The proposed BE-125 collection is consistent with the certification in all respects.