

**17th Voorburg Group Meeting on Service Statistics**  
**Emerging issues – CPC 2007 Revision**

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September 2002

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#### **1. Introduction**

The United Nations Statistical Commission, at its thirtieth and thirty-first sessions in 1999 and 2000 endorsed plans for revision of the International Standard Industrial Classification of All Economic Activities (ISIC) and the Central Product Classification (CPC), for 2007.

In recommending the revisions, one of the stated objectives was to render the revised classifications responsive to the needs of users at national level as well as to enhance international comparability. To initiate activity on the revision process, the Technical Subgroup to the Expert Group on International Economic and Social Classifications (The Technical Subgroup) contributed an initial list of issues for investigation and discussion. This was used as a guideline in developing a questionnaire to solicit the views of countries and international organizations concerning the main issues to be addressed in the revision. The questionnaire was circulated to 235 countries and international organizations worldwide. It is hoped that this consultative process will prove useful in gaining international support for the revisions and acquiring input that will help in defining the scope of the revision.

The questionnaire focused on three main areas:

- (a) conceptual and structural issues
- (b) cross-cutting issues
- (c) boundary definition and detail issues

To date, the Technical Subgroup has analyzed responses to the questionnaire from some 51 respondents.

Responses showed a preponderance of issues relating to ISIC. However a number of issues relating to both ISIC and CPC and some specifically to the CPC have emerged.

It should be noted also that, in recent years, many countries have looked at the newly established North American Industry Classification (NAICS) and compared it to the existing ISIC. As a result, most discussions relating to the upcoming revisions of ISIC and CPC have centered on an assessment of differences (in concept or otherwise) between ISIC and NAICS and the possibility of taking advantage of the development already undertaken. While this was often supplemented by discussions on the possible link between activities and products in this context, no clear demand for major conceptual changes to the CPC has emerged. Moreover, the latest revisions to the CPC have already addressed issues that surfaced in the recent past. As a result, the questionnaire was more, but not exclusively, ISIC-oriented.

## **2. Scope of proposed changes to CPC**

### *General considerations*

In terms of the level and type of response received to the questionnaire, a number of general observations have to be taken into account, in analyzing them, namely:

ISIC Rev.3 has been in use for the past 12 years. Users have therefore had ample opportunity to observe its effectiveness in many situations. CPC Ver.1.0 on the other hand was only published in 1998. Therefore, its recentness implies that many of the issues relating to the evolution of economies over the nineties had already been addressed during its development. This would point to less of a need for revision. Moreover, adoption of the CPC has been relatively limited, when compared to ISIC, both in terms of the number of countries which have adopted it and the length of time over which it was implemented. This has resulted in a lesser number of areas being reported as deficient in the classification. Separate questionnaires were not sent out for ISIC and the CPC.

Following are the major issues that were brought to the fore, concerning the CPC:

### *Conceptual and structural issues*

The following major items were posited by respondents:

- (a) In examining the link between economic activities and products, it has been suggested that the boundaries of the economic activity classification be defined using the product classification. Approximately half of the respondents indicated that they would like to see a strict one-to-one linkage between the ISIC and CPC classifications, while the other half would like to see the classifications be independent of each other, or at least not strictly related.

Several countries proposed that the CPC could be made more useful by establishing a link with ISIC, similar to that between NACE/CPA/PRODCOM with a recognizable sharing of digits in related codes. It was noted that joint use is made of ISIC and the CPC in work relating to the System of National Accounts (SNA). Request was therefore made for particular attention to be paid to establishing correspondences between aggregate levels of those classifications.

Further, proposal has been made to develop a link between the Classification of Broad Economic Categories (BEC) and the CPC. This would not only include a link to categories of goods, but also services. This is currently under preparation and can be submitted to interested parties by the end of the year.

- (b) A number of respondents indicated that they consider the CPC in its current form to be highly aggregated. They would like to see greater detail and expansion of the list of products in the CPC. There remains the argument that countries are free to adapt the classification by adding country detail where this is nationally advantageous, while retaining the prescribed levels for international comparison purposes.
- (c) The CPC is based on a mosaic of underlying concepts. The HS is used as the basis for the transportable goods portion of the CPC while the services portion is based on a combination of demand and supply groupings. It has been observed that the classification may benefit from the development of a consistent conceptual basis.
- (d) Further on the subject of links with other classifications, request has been made that future revisions to the CPC continue to “respect” integration with BPM5 and/or its successor. It has also been recommended that the CPC should remain linked to a customs classification. The Harmonized commodity Description and Coding System (HS) has been the most frequently recommended so far.
- (e) A number of countries have criticized the proposed revision schedule of every 5 years, suggesting 10 years as a periodicity that would be less punitive financially and which would allow for greater “stability”. It should however be noted that “revisions” involving major structural and/or conceptual change are not envisaged every five years, but rather every ten years, with the intervening five-year change reserved for less radical updating - especially with regard to development of new products, technologies, correction of any errors, etc. On the other hand, it is often suggested that product classifications should be revised more frequently than activity classifications.

### **3. Cross-cutting issues**

#### *Environment*

Environment is being recognized more and more as having a discernible and critical effect on the performance of the economy and in promoting human welfare. It therefore seems logical to attempt to isolate environment-related products within the economy in order to be able to account for market transactions and assess welfare generation as they relate specifically to the environment.

Among the responses received to the Questionnaire on main issues for the revision of ISIC and CPC, a number of respondents made specific requests concerning the inclusion of:

- “environmental services”
- “environmental protection services”
- “ecological treatment activities for protecting the environment”
- “categories for hospital and similar bio-waste”

It is not evident that the identification and placement of these and other such services within an “environment” grouping could be aligned conceptually within the CPC as it stands. Moreover, any environment grouping should necessarily aim at completeness of coverage. It is difficult to see how this could be accomplished given the existing problems associated with the inclusion of intangible assets in the CPC. An examination of the possibility for including “environment” in the CPC is underway.

### *Tourism*

Within the context of the implementation of the Tourism Satellite Account (TSA) project, it was recognized that two basic general classifications should broadly underpin the international comparability of the economic impacts of tourism<sup>1</sup>, namely ISIC and the CPC. The World Tourism Organization (WTO), in an attempt to have the revisions of ISIC and the CPC be responsive to the needs of Tourism statistics, and in its capacity as part of the Technical Subgroup has initiated activities to seek feedback that will be useful in the development of these classifications. In this regard, it has disseminated questionnaires to a selection of countries. The aim is to undertake an analysis of Tourism activities and products with a view to presenting comprehensive suggestion for better reflection of Tourism-related activities and products in ISIC and the CPC. Input from this activity is expected to be available by mid-2003.

The above-cited examples make a cogent case for the development of Alternate Aggregations. These would be intended to serve the needs of users who wish to present data that are user-defined and internationally recognized, but which would reflect compromises between the theoretical principles of CPC and more practical considerations.

### *Other*

There are a number of other areas that are of increasing interest in the context of the proposed revisions, one such being the notion of the “new economy”. This is interpreted to include the treatment of biotechnology, e-commerce and recycling. While these and the issues mentioned above are generally raised in an industry context, i.e. as demands relating to ISIC, they may in some instances, be more appropriately addressed in the product context. Work is currently underway to assess the nature of these proposals and the underlying industry and product structure.

## **4. Relationship to other classifications**

### *HS/SITC*

For the CPC to fulfill its role as a central classification, it is imperative that the relationship to other major product classifications be well defined and maintained. For the goods part of the CPC, the HS will continue to be the reference by which CPC categories are defined. However, owing to the fact that the HS is purely trade-

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<sup>1</sup> “Meeting of the Expert Group on International Economic and Social Classifications, New York, 18-20 June 2001” (ESA/stat/AC.78/9), p.11

oriented, some deviations may be necessary to accommodate for products of great national importance for production statistics but which have little international trade impact. This applies for example, to agricultural products, such as sugarcane.

The relationship of the CPC to SITC is currently defined on the basis of actual SITC contents. This will be maintained as a secondary correspondence for the CPC. Due to the different nature of the links between CPC and the SITC (conceptual) and between HS and SITC (data conversion tool), inconsistencies between direct and indirect (through HS) linking of CPC and SITC can occur. This approach needs to be re-evaluated and, if necessary, better documented.

### ***EBOPS***

The UN Statistical Commission, in 2001, raised the issue of closer coordination among different product classifications, used in different conceptual frameworks. The Commission suggested that the Expert Group consider the possibility of further synchronizing and coordinating the revision of classifications supporting production and trade statistics (e.g. the Central Product Classification, the Harmonized System and the Balance of Payments Classification), so that resulting data become more comparable. It was later noted that there is general agreement that further work on product classifications should lead to a convergence of existing classifications, such as the CPC and the Balance of Payments (BOP) and the Extended Balance of Payments Services Classification (EBOPS). A correspondence table between EBOPS and CPC has been developed as part of the Manual on Statistics of International Trade in Services, serving as a first step to assess differences between these classifications. An analysis of higher-level differences between these classifications (apart from the different focus of the frameworks they support) is currently being undertaken. CPC and EBOPS have been scheduled for revision in 2007. The scope of necessary or possible changes to the CPC, for achieving better comparability between these classifications, will only emerge after the assessment of current differences and after possible changes to the Balance of Payments framework have been further elaborated.

## **5. Other issues**

(a) The boundaries of CPC are one area that bears some discussion and resolution. Best practices in the development of economic classifications dictate that categories should be “systematic, exhaustive, structured, mutually exclusive and well-described”<sup>2</sup>, however, in order to adhere to this principle, a number of categories including those for waste would need to be re-described, in recognition of the fact that there are waste products which definitionally do not qualify as products, as they are not “products intentionally produced for the market”<sup>3</sup>.

(b) The Introduction to the CPC observes that no criteria “provide a valid, practical and unambiguous distinction between goods and services in all cases”.

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<sup>2</sup> Standard Statistical Classifications: a Statement of Best practices, E. Hoffmann and M. Chamie, United Nations Statistics Division, Fourth Meeting of the Expert Group on International Economic and Social Classifications, New York, 2-4 November 1998

<sup>3</sup> Readings in International Environment Statistics: Conference of European Statisticians, (United Nations publication, Economic Commission for Europe, 1993), chap. 6, pg. 98

However, the CPC, in practice, does segregate goods and services discretely. It bears mention that attempting to design categories that reflect economic reality could result in the development of categories that would include a mix of goods and services. One such grouping would be that of "Software". Definitional imperatives may, for example, cause software to be described as a good, or a service and/or mix of both, depending on whether it was perceived that the intellectual property or the physical product was considered to be the predominant characteristic, as well as on the mode of delivery of the product (packaged vs. on-line).

## **6. Future work**

A conceptual paper that outlines the scope of changes to be implemented in the CPC is under preparation. That paper will form the basis for future work in the revision process. This conceptual paper will also be circulated to a wide readership of interested parties. Additionally, on-going work on the services categories of the North American Product Classification System (NAPCS) will continue to be used as input into the revision process of the CPC. The original input received from the Technical Subgroup, the responses from the questionnaire that was circulated and responses to the conceptual paper will be among the inputs synthesized into a preliminary draft for the revised CPC classification. This will be prepared during 2003.

It has also been suggested that regional workshops be organized to discuss region-specific needs and their possible reflection in the classification, as it was perceived that regional meetings are better suited to discussing the classification than one large international meeting. During the discussions at the recently held United Nations ASEAN Classifications Workshop, held in Hanoi in June 2001, suggestion was made to convene a Working Group on Classifications issues. The main goal of this Working Group would be to provide inputs into the revision process for ISIC and the CPC. Among the issues to be examined are the detail and structure of the categories for agricultural products in the CPC and ISIC. If it is deemed necessary, the Group will provide a proposal for a more itemized structure, taking into account the existing detail of the Harmonized System. Additionally, it has emerged that outsourcing of manufacturing is a major concern to ASEAN countries. It was therefore concluded that the proposed Working Group should provide a particularized problem statement describing the industries involved and evaluating if and how this phenomenon could be reflected in the CPC and ISIC.

It is expected that the Working Group will arrive at consensual positions that can be presented as input into the revision process for the CPC. The activities of this Working Group are planned for completion by the fall of 2003.

A similar workshop has been planned for the Economic and Social Commission for Western Asia. This is scheduled for early 2003. It is hoped that similar concerted opinions will emerge directly from this Workshop or indirectly from a Working Group emanating from the Workshop. This will represent a further effort to reflect regional concerns in the revision of CPC.

Final draft of the revised CPC will be circulated for comment in mid-2004.