

FUTURE ROLE OF THE VOORBURG GROUP

Australian Bureau of Statistics

Introduction

1. This paper has been provided to assist discussion on the future role of the Voorburg Group. It is recognised that the group has made a valuable contribution over the years, particularly in respect of the development of the Central Product Classification as an improved international standard. However there have been concerns over the content of more recent agendas for the group and whether the current work program is focused sufficiently on priority areas. In addition both the ongoing development of the CPC and some of the new topics for the group, particularly issues relating to standards in the field of IT&T statistics, are being addressed in other international forums which have a more direct responsibility for these statistical fields.

2. More importantly, the March 1999 UN Statistical Commission meeting discussed organisational arrangements and work program issues of the various 'city groups' including the Voorburg Group (VG). The discussion resulted in a StatCom recommendation that the future focus of the VG should be on problems of services product prices. StatCom also recommended that the decision as to whether the CPC sub-group (of the VG) should also become a sub-group of the UN Expert Group on Economic and Social Classifications be made at the next meeting of the Expert Group. Extracts from the report of the StatCom meeting on these matters are at Attachment 1 to this paper.

3. The CPC sub-group is currently much more closely aligned with the work of the UN Expert Group and is currently reporting back to the VG largely for information only. Similarly, while Producer Price Indexes (PPIs) for services have been discussed at VG meetings, the subject has often been the victim of the broad agenda, with the meetings not always attended by the relevant price index specialists and discussion of the topic not always being adequate. This highly specialised field of statistics cannot be seriously progressed through the part-time focus of the current VG. It is believed that regular specialised and highly focused meetings are required, supplemented by on-going multi-lateral and bi-lateral dialogue in-between meetings.

4. Globalisation and industry deregulation have led to much commonality of services pricing practices in different countries. As a result there is a great deal to be gained in terms of efficiencies and the use of creative new approaches through national statistical agencies sharing experiences and knowledge just as the VG exchanged experiences on the development of surveys of the services sector (through consideration of model surveys) in the early days when services collections were in their infancy.

5. ABS believes that the VG should take the advice of the UN StatCom and, at least for a period of time, change its focus to make services price index work its key priority. There is much work to do in this field and all countries are seeking to share experiences and to develop an understanding of best practice in this field. This work should not continue indefinitely and the group should continually monitor its program and outputs and when its major goals are achieved, either disband or refocus on another area of services statistics that needs progressing.

A proposed Services PPI work program

6. Key objectives of a revamped Voorburg Group forum could include

(a) Sharing experiences in complex and challenging areas.

7. Countries which have investigated pricing in particularly complex industry sectors would benefit through exchanging ideas. Examples of such sectors include the following:

- The wholesale trade industry (13% of Australian market supply of services) and retail trade industry (12%) are particularly important, not only because of their size, but also the potential for their margins to be volatile in the short term. As such, these margins form a wedge between *basic prices* and *purchasers' prices* when analysing the price transmission process. A major challenge is provided by the fact that the margins we are striving to price are, in fact, "differences".
- Industries such as communications (6%) and finance and insurance (13%) have highly complex pricing methodologies, due to intense price competition following industry deregulation, coupled with rapid technological change and new product development.
- The scope of the exercise could include construction (both building and engineering) industry output because, although technically not a service industry, it has many of the complex characteristics, and hence associated pricing problems, of a typical service industry. Given that not many countries appear to have undertaken much research into

pricing in this area, it would be very valuable to share the limited experience.

(b) Providing leadership to national statistical agencies as they first embark on service industry pricing.

8. A limited number of countries have made substantial progress in developing service industry PPIs. Therefore there is scope for the more experienced countries to provide statistical leadership and support to new starters.

9. Taking a top down view, the very large and highly diverse range of industries can make the task appear very daunting when first starting out. Experience suggests it is better to start small and gain first hand practical and conceptual experience at a micro-level, rather than adopt a "big-push" approach.

10. It is necessary to appreciate that service industries often have particular characteristics that are different from many of the traditional goods industries eg, intangible outputs with quality change difficult to detect; unique, customised services; deregulating markets with intense price competition; bundling of services (eg "logistics"); and a prevalence of small businesses.

11. Accordingly, there is a need to be flexible and consider alternative pricing techniques such as specification pricing, input pricing, charge-out rates, pricing "standard" jobs and model pricing. Several of these approaches involve compromise of some form and may require exogenous adjustment.

(c) Investigating and developing statistical frameworks and aggregation techniques for producer price indexes.

12. In order to optimise the usefulness of new service industry PPIs, especially for macro-economic policy purposes, it is necessary to form high level aggregations of the indexes within integrated, statistical frameworks.

13. A number of national statistical agencies have undertaken unique research into techniques for achieving such aggregations. It would be extremely valuable to compare the pros and cons of the different techniques and, ultimately, document and evaluate the alternatives in the proposed international manual on PPIs (see below).

(d) Making a significant contribution to the development of an international manual on Producer Price Indexes.

14. The VG could provide practical support to the Technical Expert Group on the Producer Price Index (TEG-PPI) which is being organised by the IMF to prepare an international manual on PPIs. VG could discuss and provide comments on early drafts of the manual, as well as individual VG members authoring particular sections, etc.

15. In particular, the VG would be well placed to provide significant support to the Section of the proposed PPI Manual entitled *Treatment of specific products* (Section 14) which aims to take a case study approach looking at the conceptual and measurement issues on a product by product basis. The work associated with objectives (a) and (b) above would ensure VG is able to make a valuable contribution to this Section of the manual. Work associated with objective (c) would feed naturally into Section 11 of the manual on *Calculation of the Index*.

(e) Assisting the OECD in determining and implementing its future role in relation to the advancement of service industry producer price indexes within member countries.

16. The recent role of the OECD in this field has mainly been to catalogue national practices and compare methodologies. While this work has been useful, the Voorburg Group could make suggestions as to additional useful international work the OECD could coordinate and undertake.

Australian Bureau of Statistics
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Extract from Draft Report of the 30th Session of the UN Statistical Commission

A. Issues related to the Voorburg Group

9. The Commission:

(a) Recommended that the future work programme of the Voorburg Group be focused on problems of Service Product Prices.

B. Issues of classifications

10. The Commission:

(a) Endorsed the work programme as defined in the reports on statistical classifications (E/CN.3/1999/16, E/CN.3/1999/17 and the background documents to E/CN.3/1999/18) and agreed in principle with the strategies laid out in the reports;

(b) Recommended that the Expert Group on International Economic and Social Classifications should be the central coordinating body for implementing the proposed work programme and that its tasks should include classification revisions, practical proposals to bring about convergence of existing international and multinational classifications and review of the underlying principles. The Expert Group should work to improve the supporting materials for ISIC and the implementation, assessment and future revision of ISIC and CPC. The tasks proposed for the ISIC Task Force as defined in E/CN.3/1999/16 should be carried out by the Expert Group;

(c) UNSD should continue inviting all those agencies and countries who are key players in the development of international and multinational classifications and ensure representation of developing countries;

(d) Noted that UNSD is prepared to host the Expert Group meetings and provide funds for participation of developing countries;

(e) Recommended that the decision as to whether the CPC Subgroup will also be a subgroup of the Expert Group of Economic and Social Classifications be made by the experts at their next meeting.