

**RECOMMENDATIONS FOR CHANGES TO THE
SERVICES PART OF THE
PROVISIONAL CENTRAL PRODUCT CLASSIFICATION (CPC)**

**VOORBURG GROUP CONFERENCE
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The Classification Subgroup
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Report of the Voorburg Group on the Provisional Central Product Classification prepared for the twenty-sixth meeting of the United Nations Statistical Commission

INTRODUCTION

The Voorburg Group was formed at the request of the United Nations Statistical Office to assist in the development of the Central Product Classification for Services. The findings and recommendations of the Group were incorporated into the Central Product Classification (CPC), the final draft of which was considered and approved by the United Nations Statistical Commission at its twenty-fifth session in February 1989. The classification was subsequently published by the United Nations as the Provisional Central Product Classification (ST/ESA/STAT/SER.M./77).

Since the publication of the classification, the members of the Voorburg Group have adopted and tested selected areas of the Provisional CPC. They have developed model surveys to facilitate standardised data collection and they have undertaken further research.

At the eighth meeting of the Voorburg Group, UNSTAT requested that the Group prepare an interim report on the Provisional CPC for the twenty-sixth session of the United Nations Statistical Commission, to be held in February 1995.

METHODOLOGY

In response to the request of UNSTAT, the Voorburg Group created a Classification Subgroup to produce an interim set of recommendations based on a review of all the reported experience of the members of the Voorburg Group in using or implementing the Provisional CPC. The Subgroup met in Heerlen in May 1994 and reviewed those groups and classes of the services part of the CPC for which members of the Voorburg Group had reported their findings. It also took into account the experience of Eurostat and the CPA. The papers reviewed by the Subgroup are listed in the Bibliography. The review chose not to address the question of whether and how goods categories should be assigned to Trade.

The Report of the Voorburg Group on the Provisional CPC was approved at its ninth meeting held in Sydney, Australia in October 1994.

SCOPE AND COVERAGE OF THE REPORT

For this interim report, the Voorburg Group set itself a limited objective, that of reporting the experience of its members in applying or testing the Provisional CPC, as reported in the papers presented to the meetings of the Voorburg Group since the publication of the Provisional CPC. The papers are listed in the Bibliography at the end of the report. Where the

proposals of members were in conflict with one another, these were reconciled, in order to come up with one set of recommendations with respect to the structure and explanatory notes of the Provisional CPC.

During the course of discussion a number of, as yet, unresolved issues were noted. These are listed in Section 3.

Scope

The reported experiences of the Voorburg Group and the recommendations contained in this report fall within the Services part of the Provisional CPC, namely, Divisions 61 to 99.

However, even if there were papers relating to these areas, Public Administration Services (Division 91) and Trade Services (Divisions 61, 62 and 63) were treated as outside the scope of this review except for CPC 633, Repair services of personal and household goods.

Coverage

Number of CPC groups, classes and subclasses in scope for this review

(i.e. Total excluding Transportable goods, Non Transportable Goods, Trade, except repair, and Public Administration).

Total 3-digit groups in scope:	85
Total 4-digit classes in scope:	214
Total 5-digit subclasses in scope:	441
Total 3-digit groups entirely or partially reviewed:	33
reviewed entirely:	24*
reviewed partially:	7
model surveys which need further testing (plus 1 also included above*)	2
Number of subclasses in above:	214
Number of subclasses reviewed and accepted: (no changes proposed)	60
Number of subclasses changed: (not incl. renumbering if content unchanged)	88
Number of subclasses unresolved:	39
Number of subclasses not yet reviewed:	27
Total number of 3-digit groups not yet reviewed:	52
Number of subclasses in above:	227

THE REPORT

The report consists of two main sections:

1. The Structure of the CPC,
 2. The Explanatory Notes,
- and a third section
3. Outstanding and Unresolved Issues.

1. The Structure of the CPC

In this section of the Report, the recommendations of the Voorburg Group for each CPC in the selected areas are described, and certain outstanding issues are mentioned. The recommendations are also laid out in tables.

In each table, the classes of the Provisional CPC are shown in the first column and the Voorburg Group recommendations are shown in the second column.

Since the publication of the Provisional CPC, the United Nations published *A Model Survey of Computer Services*, which contained a revised set of CPC categories for computer services. Within the Voorburg Group, *A Model Survey for the Telecommunication Sector* was approved, which also carried a revised set of CPC categories for telecommunications. In these two cases, the main table shows the Voorburg Group's recommendations against the model survey categories and an additional table shows the relationship between the Provisional CPC and the model survey.

To explain the recommendations of the Voorburg Group, code numbers have been used except when there were none within the present structure which could be used at the three-digit level. When finalising the CPC, a complete review of the code structure for the Services part of the CPC will need to be undertaken in order to accommodate the recommendations and to balance the statistical importance of the various categories.

2. Explanatory Notes

For this report, no attempt has been made to completely rewrite the Explanatory Notes of the Provisional CPC.

Only in the case of three areas, CPC 752 "Telecommunications services", CPC 83 "Leasing or rental services without operator", and CPC 84 "Computer services" are the descriptive explanatory notes of the Provisional CPC to be completely replaced by those contained in these notes.

In all other cases, the notes provided in this report simply clarify the existing explanatory notes of the Provisional CPC, by providing a list of inclusions and/or exclusions. These inclusions and exclusions will need to be reviewed with the existing notes of the Provisional CPC and merged only after checking for duplication.

The task of rewriting the explanatory notes to correspond with the recommendations made for the structure remains. Where it has been recommended that classes be split or merged, the action required to finalise the Explanatory Notes has been indicated, but not yet carried out.

For the final version of the CPC, one of two approaches could be adopted. Either the descriptive text could be supplemented with inclusions and exclusions of product descriptions, or the descriptive text could be replaced by lists of product descriptions. The latter would be preferable for a product classification but it may be difficult to do unless service products, for which transactions occur and data can be collected, can be identified.

PROSPECTS

If the Statistical Commission wishes to adopt a final tested version of the CPC at its twenty-seventh session in 1997, the entire classification would have to be tested and reviewed by the middle of 1996. Given the fact that most Statistical Offices are only gradually introducing a product dimension into their programs of collection of services statistics, and that even the recommendations contained in this report are based on the experience of a few countries, it is very unlikely that the services part of the CPC, in its entirety, will have been tested by that time.

The Statistical Commission therefore has certain options.

1. To request and approve a revised version of the Provisional CPC at its twenty-seventh session in 1997, declaring the whole or parts of the Classification as remaining Provisional.
2. To approve a final version of the CPC whose formal structure does not exceed the four-digit level. Further, to request countries to provide data for international comparison, only up to the three-digit level of the classification, and to continue to consider revisions, amendments and changes to the four-digit level of the classification, at least until the end of the decade.

The fact remains that as the CPC is the only available international classification of services products, it is being used, even in its provisional form, as the basis for international trade in services classifications and negotiations.

Contribution of the Voorburg Group

For the twenty-seventh session of the Statistical Commission, it is possible for the Voorburg Group to undertake a review of the entire Services part of the CPC, that is Divisions 61 to 99, and to offer its recommendations on the structure and provide rewritten explanatory notes. It could ask its members to exhaustively review the Provisional CPC, the recommendations contained in this report, and the unresolved issues mentioned in the report, to draw on the experience of Europe in using the CPA, and any additional experience the members may have in using the Provisional CPC, in order to provide reports by the middle of 1995, which, in turn, would have to be reconciled in time for its tenth meeting in 1995. Between October 1995 and June 1996 the structure would have to be finalised and the explanatory notes rewritten.

To ensure real comparability, it is better to leave the CPC at a generally aggregate level. It is suggested that the formal structure of the final CPC be restricted to four digits, leaving it to individual countries to develop further detail to suit their own requirements. (The fifth-digit level could be left in the structure to serve as an illustration of the content of the four-digit level and as an example of possible further breakdown.)

Other Considerations

Providing the CPC with a consistent aggregation principle based on demand.

The aggregation structures of commodity classifications can be developed for at least two purposes.

Many countries find it useful to be able to define the industries of the Standard Industrial Classification both in terms of a description of activities or processes and their principal product outputs, the two exceptions being when industries are defined in terms of simple and integrated processes that can produce the same product, or when industries are defined in terms of processes that can produce alternative products. A product classification developed for this purpose can be described as an industry-of-origin classification. Such a classification brings together products that are produced together. If the classification brings together products that are produced using similar input structures or production functions, the classification can be described as using supply side principles.

The other approach is to develop a product classification which, at the detailed level, can be associated with industries, but with an independent aggregation structure that does not follow that of the industry classification. This structure can be based on a variety of principles. It is increasingly being recognised that a classification, that has an independent hierarchy that groups substitutes and complementary products in terms of demand characteristics and similarity of markets served, serves an extremely useful analytical purpose. It caters to the analysis of market share and import penetration.

The Statistical Commission could usefully consider the possibility of giving the hierarchy of the CPC a demand orientation. For example, in the Standard Industrial Classification, construction industries which put buildings in place are aggregated under Construction and the industries that provide architectural and engineering services are grouped under Business services. A demand oriented product classification would group architectural services, engineering services and other services related to construction together with the services of construction. Similarly, publishing services could be added to the new information retrieval and supply group recommended in this report, to create a more complete demand group.

Request for Discussion

What direction would the Statistical Commission like the CPC to take by 1997?

What are the views of the Statistical Commission with respect to the application of demand based criteria for the hierarchy of the CPC?

Would it like to see

- a) the present structure of the CPC take on a demand orientation
- b) an alternative demand oriented aggregation structure developed
- c) no change

What are the views of the Statistical Commission with respect to the finalisation of the Services part of the CPC in 1997, for those areas that can be regarded as having been tested and for those that can be reviewed but will not have been tested?

What are the views of the Statistical Commission with respect to the desirable level of detail for the Services part of the CPC?

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