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INTERNATIONAL STANDARD CLASSIFICATIONS EXPERT GROUP
ON HARMONIZATION OF STATISTICAL CLASSIFICATIONS

Summary of comments on the report of the Expert Group on
Harmonization of Statistical Classifications

Prepared by the Secretariat

SUMMARY

The Working Group on International Statistical Programmes and Co-ordination of the Statistical Commission, at its sixth session, recommended inclusion of an item on the agenda of the Commission, at its nineteenth session, on the harmonization of statistical classifications. The problem of harmonization was the subject of a meeting of an Expert Group (New York, September-November, 1974). The report of the Expert Group (ST/ESA/STAT/78) is available to the Commission as a background document.

The report of the Expert Group was widely circulated among national statistical offices and interested international organizations within and outside the United Nations system, with the request that comments on it be sent to the United Nations Statistical Office. The present document is a summary of the comments received. It begins with a brief review of the experts' recommendations; a summary of the comments follows; and it concludes with a reformulation of the proposed work programme of the Expert Group in the field of economic statistical classifications which reflects the views of those responding to the request for comments.

The Commission may wish to comment on the proposed programme of work and on the timing and priorities of the various projects.

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INTRODUCTION

1. In response to a consensus in the international statistical community that the time was ripe for an over-all review designed to improve the harmonization of statistical classifications, the Statistical Office of the United Nations convened an Expert Group to study and make recommendations for that purpose. The Group met in New York during September, October and November 1974 and submitted a report (ST/ESA/STAT/78) which is available to the Commission as a background document. In accordance with its terms of reference, the Expert Group made a number of recommendations and formulated a proposed work programme which distinguishes between short-term measures, i.e., projects which would require from two to four years to accomplish, and long-term proposals, i.e., projects which would take from four to eight years to complete. Some of the short-term recommendations and all of the long-term recommendations call for changes in established classifications with all that this implies for both producers and users of statistics.

2. The experts were naturally aware that changes in established international standards could be made only with the approval of the Commission. In order to facilitate the discussion by the Commission of the recommendations, the report was circulated to national statistical offices and interested international organizations within and outside the United Nations system, with the request that comments be sent to the United Nations Statistical Office. Replies were received from over 60 statistical offices throughout the world. The number and degree of detail of the replies indicate a high level of interest in classifications in general and harmonization in particular. The present paper summarizes the responses to the recommendations in numerical terms. As, however, the figures are based to some degree upon interpretations of general comments, they indicate orders of magnitude only and should not be read as if they were obtained from replies to a structured questionnaire. Furthermore, because the numerical summaries suppress certain details and qualifications contained in the replies, each summary is followed by a brief resumé of the comments dealing with the issue. It will be noted that on several questions opinion is divided, and on others, new or different notions are presented. In this situation it seemed appropriate to reformulate the recommendations and the proposed work programme to take account of the views of respondents.

3. Chapter II briefly outlines the recommendations. This is followed in chapter III by the numerical summary of responses and the resúmes mentioned above. Chapters IV and V contain proposals for further work in terms of priorities, time-tables and staffing.

I. ACTION BY THE COMMISSION

4. The Commission may wish to comment on the proposed programme of work and on the timing and priorities of the various projects.

/...

II. THE REPORT OF THE EXPERT GROUP

5. The Expert Group examined some 20 classifications in the course of its work. At an early stage in its deliberations, it came to the conclusion that the main problems lay in (a) relating commodity data classified on the basis of the Standard International Trade Classification 1/ (SITC) to their principal industries of origin as these are defined in the International Standard Industrial Classification 2/ (ISIC); and (b) relating data classified according to the various United Nations classifications to data classified according to the corresponding classifications used by the Statistical Office of the European Communities, by the Council for Mutual Economic Assistance (CMEA) and by other regional bodies, for the purpose of international comparisons.

A. Outline of recommendations

6. The Expert Group made the following five recommendations:

(a) To facilitate the linkage of commodity classifications with ISIC, there should be some revision of ISIC. (Annexes VII and X of the report contain examples.)

(b) Changes should be made in those SITC, Rev. 2 items 3/ where products of different industrial origin are combined; this should be done in connexion with the work of the Customs Co-operation Council (CCC) on its tariff nomenclature (CCCN) and its Harmonized Commodity Description and Coding System (HS). (Paras. 24-25 of the report deal with this matter.)

(c) To improve, in the short term, the relationship between (i) ISIC; (ii) the draft International Standard Classification of All Goods and Services (ICGS) (E/CN.3/457); 4/ and (iii) SITC, various approximate methods were outlined. (Paras. 22-33 of the report explain these methods.)

(d) To improve harmonization between ISIC and the "Nomenclature générale des activités économiques dans les Communautés européennes" (NACE) 5/ minor changes in both classifications were proposed. (Annex I of the report describes the current position.)

1/ United Nations publication, Sales No. E.75.XVII.6.

2/ United Nations publication, Sales No. E.68.XVII.8.

3/ "Items" are categories of goods at the most detailed SITC level.

4/ A revision of this document incorporating some of the recommendations is before the Commission (E/CN.3/493).

5/ Statistical Office of the European Communities, Luxembourg, 1970.

(e) As a long-term solution to the main problem of harmonizing commodity and activity classifications, and for other purposes, the Expert Group recommended the development of an international standard commodity classification for transportable goods, with supplementary classifications for non-transportable goods and for services. (Paras. 38-55 of the report give details concerning this recommendation.)

7. These recommendations were recast in the form of projects. (See para. 65 of the report.) Although it is not always explicitly stated, the projects which the experts felt could be accomplished in the short run arise from recommendations (b), (c) and (d) and those that would require an extended period to complete, from recommendations (a) and (e).

B. Framework for comments on the recommendations

8. The letter transmitting ST/ESA/STAT/78 contained a number of questions designed to provide a framework for the analysis of respondents' reactions to the recommendations. What follows is a restatement of these questions in somewhat expanded form.

9. The Statistical Office drew attention to the experts' statement that their short-term proposals would not require major changes in, nor replacement of, existing classifications, some of which had only recently been revised (for example, SITC, Rev.2) or were in final stages of development (for example, ICGS). But it was also pointed out that they did call for minor short-term changes in ISIC, an established classification, as well as more far-reaching changes in that classification in the longer term. Respondents were asked to state whether they wished to have ISIC revised and, if they did, whether they would also support the recommendation to make minor changes in ISIC prior to a major revision.

10. The purpose of minor changes in the detailed structure of ISIC would be to improve harmonization between SITC and ICGS. As, however, the Statistical Office did not feel it should make even small changes in ISIC without Commission approval, the current version of ICGS does not make use of this recommendation. A number of other measures recommended for harmonizing SITC and ICGS have been applied in the course of revising the draft ICGS (e.g., in cases where the resulting error is small, allocation of a complete SITC item to one or more ICGS categories under a single ISIC group, even though some of the goods of the SITC item are the typical output of another group).

11. To further improve harmonization between ISIC/ICGS and SITC, the experts proposed that a study be made of the scope of those SITC items which contain goods of different industrial origin with a view to restricting their content to goods of a single ISIC four-digit group. Such items should be amended (a) by division into two or more parts when the goods involved are important in international trade and sufficiently distinctive to be recognizable to customs officials; or (b) by the transference of goods from one to another existing SITC item when the goods involved are relatively unimportant in international trade. The experts were aware that both measures could only be carried out with the concurrence of the CCC

and that nothing should be done to disturb the one-to-one relationship between SITC and CCCN. They also recognized that measure (a) would probably result in an increase in the number of SITC items and the establishment by the CCC of additional statistical subdivisions to the CCCN. Implementation of measure (b) might be more complicated because of the rules governing changes in CCCN. Nevertheless, the experts felt that the time was opportune for this work, as changes in CCCN would probably be required in connexion with the development of HS. The experts were also aware that formal changes in SITC could not become effective for several years and, as a temporary solution, proposed that a list of items which were candidates for division should be sent to countries so that they can, if desired, start collecting data for their own use without waiting for a formal change in SITC. Respondents were asked to comment on this proposal.

12. Two proposals were made to improve the usefulness of ICGS. The first called for preparation and publication of a summary of SITC groups, subgroups and items allocated to each of the four-digit groups of ISIC. Such a summary would be helpful to countries wishing to make use of commodity data at the level of ISIC groups, combinations of groups or major groups.

13. The second proposal called for the preparation of a list of "common groupings" between ICGS and SITC. Such groupings would be composed of three or four ICGS subclasses 6/ and three or four SITC items where such combinations contained the same, or virtually the same, collections of goods. Such a list would, it was thought, comprise 500-1,000 entries. The list of "common groupings" would improve the usefulness of ICGS by providing a practical correspondence between ICGS and SITC for comparison of production and external trade statistics. It would also, it was believed, provide a point of departure for establishing the contents of categories in the standard commodity classification proposed by the experts as the long-term solution to the harmonization problem. Respondents were asked to comment on these proposals and to indicate, if possible, the priority which should be assigned to such work.

14. Respondents were requested to give their views on the main solution to the problem of harmonization. The experts called for construction of a general-purpose commodity classification designed in terms of the main purposes to be served. Such a classification, they explained, would be based upon characteristics of the commodities themselves; would contain a number of levels, including a level corresponding in detail (but not necessarily in content) to the most detailed level of SITC; and would provide groupings at relatively aggregate levels (i.e., for something less than 100 categories) that would be sufficiently homogeneous with respect to principal industry of origin and, so far as possible, to other important criteria as well. They said that such a classification would be an instrument for the assembly and tabulation of commodity statistics from all sources; that it would act as a co-ordinating influence in commodity statistics by providing a focus for the harmonization of existing classifications; and that it would provide a basis for the development of special-purpose commodity classifications, as needed. The experts believed it would be possible to develop such a classification with a structure based upon either (a) aggregate categories of the Classification by Broad Economic Categories (BEC) 7/ where the main criterion is the use to which goods are

6/ "Subclasses" are categories of goods at the most detailed ICGS level.

7/ United Nations publication, Sales No. E.71.XVII.12.

put, or (b) relevant ISIC divisions where the main criterion is activities of establishments. They favoured a structure based upon BEC.

15. On this proposal, respondents were asked the following questions:

(a) Has your country or organization had any experience with the construction and use of such a classification?

(b) Should a general-purpose commodity classification be developed? Should it be based on modified BEC groups as recommended by the experts or should it be based on industrial origin?

(c) Would the benefits of such a reference classification be greater than its costs, including the costs of breaking continuity of current statistical series?

16. Finally, respondents were requested not to limit themselves to the questions raised but to give as wide-ranging replies as necessary.

III. SUMMARY OF COMMENTS

17. As stated in paragraph 2, replies were received from some 60 statistical offices. More specifically, national statistical offices responding to the request for comments numbered 44; specialized agencies, regional commissions and other United Nations organs numbered 11; and interested organizations outside the United Nations system numbered 5. In the numerical summaries that follow, no distinction by source is made. Such a distinction would not have changed significantly the proportionality of the responses. Similarly, responses supported by detailed arguments were not distinguished from those limited to statements of preference. As, however, the arguments advanced in the in-depth responses are important in interpreting the numerical summaries, each numerical summary is followed by a resumé of those arguments. A strong effort was made to compose the resúmes in as objective a manner as possible. It should be stated, however, that many respondents dealt with the questions somewhat obliquely or from unusual perspectives and therefore the resúmes, as well as the numerical summaries, necessarily contain elements of interpretation. As one respondent put it: "Our comments on the recommendations of the Group of Experts are perhaps not a direct reply to the questions raised ... We hope, however, that our views on these questions will appear ... at least indirectly."

A. Numerical summaries and resúmes

Question 1. Should minor changes be made to ISIC now to improve the harmonization between ISIC/ICGS and SITC?

Number in favour 16

of which: in favour with
reservations 6

Number indifferent	5
Number opposed	19
of which: opposed with reservations	5
Total responding to question 1	40

18. Of the six respondents expressing reservations but agreeable to minor changes in ISIC now, four took issue with particular proposals for changes made by the experts and a fifth would not adopt such changes prior to a major revision. Those opposing minor changes in ISIC felt that the result would be confusion and instability, and hardship for a number of countries that were in the process either of adopting ISIC or of changing from the 1958 to the 1968 version of the classification. Several respondents were concerned about the number of changes contemplated. Three of the five opposed to minor changes, but with reservations, felt that such changes ought not to be made if a major change were contemplated.

Question 2. Should a major revision of ISIC be undertaken?

Number in favour	9
of which: in favour with reservations	8
Number indifferent	1
Number opposed	4
of which: opposed with reservations	1
Total responding to question 2	14

19. Only 14 respondents dealt explicitly with this question, but nine were in favour of a major revision of ISIC. However, no less than six made their acceptance of this proposal contingent upon its being co-ordinated with a revision of NACE, the activity classification of the European Communities. One respondent made the point that ISIC is the international standard and that the only justification for revising it is to improve and solidify this role, including that of a co-ordinator of the activity classifications employed by regional bodies outside the United Nations system.

Question 3. Should changes be made in SITC to improve harmonization by:
 (a) creating, from one SITC item, two or more items when the goods involved (i) originate in more than one ISIC group; (ii) are important in international trade; and (iii) are recognizable by customs officers; and (b) transferring goods from one to another existing SITC item when the goods involved are relatively unimportant in international trade?

Number in favour	11
of which: in favour with reservations	1
Number opposed	20
of which: opposed with reservations	6
Total responding to question 3	31

20. Most of the respondents opposed to this recommendation were concerned about changes in a classification which had only recently been revised and by which countries were requested to begin reporting foreign trade statistics by 1 January 1976, if possible. A number of these respondents urged the Statistical Office to approach the problem of the industrial origin of SITC items through HS. If HS took into account the industrial origin criterion, it should be possible, in future, to produce a third revision of SITC in which items of mixed industrial origin would not be present. (It should perhaps be pointed out that the experts also took this position and their proposal for splitting items or transferring goods from one to another existing item did not call for changing SITC now but rather was a step in the preparation of a list of items which were candidates for division. Such a list, they felt, could be used by countries to start collecting data on such items for their own use, without waiting for a formal change in SITC which would not become effective for a number of years. Divided items would not be incorporated in SITC without the concurrence of CCC and this would not be possible for several years. Whether such a list should be prepared is the next question.)

Question 4. Should a list of SITC items which are candidates for "splitting" be prepared?

Number in favour	8
of which: in favour with reservations	3
Number opposed	12
of which: opposed with reservations	1
Total responding to question 4	20

21. Two of the respondents in favour of such a list made their agreement specifically contingent upon prior agreement of the CCC. Several of those in favour without reservations nevertheless had some doubt as to the practicality of the proposal. This was also the reaction of most of those who were against the preparation of such a list. A few of those in favour, as well as a number of those opposed to the publication of such a list noted that it would be a needed working document in connexion with Statistical Office participation in the work of constructing HS.

Question 5. Should a table summarizing SITC references for each ISIC group be included as an appendix to ICGS?

Number in favour 18
of which: in favour
with reservations 2
Number indifferent 2
Number opposed 3
of which: opposed with
reservations 2
Total responding to question 5 23

22. The proposal to prepare a table of SITC references for each ISIC group and to append it to ICGS received the approval of most of the respondents to this question. Several respondents were interested in knowing whether it might not be more useful to cross-reference SITC items with ICGS subclasses within ISIC groups. There was also interest in an index to ICGS.

Question 6. Should a list of common groupings be prepared?

Number in favour 14
of which: in favour with
reservations 4
Number opposed 2
Total responding to question 6 16

23. A very large percentage of those responding to this question felt that a list of common groupings would be useful. There was, however, some disagreement as to timing. One respondent stated that common groupings should be made before publishing the final version of ICGS, because more meaningful groups might be formed if it were possible to modify ICGS slightly. However, other respondents were anxious not to delay the completion of ICGS. Of the four respondents in favour but with reservations, two were concerned about the fact that some of the common groupings would contain goods from more than one industry. One of the two stated quite strongly that such groupings should be created only if they did not cross industry lines.

Question 7. Does your country or organization have experience with a commodity classification similar in structure to the one recommended by the experts as the long-term solution to the harmonization problem?

Number with experience 6
of which: with good
results 3
not fully satisfactory 1
under development 2

Number without experience	20
Total responding to question 7	26

24. The number of respondents with experience in constructing and using a classification of a type recommended by the experts is very small, and even this number may be an overstatement as only one (possibly two) has a general-purpose reference classification based upon the characteristics of the goods themselves; furthermore, the respondent indicated that the classification did not achieve the complete integration of classifications that was expected. Those reporting good results and those developing such a classification use industrial origin, not the characteristics of goods, as the basic criterion. Three respondents among the 20 that do not have experience with such a classification reported that they have developed an extended version of the CCCN, consisting of as many as 5,000 individual transportable goods, and employ it as a standard nomenclature. Both foreign trade and production data are collected according to the nomenclature 8/ but it is not used to aggregate the data in analytically interesting ways. For this purpose, classifications using criteria which produce such aggregates have to be employed. For these respondents, harmonization means the establishment of links between the different classifications so that common aggregates can be formed.

Question 8. Should a general-purpose reference classification be developed?

Number in favour	25
Number wishing to examine the matter further	3
Number opposed	7
of which: in favour of development of an international nomenclature	3
Total responding to question 8	35

8/ The three respondents make a distinction between a "nomenclature" and a "classification". In their report, the experts make the same distinction: the term "nomenclature" describes a system of names, especially the names used in classification; and the term "classification" describes a systematic arrangement in groups or categories according to some definite plan.

Question 9. (Applicable to respondents replying affirmatively to question 8.)
Should the general-purpose reference classification be based
(a) upon modified BEC groups as recommended by the experts or
(b) on industrial origin?

(a) Number favouring BEC base 7

(b) Number favouring industrial origin base
(either totally or partially) 16

of which:

favouring ISIC base 11

favouring industrial origin
and other bases at different levels 5

Number wishing to examine question of
base further 2

Total responding to question 9 (i.e., responding
affirmatively to question 8) 25

25. The numerical summary for question 8 shows that a large proportion of respondents agreed with the experts that the problems of harmonization could best be solved by constructing a general-purpose or reference commodity classification. However, question 9, dealing with the base upon which to structure the classification, gave rise to considerable difference of opinion. Those favouring an ISIC base formed the largest group. Of the five respondents favouring different bases at different levels, all indicated that industrial origin should be the base of one of the levels. Virtually all respondents in favour of a standard commodity classification thought it expedient to use the goods distinguished by HS as building blocks. A number of respondents felt that the experts had understated the limitations of a classification based on BEC, which were thought to be not less than those encountered in a classification by principal industry of origin: (a) the number of goods with a single industry of origin is probably greater than the number with a single end use; (b) the main economic use is no more a characteristic of a good than its principal industry of origin; (c) a classification by use often separates goods which are closely related in production; (d) it remains to be demonstrated that goods are more stable in use than in production; and (e) it cannot be taken for granted that a classification by end use is the one most suitable for purposes of economic analysis. Several respondents were concerned that the experts did not stress sufficiently that a most important purpose of a goods classification is to reinforce the role of the national accounts and balances as an instrument for the co-ordination of economic statistics. It was said that a classification based on modified first-level categories of BEC did not satisfactorily fit into the framework of the national accounts and balances. One based on principal industry of origin, such as ICGS, would correspond with one of the basic criteria used in delineating the structure of the national accounts and balances. But in order to perform fully its co-ordinating role, a goods classification would have to take into account the

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three basic categories of end use in the System of National Accounts 9/ (SNA), as well as principal industry of origin. One respondent produced an outline of such a classification.

26. In connexion with question 8, respondents were asked to state whether the benefits from the establishment of a general-purpose reference classification outweighed the costs involved, particularly the costs of interrupting continuity of time series. Only 13 respondents dealt with this question and of these, four came to no definite conclusion. As could be predicted from the responses to question 8, seven of the nine taking a position were convinced that the benefits outweighed the costs. The two taking the opposite view both remarked that the experts treated too lightly the reclassification problems that arise when new classifications are introduced or changes are made in existing classifications. The fact that computers are available does not eliminate the need for time-consuming appraisals of the statistical materials involved.

B. Other comments

27. Finally, respondents were requested not to limit replies to the specific questions raised in the letter transmitting the Expert Group's report but to provide as wide-ranging a reply as necessary. A summary of the responses to this request is given below.

28. A number of respondents favouring construction of a general-purpose reference classification, as well as a number not supporting the development of such a classification, felt that harmonization could best be accomplished by first developing an international nomenclature of transportable goods. Such a nomenclature would provide building blocks which could be assembled either into a general-purpose reference classification or into special-purpose classifications which would have clearly defined links to each other at some given level. Virtually all of those making this observation felt that HS might be such a nomenclature, provided it took account of certain criteria, particularly the industrial origin criterion. It was emphasized that it was important to influence HS in this direction. Furthermore, it was indicated that a nomenclature of non-transportable goods and services would also be helpful and that an attempt should be made to produce one.

29. The question of the relationship between the proposed general-purpose goods classification and ICGS interested a number of respondents. Several took the position that nothing should interfere with the completion of ICGS even if it was decided to go ahead with a multipurpose reference classification. The need for ICGS had long been recognized. In this regard the experts stated that an ICGS-type classification could be derived from their proposed general-purpose classification but this outcome was perhaps 10 or more years in the future. At that time the more detailed levels of the general-purpose classification, which would be related to CCCN through the six-digit groups of HS, could become SITC, Rev.3. However, the experts did not specifically deal with the role of ICGS

9/ United Nations publication, Sales No. E.69.XVII.3.

should it be decided that the general-purpose classification be based upon industrial origin, nor did they indicate the relationship between such a general-purpose classification and a third revision of SITC. It has to be considered whether ICGS, suitably modified, would be a model for such a classification. Experience gained in using ICGS over the next decade or so would be most useful in this connexion. However, a few countries had reservations about the usefulness of ICGS as a model for national goods and services classifications.

30. A few respondents welcomed the fact that the experts' long-term recommendation called for the construction of separate classifications for transportable goods, for non-transportable goods and for services. It was said that the problems connected with each of these subfields differ from each other to such an extent that each should be treated separately. But one respondent took issue with the experts on this matter and pointed out that supplementary systems for non-transportable goods and services which were not directly related to ISIC would necessitate undesirable cross-reference coding.

31. Finally, a considerable number of respondents limited their replies to general expressions of approval of the experts' recommendations. One respondent, however, felt that the present situation did not require any changes to existing classifications or the development of new ones.

IV. RECOMMENDATIONS FOR AN INTEGRATED PROGRAMME OF WORK IN THE FIELD OF CLASSIFICATIONS

32. Ranking the numerical summaries given in chapter III.A by degree of acceptance, in descending order, gives the following result:

<u>Rank</u>	<u>Numerical summary: number and title</u>	<u>Number in favour over number responding</u>	<u>Per cent</u>
1.	6. Should a list of "common groupings" be prepared?	14/16	87.5
2.	5. Should a table summarizing SITC references for each ISIC group be included as an appendix to ICGS?	18/23	78.3
3.	8. Should a general-purpose reference classification be developed?	25/35	71.4
4.	2. Should a major revision of ISIC be undertaken?	9/14	64.3

/...

5.	9 (b) If you favour the development of a general-purpose reference classification, should it be based upon industrial origin either totally or partially?	16/25	64.0
6.	1. Should minor changes be made to ISIC now to improve the harmonization between ISIC/ICGS and SITC?	16/40	40.0
7.	4. Should a list of SITC items which are candidates for "splitting" be prepared?	8/20	40.0
8.	3. Should changes be made in SITC to improve harmonization by (a) creating, from one SITC item, two or more items when the goods involved originate in more than one ISIC group and are important in international trade; and (b) transferring goods from one to another existing SITC item when they are relatively unimportant in international trade?	11/31	35.5
9.	9 (a) If you favour the development of a general-purpose reference classification, should it be based upon modified BEC groups?	7/25	28.0

33. It should be noted that the numerical summary of question 7, which concerned national or international experience with a general-purpose reference classification like the one recommended by the experts, has been omitted from the ranking as it does not have a work programme element. This should leave eight summaries to be ranked; there are, however, nine in the listing because the numerical summary for question 9 has been divided into separate parts to show clearly that more than two thirds 10/ of those favouring the development of a general-purpose reference

10/ With the exception of question 9 (a) and (b), the percentage calculations are based upon the number of respondents commenting on each question, both favourably and unfavourably. For question 9 the base was limited to the number of respondents favouring the development of a general-purpose reference classification.

/...

classification felt that, at some level, it should take specifically into account the industrial origin of goods.

34. The general conclusion to be drawn from the ranked numerical summaries is that effort should be concentrated on a long-term comprehensive solution to the problem of harmonization and that little or no effort should be expended on minor changes to existing classifications. This conclusion is based upon the degree of acceptance accorded items ranked 1 to 5 - 64 per cent or more in favour - which may be contrasted with the degree of acceptance accorded the last four ranks - 40 per cent or less. Some work will, however, have to be done on the seventh and eighth ranked items to provide needed inputs to the first five items in the form of data or guidelines but it will not result in documents or publications.

35. The first five items need to be organized into an integrated programme with a definite objective or focal point and interim goals or stepping-stones by which progress can be judged and adjustments in content and direction can be made periodically. An outline of such a programme is given below. Its elements are modifications of recommendations of the Expert Group. For this reason, and for reasons of brevity, it largely omits background and supportive materials which are to be found either in the report of the Expert Group - which, on the basis of the comments received, may be said to have met with a relatively high degree of acceptance - or in the summary of comments given in chapter III.

36. The main objective of the programme, the end result, would be a classification of both goods and services (or separate but closely related classifications of transportable goods, of non-transportable goods and of services) designed chiefly for the assembly and tabulation of both production and international trade data. 11/ On one level it would be directly linked to ISIC and, if possible, with other widely used activity classifications; it would maintain the one-to-one relationship with CCCN by adopting the structured nomenclature of HS as building blocks; and it would delineate goods and services in so far as possible according to the three basic categories of economic use as specified in SNA. It is probable that from such a classification can be derived special-purpose classifications such as are employed by certain specialized agencies, as well as by the United Nations Statistical Office, but its main purposes would be the harmonization of activity, production and trade data, and the strengthening of the role of the national accounts and balances as an instrument for the co-ordination of economic statistics. Whether it would have much wider application, that is, whether it would be the general-purpose reference classification envisioned by the Expert Group need not be predetermined; the uses outlined above and the harmonization of data flows by means of such a classification are sufficient justification for its existence.

37. So that the proposed classification will perform its functions efficiently, it is essential to adapt the underlying structures upon which it is to be based to its needs and to ensure that its design causes minimum disruption of existing statistical series. This requires changes in ISIC; 12/ it requires the introduction

11/ See items ranked 3, 5 and 9 in para. 32.

12/ See item ranked 4 in para. 32.

of the industrial origin criterion in HS; the preparation of "common groupings" ^{13/} and the preparation of a table summarizing SITC references for each ISIC group as an appendix to ICGS. ^{14/}

38. Much of this work would have to be done whether or not it gives the production/trade classification as its end result. For example, there are very good reasons for incorporating the industrial origin criterion into the structure of HS; and it will doubtless be necessary to revise ISIC early in the decade 1979-1988 to take account of significant changes in the relative importance and organization of various kinds of economic activity which have taken place since the last revision of the classification in 1968. Even if work were to start on an ISIC revision directly following the nineteenth session of the Commission, which is quite unlikely with the available resources, it would require five or more years to complete. However, by focusing on a long-term objective as is here proposed, it may be possible to overcome one of the larger stumbling blocks to harmonization; namely, the construction at different times of independent goods classifications, each of which is based upon somewhat different criteria.

39. Perhaps the most urgent matter is for the Statistical Office to intensify its participation in the work of the Harmonized System Committee with a view to introducing the industrial origin criterion into the structured nomenclature and, to the extent possible, into the CCCN which will itself undergo certain modifications in connexion with work on HS. An important tool for this work is ICGS which shows for each of its subclasses whether or not the relevant SITC items contain goods of more than one ISIC industry group. An HS which takes account of the industrial origin criterion provides the type of building blocks needed to construct an international trade/production classification. It would also constitute an international goods nomenclature, a device that has been missing from the international statistical tool-kit.

40. It may be noted that this project does not figure in the ranked numerical summaries. It was, however, one of the recommendations of the experts and was strongly endorsed by a number of respondents. It will require the Statistical Office to study, contribute to and comment on the documentation prepared by the Harmonized System Committee over the next several years.

41. The proposal to form "common groupings" received a high percentage of positive responses, although the number of respondents dealing with this question was small. In recommending the preparation of a list of "common groupings", the experts were mainly concerned to improve harmonization between ICGS and SITC in the short run and to provide at an intermediate level - between the eight- and six-digit level of ICGS - aggregates that would be useful in analyses involving both production and external trade data. But they also felt that such groupings provided a point of departure for establishing the content of the detailed levels of the general-purpose classification. "Common groupings" would serve the same purpose in the construction of the more limited trade/production classification.

^{13/} See item ranked 1 in para. 32.

^{14/} See item ranked 2 in para. 32.

42. The preparation of a list of "common groupings" could follow or precede publication of ICGS. The argument for its preparation before publication of ICGS rests on the fact that more exact, simpler or more meaningful groupings might be obtained by slight modification in the content of some ICGS subclasses. In any case, the version of ICGS before the Commission (E/CN.3/493) will no doubt require some changes before publication so as to take account of the Commission's reactions to the draft. Moreover, suggestions for modifying ICGS are still being received from national statistical offices. For technical reasons, it will not be possible to incorporate such changes until after the Commission meets. It is, therefore, proposed to prepare the list of "common groupings" at the same time that the final version of ICGS is prepared for publication. The list will not, however, be an integral part of ICGS but will be distributed in mimeograph. If it proves as useful as the experts believe it will be, it can later be produced in a more permanent form.

43. The preparation of a table summarizing SITC references for each ISIC group also received substantial support from respondents. As is true of other parts of the integrated programme, such a table would have other applications in addition to its use in connexion with the construction of the trade/production classification. For one thing, it is necessary to revise the widely used publication that gives the links between SITC and ISIC. ^{15/} It is now outdated because it is based upon the 1961 version of SITC. There are several ways to present the material; for example, it could, as is now the case, remain an independent publication or it could be attached as an appendix to ICGS as was proposed by the experts. A decision on the matter of place and form is probably best delayed until the views of the Commission are known on the programme as a whole.

44. One of the more difficult and far-reaching projects in the programme is the revision of ISIC. As mentioned earlier, such a revision will be necessary during the coming decade whether or not a trade/production classification is developed. It would, therefore, be only logical to use the opportunity to take into account in the revision the needs of the proposed trade/production classification. One such need is to provide a better link between trade data and the principal industry of origin of the products concerned. The revision should also take into account the need to harmonize ISIC and activity classifications employed by regional organizations. In other words, the work of revising ISIC should be co-ordinated with (perhaps done simultaneously with) revisions of similar classifications of the European Economic Community, the Council for Mutual Economic Assistance and other regional bodies so as to strengthen the role of ISIC as an international standard. In this role, ISIC must continue to reflect accurately industrial organization and structure and nothing should be done to impair this.

^{15/} Classification of Commodities by Industrial Origin: Links between the Standard International Trade Classification and the International Standard Industrial Classification (United Nations publication, Sales No. E.71.XVII.15). The title of the document is perhaps misleading; it is not a classification but only a correspondence key between SITC and ISIC.

V. TIMING AND PRIORITIES

45. If the programme outlined above is approved by the Commission, and the current staffing position of the Statistical Office remains stable, the period from (late) 1976 to 1978 would see (a) intensification of participation by the Statistical Office in the work of constructing HS (such work is likely to extend beyond 1978); (b) preparation for publication of the final version of ICGS by mid-1978; (c) preparation of a list of "common groupings" by late 1978; and (d) preparation of a correspondence key between ISIC/ICGS and SITC, Rev. 2 by early 1979. It may be recalled that there was a suggestion to prepare the list of "common groupings" before publishing ICGS. It was thought that the list would reveal instances where small changes in ICGS would lead to a strengthening of the relationship between ICGS and SITC. Should this procedure be followed, ICGS would be published at the same time as the list of "common groupings", namely, late 1978 or early 1979.

46. After completing the projects outlined above, the period 1979-1983 would be devoted to revising ISIC. It is to be hoped that this period would be acceptable to other organizations with whose activity classifications it is desirable to co-ordinate the revised ISIC. No doubt, a number of drafts will be prepared for submission in successive years to regional meetings, to all national statistical offices, and finally to the Commission. Five years is believed to be a conservative estimate of the time required for the necessary consultations and completion of the revision. If it is completed by 1983, the current version will have been in use for 15 years. This is a long time considering the dynamic character of the world economy.

47. Finally, work on the preparation of the combined trade/production commodity classification could begin shortly before the ISIC revision is finished, possibly in 1982. It is difficult to estimate how long it will take to complete this work. A very rough estimate of the completion date would be 1988. By this time, ICGS will have been in existence for 10 years and SITC, Rev.2, for 12 years. Experience gained in using ICGS during this period will be invaluable in constructing the proposed trade/production classification.