

Background document for agenda item 7(a)  
Statistical Commission, 5-8 March 2002

### **Questionnaire on main issues for the revision of ISIC and CPC for 2007 Preliminary findings**

The United Nations Statistical Commission at its sessions in 1999 and 2000 agreed to a timetable and set goals for revising the International Standard Industrial Classification (ISIC) and the Central Product Classification (CPC). Considering the relationship and timetable of revisions for other classifications, it was recommended that updates or revisions of these classifications be carried out in 5 year intervals, specifically an update in 2002 and a revision in 2007. A goal for the ISIC revision for 2007 is to bring about convergence between major existing activity classifications. As a first step in a worldwide evaluation process to define the scope of the revision to ISIC in 2007, a questionnaire was sent to 235 countries and international organizations to collect views on the main issues to be addressed.

To ensure that the classifications remain useful tools for compiling statistics at the national level and for international comparison, input from a variety of users of the classification into the revision process is necessary. This questionnaire was a first solicitation of proposals, description of problems and general comments on the current version of ISIC that countries and other users wish to be considered in the revision process. The Technical Subgroup of the Expert Group on International Economic and Social Classifications identified an initial list of issues that need investigation and discussion. This list does not attempt to be exclusive. It can only serve as a guideline for input from countries into the revision process.

The questionnaire was divided into three sections, dealing with:

Conceptual and structural issues;  
Cross-cutting issues;  
Boundary definition and detail issues.

The Technical Sub-group has analyzed responses received to date from 45 countries and organizations and presents here preliminary findings for nine of the 17 questions in the questionnaire. These nine questions were selected as they deal with fundamental issues regarding the scope of the revision or some high profile specific issues. Each of the nine questions is presented below, followed by a summary of the responses received to date.

1. ISIC is a classification of economic activities, which are grouped together into categories from lower to higher levels of detail. Different criteria can be used to group activities, such as the inputs used, the nature of the production process and the type of outputs produced. Currently, the criteria used by ISIC differ in various parts

of classification, depending on the sector. Should one or more of these criteria be applied more consistently in the revised ISIC?

The preponderance of opinion is that production process and type of product produced should both be used, as appropriate, in a pragmatic way, rather than any one criterion applied in a dogmatic way. There was near consensus, however, that, within sectors, a single criterion should be applied consistently.

2. There is a relationship between economic activities and products. The former lead to the production of the latter. The definition of products in existing or revised product classifications, such as the Harmonized System (HS) and CPC, can be used to define the boundaries of activity categories. The relationship between the two types of classifications can range from complete independence to strict linkage on a one-to-one basis. To what extent should the ISIC revision take into account relevant product classifications?

Half of the responses indicated that the product and industry classifications should have a strict relationship, while the other half indicated that product and industry classifications should be independent or related but not strictly.

3. The application of the classification principles leads to the definition of categories at various levels of detail. Is the level of detail in ISIC adequate? Should more detailed categories be introduced and if so, in what sectors and for what purpose? Should more detail be added to better reflect the informal sector of the economy? Are there areas of ISIC in which there is too much detail? Which ones and why?

Given the nature of this question, even with only 45 responses, the distribution of the remarks or requests nearly covers the entire classification. Many suggestions are also contradictory. In general, there is no great demand for additional detail. ISIC, as an international classification, must reflect the needs of all countries, developed, developing or in transition. Excessive detail makes this more difficult to accomplish. Nevertheless, the need for further detail is expressed fairly consistently for specific activities such as services, the information sector, new technologies, tourism, health, culture, environment and other satellite account domains, the primary sector (by developing and transition countries), construction, telecommunications and business services. Little support was expressed for further detail to better reflect the informal sector.

4. Currently ISIC has 17 tabulation categories, which are the highest level groupings in the classification structure. Are there too many high level categories? Why? Should any be combined? Alternatively, should any new categories be created at the highest level? Which ones?

Out of 36 responses, 28 say that some change is necessary (although most say that 17 categories are around the right number), and 8 say that no change is required. One third of respondents (13) mention Section K (Real estate, renting and business activity) and the need to elevate some of the divisions into sections. In particular, real estate activities and renting, and computers and related activities should be elevated to separate sections. One quarter (9) of respondents indicated a need for an Information sector. One quarter (8) suggested that Section I (Transport, storage and communications) needs to be changed. Transport should be separate, as should telecommunications.

There was general agreement that the number of tabulation categories (17), is about right. However, the majority of respondents advise that the categories need to be changed, especially in the services area. For example, in the Real estate, renting and business activity category, some of the divisions should become sections while there was broad agreement for an Information sector.

5. The application of the classification requires that certain rules be followed to classify observed units correctly. Certain rules deal with the classification of units engaged in multiple economic activities. Should the rules regarding the classification of units engaged in vertically integrated activities and other types of combined activities be changed? What about the rules for top down coding? Or the use of value added to determine which activities will determine the code for a unit engaged in multiple activities?

On the use of the “top-down” method to decide principal activity, the preponderance of opinion is in favour and so the present treatment in ISIC should be retained. As regards the use of Value-added when deciding principal activity, while most respondents admitted that in real life information on value added often did not exist, still they believed that it should continue to be used as conceptual reference. Therefore, the present treatment in ISIC should be retained. Finally, the rules for classifying vertically integrated units, there was no clear guidance, but an indication that that the present rule in ISIC is too restrictive.

6. Considering time series, what are the requirements for stability of the classification in the 2007 revision, whether in terms of codes, at certain levels of detail or the ability to link with the current version of ISIC?

Of 32, 8 gave absolute priority to the classification reflecting the changing economy, 2 agreed but felt that perhaps only certain sectors needed to be updated, 2 believed that stability and relevance should have equal weight, while for 13 stability were most important. The respondents were split 50-50 between wanting a classification that reflects a changing economy, and those for whom stability is the most important.

7. How should ISIC reflect the growing importance of information in the economy and in society? Should a high level category be introduced to deal with this? What should the boundaries be? The OECD has defined Information and telecommunication technologies (ICTs) whereas NAICS has adopted the Information sector (division 51). To what extent should the ISIC revision be guided by these examples?

From the 46 responses, 34 responded to this question and almost all replies (32) were positive as regards incorporating ICT and/or Information as a sector. The OECD definition was acceptable for 13 countries (28 %). The necessity of incorporating ICT in ISIC or as alternate aggregation of ISIC was mentioned by 20 countries or 59%, while the present NAICS structure for an Information Sector, sometimes combined with communication, was favoured by 14 countries (40 %).

8. Should new detailed categories be introduced to facilitate the compilation of:
- Environmental activities?
  - Tourism characteristic activities?
  - Others?

There is general consensus in support of alternate aggregations. Several countries noted the different concepts behind those “industries”, making them difficult or impossible to address in an activity context. They usually emphasized the use of alternate aggregations or even alternate classifications. Most countries support the creation of additional detail for this purpose, sometimes based on external classifications, although it was also cautioned not to overburden the classification with these details.

Since alternate aggregations may imply/require changes to classes, it is necessary that proposals for such aggregations be brought forward in the process, and find an appropriate international “sponsor”. We should only consider those aggregations that fit into an activity concept.

Additional areas mentioned that may require detailed classes are biotechnology activities, food industry (agri-food), alternate presentations of statistics on culture, sport and recreation and logistics activities (supply chain management, integration of transport, cargo handling, storage, cargo packing etc.).

9. The following list includes areas in which there are significant economic changes that can be addressed in the revision:
- Information and communications
  - Internet activities
  - Employment services
  - The provision of health care services
  - Government services and public administration

Are there other areas that should be addressed?

Most countries agree that the ICT sector, Internet activities, employment services, health care services and government services are priority areas for research and incorporation into the new revision. Other areas that should be addressed include biotechnology, culture, sports and entertainment, assembling activities, the criteria to differentiate wholesale and retail trade, tourism, environment, construction, business and personal services and gambling activities.