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ISIC REVISION 4: PROPOSALS FOR A HIGH-LEVEL ('TOP-TOP') STRUCTURE FOR THE PURPOSE OF NATIONAL ACCOUNTS REPORTING BY ACTIVITY:

WHAT ARE NATIONAL ACCOUNTING NEEDS REGARDING THE REVISION OF ISIC (AND CPC)?

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WORKING PARTY ON NATIONAL ACCOUNTS

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Note by OECD Statistics Directorate

This paper sets out a Eurostat proposal (attached at Annex 1) for an aggregation structure for the reporting of national accounts data by activity following the revision of the activity classifications. It seeks to draw this to the attention of the wider OECD national accounts community to stimulate discussion on a future internationally agreed reporting structure for activities applicable across OECD countries. It also raises wider questions about national accounting needs for standard activity groupings, and whether national accounting needs should be addressed more clearly in the revision of the Central Product Classification (CPC).

A fully detailed proposal for the Revision 4 of the International Standard Industry Classification of All Economic Activities (ISIC rev 4) was circulated in May 2004 by the United Nations Technical Sub-Group of the Expert Group on Economic and Social Classifications (TSG). This worldwide consultation terminates in December 2004. ISIC rev 4 is expected then to be finalised by the end of 2005.

The proposed ISIC rev 4 has a number of significant changes from ISIC rev 3.1. It reflects the outcome of a convergence exercise between NACE (the European activity classification), NAICS (the North American industry classification) and other regional industry classifications, such as ANZSIC and JSIC. It introduces a new information and communication section and more clearly identifies the 'information and communication technology' (ICT) activities in manufacturing and services. It also reflects the growing importance of service activities generally in economies over the last fifteen years since ISIC rev 3 was created.

A prime use of ISIC is for the internationally comparable reporting of economic statistics by activity or industry, for example, in national accounts. National accountants have evolved their own aggregations for reporting. In ISIC rev 3 the so-called A6, A17, A31 and A60 aggregation structures have been used for reporting national accounts data.

The A6 structure for ISIC rev 3 breaks out six activity groups as follows:

<i>AB</i>	<i>Agriculture, hunting, forestry and fishing</i>
<i>CDE</i>	<i>Industry including energy</i>
<i>F</i>	<i>Construction</i>
<i>GHI</i>	<i>Distributive trades, hotels and transport</i>
<i>JK</i>	<i>Financial, real estate and business services</i>
<i>L to P</i>	<i>Other services.</i>

A17 was the 17 sections of ISIC rev3, A31 added a disaggregation of manufacturing activity and A60 was the two-digit level of ISIC rev 3.

ISIC rev 4, as proposed, has 21 sections at the top level, which is too many for aggregated national accounts reporting and 87 two-digit divisions.

The Proposed Top-Top Structure for ISIC rev 4

The Eurostat proposed top-top structure has *nine* activity groups as follows:

Proposed Top-top breakdown	Comprises new ISIC rev4 sections
1. Agriculture, hunting, forestry and fishing	A
2. Industry, including energy and waste management	B, C, D and E
3. Construction	F
4. Trade, transport, accommodation and food services activities	G, H and J*
5. Information and communication	K
6. Financial and insurance activities	L
7. Real estate, rental and business activities	M, N and O
8. Public administration, education and health	T**, P and Q
9. Other services activities	R, S and U

*Section I does not exist.

**This requires a re-ordering of the sections of ISIC rev 4 to maintain hierarchy

The Eurostat proposal goes on to propose 65 sub-sections (set out in the Annex) less than the 87 two digit divisions of the proposed ISIC rev 4. The Eurostat proposal also advocates a slight re-ordering of the current ISIC sections taking public administration up the order from its current penultimate position in ISIC rev 4 proposal.

OECD National Accountants are invited to comment on the potential usefulness of this Eurostat proposal for a top-top structure (A9) and for sub-sections (A65) for the purposes of internationally comparable national accounts data reporting across the OECD from their national perspective.

Is there a need at this stage to elaborate the proposal to include the various intermediate levels, i.e. the equivalent of the A17 and A31 as well as the top-top structure and sub-sections?

These aggregations are related to ISIC, but supply-use tables require product information in principle, should we request that the CPC revision address national accountants needs regarding product groupings in supply-use tables?

Who should properly take this work forward? OECD or UNSD? And in what timescale?

As for Eurostat, an OECD data reporting structure for activities cannot be finalised until ISIC rev 4 is finalised, but national accountant comments could also influence final decisions on the ISIC structure.

ANNEX 1

STATISTICAL OFFICE OF THE EUROPEAN COMMUNITIES



EUROPEAN COMMISSION
EUROSTAT

Directorate C: Economic and monetary statistics
Unit C-1: National accounts
Unit C-2: Economic accounts

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**New ISIC/NACE
Top-top structure and subsections
State of play**

**Paper by Eurostat C1/C2
for 20-21 September 2004
Working Group on NACE/CPA**

Introduction

This paper describes briefly the progress made to date concerning the proposals for a new “top-top” structure and a new subsection structure for the revised ISIC and NACE.

National accountants have been asked to make proposals for these new structures, as they will be used mainly by national accounts. A first discussion on the new structures was held at the National Accounts Working Party of May 2004 (see paper CN/549). After that, several Member States’ national accountants have delivered further detailed comments in writing to Eurostat. The current paper takes these comments into account to the maximum extent possible.

Comments from the NACE/CPA Working Group are highly welcomed.

The top-top structure

EU national accountants generally agreed with the top-top structure that was proposed in May, which was as follows:

Top-top breakdown	Comprises new ISIC sections
1. Agriculture, hunting, forestry and fishing	A
2. Industry, including energy and waste management	B, C, D and E
3. Construction	F
4. Trade, transport, accommodation and food services activities	G, H and J*
5. Information and communication	K
6. Financial and insurance activities	L
7. Real estate, rental and business activities	M, N and O
8. Public administration, education and health	T**, P and Q
9. Other services activities	R, S and U

*Section I does not exist.

**This requires a re-ordering of the sections of ISIC rev 4 to maintain hierarchy

Note that this structure is conditional on the re-ordering of section T (Public administration and defence; compulsory social security). If the re-ordering is not accepted in the final version of ISIC, other aggregations have to be made.

Some countries have argued in favour of separating out section C (Manufacturing), since many users would welcome this. However, this is not possible to achieve within the current ordering of sections, because it would imply separate headings for section B (Mining) on the one hand, and sections D (Electricity, gas, steam and air conditioning supply) and E (Water supply, sewerage, waste management and remediation activities) on the other hand. These sections are however too small to warrant separate headings in the top-top structure.

Theoretically, one could consider a re-ordering of the sections in order to make it possible to separate out section C, but the resulting classification would not be an improvement to the current one.

One country wished to see larger aggregates in the service branches, effectively reducing the number of headings bringing it back to the current A6 level, in particular because of doubts on the feasibility of the "Information and communication" heading (on a quarterly basis). Eurostat thinks that the revision of the NACE is an opportunity to improve the relevance of our national classifications in particular in the domain of services.

In conclusion, the existing proposal is maintained for the moment. A further discussion may take place at the National Account Working Group in November 2004. In the end, the final version obviously depends on the final version of ISIC.

The subsection structure

Several countries have supported Eurostat's view that the current number of divisions in the new ISIC and NACE (87) would be too high for regular use in the EU's ESA95 national accounts transmission programme. Some countries remarked that for them, the 87 divisions would give no problem because it is still more aggregated than what they regularly produce domestically. However, the ESA95 transmission programme is designed to deliver internationally comparable data, which implies that often less disaggregated classifications need to be used than what is possible in some countries.

At the same time, EU national accountants have indicated that they wish to maintain the current close connection between NACE (and CPA) and ESA95. Thus, the idea of creating a subsection level in NACE was generally welcomed, and Eurostat will continue elaborating this structure.

Several countries commented in detail on individual positions of the subsection structure as proposed in the May meeting. On the basis of these comments, Eurostat revised the structure, which is attached here in the annex. It goes too far for this paper to elaborate in detail on the comments and the changes made, but in general one could say that several breakdowns in manufacturing have been re-introduced, while some proposed new breakdowns in services have been withdrawn. The total number of subsections is now 65.

This proposal is still subject to change. It may be discussed again at the National Accounts Working Group in November, and of course it depends crucially on the final version of ISIC.

<i>Annex: Current draft of new NACE and proposed top-top structure and subsections</i>		<i>reference to A60</i>	<i>number of sub-sections</i>	<i>corresponding number of divisions in A60</i>
<i>Draft new NACE (from consultation document)</i>	<i>Proposed top-top structure and subsections</i>			
A Agriculture, forestry and fishing	1 Agriculture, hunting, forestry and fishing			
01 Crop and livestock production, hunting and related service activities	AA Crop and livestock production, hunting and related service activities	01		
02 Forestry and logging	AB Forestry and logging	02		
03 Fishing and aquaculture	AC Fishing and aquaculture	03	3	3
B Mining and quarrying	2 Industry, including energy and waste management			
05 Mining of coal and lignite	BA Mining and quarrying	10		
06 Extraction of crude petroleum and natural gas	"	11		
07 Mining of metal ores	"	13	(12 has disappeared)	
08 Other mining and quarrying	"	14		
09 Mining support service activities	"	new	1	5
C Manufacturing				
10 Manufacture of food products	CA Manufacture of food products, beverages and tobacco products	15		
11 Manufacture of beverages	"	15		
12 Manufacture of tobacco products	"	16		
13 Manufacture of textiles	CB Manufacture of textiles, wearing apparel and leather	17		
14 Manufacture of wearing apparel	"	18		
15 Manufacture of leather and related products	"	19		
16 Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	CC Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw	20		
17 Manufacture of paper and paper products	CD Manufacture of paper and paper products	21		
18 Printing and reproduction of recorded media	CE Printing and reproduction of recorded media	22	excl. publishing	
19 Manufacture of coke and refined petroleum products	CF Manufacture of coke and refined petroleum products	23		
20 Manufacture of chemicals and chemical products	CG Manufacture of chemicals and chemical products	24		
21 Manufacture of pharmaceuticals	CH Manufacture of pharmaceuticals	24		
22 Manufacture of rubber and plastics products	CI Manufacture of rubber and plastics products	25		
23 Manufacture of other non-metallic mineral products	CJ Manufacture of other non-metallic mineral products	26		

24 Manufacture of basic metals	CK Manufacture of basic metals	27		
25 Manufacture of fabricated metal products, except machinery and equipment	CL Manufacture of fabricated metal products, except machinery and equipment	28		
26 Manufacture of computers and electronic products	CM Manufacture of computers and electronic products	30	regrouping	
27 Manufacture of electrical equipment	CN Manufacture of electrical equipment	31	regrouping	
28 Manufacture of machinery and equipment n.e.c.	CO Manufacture of machinery and equipment n.e.c.	29	regrouping	
29 Manufacture of motor vehicles	CP Manufacture of transport equipment	34		
30 Manufacture of other transport equipment	"	35		
31 Manufacture of furniture	CQ Manufacturing n.e.c.	36		
32 Manufacturing n.e.c.	"	36		
33 Repair, maintenance and installation of machinery and equipment	CR Repair and maintenance and installation of machinery and equipment	new		18 22
D Electricity, gas, steam and air conditioning supply				
34 Electricity, gas, steam and air conditioning supply	DA Electricity, gas, steam and air conditioning supply	40		1 1
E Water supply; sewerage, waste management and remediation activities				
35 Water collection and supply	EA Water collection and supply	41		
36 Sewerage	EB Sewerage, waste management and remediation activities	90		
37 Waste collection, treatment and disposal activities; materials recovery	"	90+37		
38 Remediation activities and other waste management services	"	90		2 3
F Construction	3 Construction			
39 Construction of buildings	FA Construction of buildings and civil engineering	45		
40 Civil engineering	"	45		
41 Specialized trades	FB Specialized trades in construction	45		2 1
G Trade	4 Trade, transport, accommodation and food services activities			
42 Wholesale and retail trade and repair of motor vehicles and motorcycles	GA Wholesale and retail trade and repair of motor vehicles and motorcy	50		
43 Wholesale trade and commission trade, except of motor vehicles and motorcycles	GB Wholesale trade and commission trade, except of motor vehicles and motorcycles	51		
44 Retail trade, except of motor vehicles and motorcycles	GC Retail trade, except of motor vehicles and motorcycles; repair of personal and household goods	52		3 3

H Transportation and storage					
45 Land transport: transport via pipelines		HA Land transport: transport via pipelines	60		
46 Water transport		HB Water transport	61		
47 Air transport		HC Air transport	62		
48 Warehousing and support activities for transportation		HD Warehousing and support activities for transportation	63		
50 Postal and courier activities		HE Postal and courier activities	64	excl telecomm unication	5
J Accommodation and Food service activities					
51 Accommodation		JA Accommodation and food service activities	55		
52 Food service activities		"	55		1
K Information and communication					
53 Publishing activities		5 Information and communication			
54 Motion Picture and sound recording activities		KA Publishing activities	22+	split from printing, incl software publishing	
55 Broadcasting		KB Motion Picture and sound recording activities	92		
56 Telecommunications		KC Broadcasting	92		
57 Information technology, internet service providers and web search portals and other information service activities		KD Telecommunications	64	excl post	
		KE Information technology, internet service providers and web search portals and other information service activities	72+	mostly computer services	1
L Financial and insurance activities					
59 Financial intermediation, except insurance and pension funding		6 Financial and insurance activities			
60 Insurance, reinsurance and pension funding, except compulsory social security		LA Financial intermediation, except insurance and pension funding	65		
61 Other financial activities		LB Insurance and pension funding, except compulsory social security	66		
		LC Other financial activities	67		3
M Real Estate, rental and leasing activities					
62 Real estate activities		7 Real estate, rental and business activities			
63 Rental and leasing		MA Real estate activities	70		
		MB Rental and leasing	71		2
N Professional, Scientific and Technical Activities					
64 Legal and accounting activities		NA Legal, accounting and management consultancy activities; holding companies	74		
65 Activities of holding companies; management and management consultancy activities		"	74		
66 Architecture and Engineering activities; technical testing and analysis		NB Architecture and Engineering activities; technical testing and analysis	74		

67 Scientific research and development	NC Research and development	73		
68 Advertising and Market research	ND Advertising and Market research	74		
69 Photographic activities and other professional, scientific and technical activities	NE Photographic activities and other professional, scientific and technical activities	74		
70 Veterinary activities	"	80	split from health	2
O Administrative and support service activities				
71 Employment activities	OA Employment activities	74		
72 Activities of travel agencies, tour operators and other reservation service activities	OB Activities of travel agencies, tour operators and other reservation service activities	63	split from transport	
73 Investigation and security activities	OC Investigation and security, services to buildings and landscape and other support activities,	74		
74 Services to buildings and landscape activities	"	74		
75 Office administrative, business support and other support service activities	"	74		0
T Public administration and defence; compulsory social security (changed order!)				
87 Public administration and defence; compulsory social security	8 Public administration, education and health TA Public administration and defence; compulsory social security	75		1
P Education				
76 Education	PA Education	80		1
Q Human health and social work				
77 Human health activities	QA Human health activities	85		
78 Residential care services	QB Social work activities	85		
79 Social work activities without accommodation	"	85		2
R Arts, entertainment and recreation	9 Other services activities			
80 Dramatic arts, music and other arts and entertainment activities	RA Arts, entertainment and museum activities	92		
81 Museums activities, preservation of historical sites, botanical and zoological gardens and nature reserves	"	92		
82 Gambling and betting activities	RB Sports, amusement and recreation activities	92		
83 Sports activities and amusement and recreation activities	"	92		2
				1

S Other service activities					
84 Activities of membership organizations		91			
85 Repair of computers and personal and household goods		new			
86 Other service activities		93	3	2	
U Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use					
88 Activities of households as employers of domestic personnel		95			
89 Undifferentiated goods- and services-producing activities of private households for own use		95	1	1	
V Extraterritorial organizations and bodies					
90 Extraterritorial organizations and bodies		99	1	1	
			65	60	