

OPERATION 2007

The Process

Introduction

1. A statistical classification is not set in stone for eternity, but is a living entity which changes as the universe it is representing is changing. The evolution of a classification is event driven following in time after the changes in reality, but revision breaks time series and should only take place when absolute necessary. Activity classifications are used in almost all statistics all over the world. Presently there are three major systems of – more or less – related activity classifications. The ISIC, Rev. 3.1 as world standard of which the Statistical Commission of United Nations Statistical Division is the custodian, the NACE Rev. 1.1 and the 1997 North American Industrial Classification System (NAICS).
2. Through the UNSO/SOEC Joint Working Group and the co-operation of all parties concerned, it was ensured that NACE Rev.1.1 as well as the related product classification of the European Communities CPA are be identical with, or an extension of, the ISIC and CPC, respectively. Also, the coding systems used in classifications of the United Nations and the European Communities are, as far as possible, the same. As a result, data of either organization are widely compatible.

Eurostat objective

3. To have on January 1 2007, an adopted and published updated NACE and CPA with explanatory notes and conversion keys to respectively NACE, Rev.1.1, ISIC and CPA 2002. For the implementation of this adopted NACE and CPA there will be a Commission Regulation

Eurostat revision project description

Type of revision

4. The revision is without pre-set restrictions. Both structure as well as details are open for changes.

Consultation

5. A constructive relationship between different users/developers of the classification is required. Transparency of the process as well as a high degree of communication must be insured. The intentions as well as the scope should be as widely spread as possible: D2 and D3, especially PRODCOM as well as Intrastat, CN committee, Member States, other states using NACE/CPA, Commission, FEBI's etc. will all be invited to comment on proposals or present proposals.
6. Because of the process of revision of ISIC, Rev. 3, as started in 2001 by sending out questionnaires to all countries, and the process of revision of NACE give the impression that at two different places similar processes started that should result in a more or less identical products, very close co-operation between NACE/CPA working group and the UN Expert Group and UN Technical Subgroup of the Expert Group is a *conditio sine qua non*.

Methodological basis

7. Before starting the procedure, it must be made clear what the concepts and principles are for the NACE 2007 and CPA 2007. The NACE/CPA working group will during 2002 discuss and decide on the following questions:
 - Should the future classifications keep the present link between Activity and product classification, let it go, or should it be modified to ensure that all items necessary for the statistician are available and so that the worst inconveniences are eliminated ?
 - Should NACE be a classification of activities or a classification of industries?
 - Should NACE continue with principal activity and the top-down approach based on value added?
 - Should NACE be pragmatic or use production process principle only?
 - Should the classifications have a Christmas tree structure?
 - How to deal with vertical integration?

Input

8. The most important input will come from consultation of all data producers and users to collect information on their needs and expectations.
 - National Statistical Institutes (NSI's)
 - European trade associations (FEBI's)
 - European Commission
 - Eurostat
 - European Central Bank
 - And anybody else using the classification
9. Other major input will be the outcome of the ISIC/CPC 2007 revision, the development of NAPCS (North American Product Classification System), PRODCOM (Production data at last available for EU, permitting verification of utility of present CPA transportable goods as to importance and accuracy, as well as confidentiality questions), Intrastat/SLIM, experience from present NACE and input from CPA services development work.

Additional input

10. The North American system NAICS which is used in Canada, Mexico and USA is not compatible with NACE/ISIC. Some of the major differences are
 - The existence in NAICS of an information sector, putting together at a high level content producers and content distributors
 - The existence in NAICS of a sector for repair
 - The clear breakdown in NAICS between electrical machinery and electronic machinery.
 - The very detailed Business services sector in NAICS
 - The completely different treatment of vertical integration
 - The existence in NAICS of many classes for Supporting activities
 - The very strong link in NACE to the products of the CN
 - THE NACE Division 37 (recycling activities) and Division 50 (trade and repair of motorvehicles) which have no counterpart in NAICS
 - And last, but not least, a large amount of both significant and insignificant borderline differences
11. To improve this unsatisfactory situation on 14 June 2000, a project to study the potential for greater convergence between the General Industrial Classification of Economic Activities within the European Communities (NACE) and the North American Industry Classification System (NAICS) was initiated under an

agreement signed by the heads of the statistical agencies of Canada, the European Union and the United States.

12. The radical solutions 1) North America abandon NAICS and implement NACE 2) Europe abandon NACE and implement NAICS or 3) Both parties abandon their classifications and construct and implement a new common one from scratch was considered totally unrealistic, so a minimalist approach was studied to reduce/eliminate some of the “many-to-many” relationships.
13. A taskforce consisting of experts from the participating parties have drawn up a list of changes to NACE and NAICS which may improve the convergence.
14. The solutions proposed have been chosen so that they minimizes the impacts on either classification but maximizes comparability between them, but also would be an improvement of both present classifications.
15. After consultation involving both NSI’s and private data users and providers; the NACE/CPA working Group will prepare a list of acceptable changes that would foster greater convergence between NACE and NAICS. This will be transmitted to the SPC for approval as a major input in the 2007 revision process

Working methods

16. In order to avoid waste of time and to structure the work and to reach the targets in time the process will be based on the following principles:
 - Written documentation of the concept behind the classifications and the principles for the development of the revision.
 - Total comparability with CPC/ISIC and as far as possible NAICS.
 - Time series continuity to be maintained to the extend possible.
 - When time series are damaged by the process of revision of NACE/CPA repair sets have to be designed.
 - Proposals will only be accepted for consideration if they respect the concept behind the classification and the principles for the development of the revision.
 - No proposal without written documentation.
 - No proposal without explanatory notes.
 - No proposal below a certain value threshold.
 - The whole classification will be split into packages for discussion and final adoption
 - Once dealt with, a subject already discussed will not be subject for further discussion

- Once a formal decision is taken, the decision can not be re-discussed. However when a later decision has influence on a formal decision taken earlier the possibility need to be created to reconsider the earlier formal decision.

Players and decision takers

17. The revision process involves a large number of players and the major challenge will be to ensure close and efficient co-operation between them.
18. *UN Statistical Commission:* The United Nations Statistical Division has to approve the proposals presented by the Expert Group / Technical Subgroup. Present participation of four members of the NACE/CPA group can and will take care of input from EU into the revision of ISIC. However it must be remembered that ISIC is a world standard and therefore never can be able to accept all wishes from EU how strong and or urgent they may be.
19. *UN Expert Group / Technical Subgroup:* A forum set up by UN with the purpose of bringing expertise together for maintenance and revision of world standards including ISIC and CPC. Present membership includes Eurostat and three members of the NACE/CPA group. This forum will be the principal tool used for the process of synchronising revisions of ISIC/CPC and NACE/CPA.
20. *Eurostat Statistical Programme Committee:* The role of the SPC is to decide and adopt revisions of NACE/CPA. The revision process will regularly be on the agenda of the SPC, first time November 2002. By way of progress reports, Eurostat will see to it that the SPC (and the BSDG) are regularly kept informed of how things stand in the matter through a rolling review of the exercise.
21. *Formal meeting of NACE/CPA group:* The group forwards proposals for decision to the SPC. Meetings will be only for decisions, based on detailed and documented agenda with only discussion/adoption of written proposals distributed before meetings
22. *Task-force:* The task force will prepare proposals for submission to the NACE/CPA group. The Task force will not only meet physically, but by using e-mail and other telecommunication be a permanent, virtual meeting. Partners not member of the Task force will be kept constantly informed of proposals, deliberations and comments not only at the formal meetings, but continuously during the process. This concerns not only Member States but also all other involved.

Implementation and transition period

23. The goal is to have CPA 2007 and NACE 2007 published in the Official Journal Januari 1 2007. The date for implementation in registers and national versions together with the possible need for a transition period will be subject for

discussion in the NACE/COPA group. The draft must be ready by the end of 2005 in order to cope with the legal process needed to end with new Commission Regulations

List of problem areas

24. Today it is already possible to list problem areas that shall need special attention: ICT, , Information sector, Maintenance, Supporting activities, Trade (definitions, border line etc.), Sub-contracting, Division 37 (recycling activities), Complete plants. This list is merely indicative and will be developed in time of the operation.

Risks

25. The major risk is different result of the revisions of ISIC, NACE and NAICS.

26. A second risk is that deadlines are not met, having the update of NACE, Rev.1 in mind, that actually was finished in November 2001, but will come into force 1-1-2003 instead of 1-1-2002.

Detailed time-schedule for 2002

May	(e-mail)	Call for proposals, deadline November 2002
May	(e-mail)	Call for comments on Convergence project, deadline November 2002
June	Task force	Preparation of draft papers on process, relations and problems
September	NACE/CPA working group (plenary meeting)	Discussion on scope and methodology for revision,
October	Technical Subgroup UN	Presentation of points of view of EU in relation to revision of ISIC
November	SPC	Progress report to SPC
November	Eurostat	Preparation of report on proposals received Preparation of report on

		comments received on convergence project
December	NACE/CPA working group	Virtual discussion of proposals and comments.

Future work

2003 - 2005 Negotiations with NSI's, FEBI's, UN, USA, Canada etc

2005 – 2007 Legal framework

2007 Implementation