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*This is the final version - changes from that issued in the UNISC are in bold.*

Draft Report to the United Nations Statistical Commission

Task Force on Industry Statistics

Convener: OECD

Members: Unstat, UNIDO, Eurostat, OECD, (Canada, Italy, United States have provided expert support for the Task Force).

Meetings held since Special Session of UN Statistical Commission:

Paris, June 1994; Rome September 1994; Paris, January 1995.

Issues submitted for review by UN Statistical Commission:

1. The Task Force's findings confirm its earlier report to the Commission that so far the institution of ISIC Revision 3 by UN member countries has polarized rather than harmonized industry statistics world-wide.
2. The Task Force has found that for many developing countries, the introduction of ISIC Rev. 3 is contingent on the taking an economic census or the carrying out of a large scale survey of economic activity. Many countries, however, neither have the resources nor the know-how to do either.
3. The Task Force has found that a number of developing countries, particularly those that are in a more advanced stage of industrialization, are planning to introduce ISIC Rev.3 in conjunction with a forthcoming economic census. Such countries, however, complain that they have been given no guidance on the steps they should take in order to ensure international comparability.
4. The Task Force has found that the introduction of ISIC Rev.3 is not a once and for all event but rather a drawn out process that in some cases may extend for as long as five years or more. During the time taken to convert to ISIC Rev.3, - reporting of industry statistics to international organizations will be far less consistent than it has been before.
5. The Task Force has found that countries (and for that matter international organizations) do not have a clear cut policy on measures that should be taken to protect the continuity of their time series during the period of transition and in particular have no guidance on how to maintain the continuity of their short term indicators of change in industrial activity.
6. The Task Force considers that the member countries of the European Union, other countries of the European Economic Area and some remaining members of the OECD are largely safe from experiencing these effects. However, even for them the process of conversion will be drawn out and at the end there will be less comparability between the developed and the developing world than there was prior to the introduction of ISIC Rev.3.

7. While the Task Force approves of and strongly endorses the efforts that were made to establish the strongest of links between ISIC Rev.3 and NACE Rev.1 it nevertheless expresses concern with the ability of UNSTAT to maintain such links considering that sooner or later Eurostat will be forced to change the structure of NACE.

8. The Task Force considers that while the introduction of a more sophisticated classification than ISIC Rev.2 was imposed by changes in technology and in industrial organization world wide, the circumstances surrounding the introduction of ISIC Rev.3 were not carefully weighed nor was due attention paid to the difficulties that the majority of countries would experience in trying to implement the new classification.

This report is about the deliberations of the Task Force that led it to draw the conclusions spelled out above. The report is divided into the following sections:

- I Task Force's Objectives and Modus Operandi.  
This states the objectives, structure and gives a summary of its activities.
- II Major Findings **of the Survey.**
- III Options Regarding the Implementation of ISIC Rev.3 (tabled for discussion by the Commission).
- IV **Reducing duplication.**
- V Future of the Task Force.
  - (i) further activities to be conducted by the Task Force if any;
  - (ii) possible extension to study information on construction activity;
  - (iii) other critical matters affecting comparability of industry statistics
  - (iv) current calendar for diffusion of statistics on industry by different international organizations.
- VI Points for discussion.

#### **I Task Force's Objectives and Modus Operandi**

The Task Force was established at the request of the participants at the 15th session of the Working Group of the United Nations Statistical Commission. Its objectives (see Annex 1) can be summarized under two headings: to unduplicate country reporting of industry statistics to various international agencies and to report back to the Commission on its findings regarding the implementation of ISIC Rev.3 **which was adopted by the Commission as the international standard.** At the special session of the Commission held in April 1994, the Task Force reported that its first objective had been largely attained but that it was still in the process of finding out the circumstances affecting the second. It also reported to the Commission on the findings resulting from a first survey of country practices and intentions regarding the introduction of the classification and alerted participants about problems surrounding the introduction of ISIC Rev.3. At the same time, the Commission was requested to authorize the Task Force to continue its activities for another year and to conduct a second survey of country practices.

On this occasion, the Task Force finds itself in the position of being able to review the findings resulting from its second survey and to offer for discussion by the Commission, a number of alternative options.

For purposes of carrying out its survey, the Task Force divided the target population into a number of country groups. These groups included the OECD countries (surveyed by collaboration between the OECD and Eurostat); the partners in transition (by cooperation between OECD, Eurostat and Italy); **and selected developing countries (UNSTAT, UNIDO and Canada)**. Not all countries answered the survey although those that were contacted directly, through visit or by telephone provided very extensive replies. The form (cf. Annex II) that guided interviews was based on a draft submitted by the ISTAT expert working in support of the Task Force. By and large, countries found they could answer certain parts of the questionnaire unaided, but individual circumstances differed so much that other parts could only be answered through a guided interview.

## II Major Findings of the Survey

The findings of the survey led the Task Force to classify countries into four categories:

- (a) Those countries that are committed to the conversion - now or in the foreseeable future - of their current classification to either ISIC Rev.3 or else to NACE 1. They include all members of the European Union, the members of the European Economic Area and a number of the remaining members of the OECD. The members of the European Economic Area are being given active guidance by Eurostat on a number of principles and conventions designed to promote consistency in the conversion to NACE.1.
- (b) Those countries that while committed to conversion to ISIC Rev.3 and while having secured the necessary means to conduct a benchmark conversion (through an economic census, large scale survey of economic activity, or conversion of administrative registers) have not benefited so far from any guidance designed to promote consistency or to institute similar principles and conventions. These countries include some in Latin America and in Asia.
- (c) Those countries that have no means now or in the foreseeable future to undertake a large scale conversion to ISIC Rev.3. **[or else have not asked for such means because they do not regard conversion of their basic statistics to ISIC Rev.3 as a matter of priority planning.]** Such countries are committed to continue with their national classifications in their present form or after an overhaul. They include the smaller Central and South American countries; a large number of African countries and some countries in the Middle and Far East. A number of them have realized that the conversion to ISIC Rev.3 unlike previous exercises cannot be carried out by mechanical conversion and linking.
- (d) **Countries such as the United States and Canada with current plans to convert their national classifications to a common classification which is only partly compatible with ISIC Rev.3.**

- (e) Those countries that have not yet replied or else have replied by a statement of intention which is not based on any direct experience of the difficulties of converting from a very different classification of economic activities to one based on different kinds of reporting units and on a different industrial organization. These countries include a number of Central and Eastern European countries and a number of republics of the former Soviet Union **which are not making the switch from ISIC Rev.2 but are moving from a completely different classification system.**

The Task Force is convinced that promoting harmonization of classifications is worthwhile for the following reasons:

- a common classification allows more reliable comparisons of how policies affect the economic performance of individual industries at a fairly detailed level. Industries with different trade and technology characteristics should be identified separately (e.g. motor vehicles versus aircraft) and the definition of these industries should be consistent across countries;
- a common classification makes it possible to benchmark performance. In addition to an evaluation of the effect of industrial policies, a common classification system allows policy analysts to identify leading and lagging sectors when they compare national industrial performance with that of other countries.

Nevertheless, it should be noted that promoting harmonisation of improved classifications is bound to produce discontinuity in historical series.

### III Options Regarding the Implementation of ISIC Rev. 3 (tabled for discussion by the Commission)

In accordance with this reasoning, the Task Force submits to the Commission the following options if it wishes to promote greater harmony in the adoption and use of economic classifications. The options are listed in decreasing order of cost:

- (a) assisting those countries in group (c) that do not have the necessary means to take a census or large scale survey of economic activity. On the **very restrictive** assumption that not more than thirty countries would have the necessary infra-structure to take on such an undertaking; that the undertaking itself would be limited to the organized sector of the economy (in other words, excluding the informal sector); that only classificatory information would be sought; and that the coverage would not go beyond the traditional industrial, transportation and distributive sectors, an effort of half a million dollars on average per country or something of the order of fifteen million dollars might have to be disbursed over a period of time. But this option must be supplemented by option (b) below;
- and (b) constituting
- a group of dedicated full time experts, presumably based in each of the Economic Commissions and coordinated by a full-time expert based in UNStat charged with the double responsibility of promoting common

approaches, principles and conventions to the transition from national (or earlier versions of ISIC) classifications to ISIC Rev.3;

- a data bank of common problems and their solution; referring countries with more complex queries to a network of experts, and undertaking short term missions of assistance to countries in the process of carrying out a Census along the lines described above. The costs of deploying such a force should be added to option (a) although (b) can exist on its own if it is decided not to assist countries that require resources to undertake a Census or large scale survey.
- (c) creating a hot-line based in UNSTAT, designed not so much to promote common principles and conventions but simply to reply to queries regarding inclusions and exclusions from ISIC Rev.3. Both in the case of options (b) and (c) the key instrument to promote conversion would be the trilateral concordance completed earlier this year by Eurostat, the US Bureau of the Census and Statistics Canada or rather that part of it that shows for each four digit category of ISIC Rev.3 the activities or the Harmonized System products it includes. This option would probably cost the equivalent of one person year particularly if it were combined with the requirement to start preparing material for an eventual updating of ISIC.
- (d) distributing to all countries concerned a sufficient number of copies of the trilateral concordance (or of that part of it that is strictly speaking applicable) in either its paper or electronic version; and in addition distributing the other materials that have been developed so far by Unstat (how to convert from ISIC Rev. 2 to 3 **and how to convert from ISIC Rev. 3 to 2**; the introduction to ISIC; the alphabetic listing that accompanied ISIC Rev.2) as well as relevant classifications and lists developed by Eurostat (CPA, Prodcum etc.) Such an option would be by far the least costly and least burdensome for the Secretariat but would of course be less effective.

However, intermediate **combinations of the above** may be envisaged particularly if consortia are created to finance some of the more costly approaches (for example, a consortium made up of UNIDO, Unstat, Eurostat and those countries that provide bilateral assistance in the field of industry statistics).

Any of these approaches except the very last one depends on certain conditions being met. For example, there is no point in instituting (b) or (c) if there is no provision for training all the experts concerned and ensuring that the same questions asked at different times by different countries would get approximately the same answer. The training might not be worth while administering if Unstat is in no position to finance at least one meeting of experts for which the composition and venue could be discussed and subsequently determined. The cost of such a meeting should in fact be added to all the options except the least costly option (d).

#### IV Reducing duplication

In the light of the findings resulting from its surveys, the Task Force discussed the dissemination plans adopted by the various agencies. The following were the guiding considerations:

- it is granted that the data collection work carried out by

international agencies has been unduplicated. This by itself does not promote coherence particularly as international agencies hitherto have chosen which vintage of the ISIC they wished their members to report in. The current situation is not coherent in several respects and risks worsening. The measures discussed in the framework of the Task Force are related to the objectives pursued by each of the agencies.

- for Eurostat, the objectives are to produce industry statistics that can be compared among all members of the European Economic Area and between West, Central and Eastern European countries;
- for the OECD, the objective is to compare European structures and growth rates with their counterparts in North America, Japan and Oceania;
- for UNSTAT and UNIDO, the objective is to compare industrial performance and structural changes between countries, particularly between developed and developing countries.

Accordingly, Eurostat will ensure comparability within its area of competence in terms of NACE.1 as in any case it has been instructed to do.

OECD for the next two or so years will publish its data both structural and conjunctural in terms of ISIC Rev.2 for all countries including those that have already converted to ISIC Rev.3 (or NACE.1). Those countries who have converted to ISIC Rev.3 will be asked to provide data in both classifications until such time as nearly all countries are in a position to provide data in ISIC Rev.3. Afterwards, in order to limit the burden on countries, the OECD will request permission to convert back to ISIC Rev.2 when necessary; it being understood that a conversion from Rev.3 to Rev.2 is feasible, whereas the reverse is not - at least from the point of view of an international secretariat.

[And finally] UNSTAT and UNIDO will continue to disseminate data in Rev.2 or the foreseeable future, it being understood that the overwhelming majority of their membership is bound to continue reporting in Rev.2 or in earlier vintages.

And finally, OECD and UNIDO have already started a joint programme of co-operation as regards the collection and dissemination of industry statistics, based on a joint questionnaire.

## V Future of the Task Force

The Task Force has now reached a breaking point in its work. It is up to the Commission to decide whether it wishes to request further work and if so for which purpose. For example, if deemed useful, the Task Force can assist the Commission in better understanding the uses of internationally comparable industry statistics. Indeed, the Task Force requested that the OECD develop an experimental "Matrix of International Industrial Data Use" in which the cells show the degree to which each variable of industry statistics is used by different types of governmental and international bodies, for different policy issue areas. **A draft of this was prepared.** The Commission might wish to ask that all members of the Task Force conduct a similar study and the consolidation be reported to the Commission in two years time.

The Commission may also consider the following items:

(a) broadening the scope of Task Force activities to include construction.

At the special session of the Commission, it was agreed that the scope of the Task Force was to be extended to statistics on goods, which include what has been traditionally classified as construction. While the Task Force has discussed this matter it has found that:

- the sources of construction statistics are very different from these which are commonly adopted for manufacturing;
- those international organizations that engage in the collection of statistics on construction do so as one of many economic activities for the measurement of which they have recommended a particular approach;
- [that] the countries which assist the work of the Task Force collect and compile a variety of such statistics ranging from those necessary to estimate gross fixed capital formation to those used as social indicators of people's living conditions;
- [that] it was not clear to any of the members of the Task Force how to approach what had been asked from the Task Force and that it would result in unproductive second guessing if it attempted to define its own research agenda.

For this reason the Task Force will proceed if requested to do so by the Commission, if it is given specific questions to which it can find a response and if the timetable suggested is commensurate with its means and expertise. If the Commission wishes to obtain a fundamental report on construction statistics, the correct approach would be to call for an expert meeting and a consultant's report after which the Task Force could be charged with follow up and monitoring. This is in line with the discussion on Task Forces and Expert Groups held at the Commission's special session in April 1994.

(b) continuing to improve comparability of industrial statistics

The Task Force considers that it has not yet drawn a balance between the convenience of converting to ISIC Rev.3 for structural statistics and for short term conjunctural statistics. Moreover, it has proceeded with its inquiry on the adoption of ISIC Rev.3 as if there were no problem regarding the use and the harmonization of statistical units. If these matters are judged to be important, the Statistical Commission might wish to entertain the following suggestions:

- that the highest priority for conversion to ISIC Rev. 3 be placed on conducting a structural survey or census and only then should the matter of conversion of short term statistics be tackled; that over the next two years, UNSTAT with the help of volunteer countries will draft operational guidelines designed to link past time series expressed in ISIC Rev.2 with new short term series expressed in ISIC Rev.3., and that in the short-term, this work be focused on converting industry statistics in ISIC Rev.3/NACE.1 into ISIC Rev.2/NACE.70; and that the Task Force monitors the practicalities of such guidelines that will cover conversion in both directions.

-- that the Task Force conduct a small scale survey designed to ascertain the variation in definition of statistical units to be classified by ISIC; that it compare current usage with what is recommended in the introduction to ISIC Rev.3 and that it propose to the Commission ways and means to produce a supplement to the Introduction and that it also suggest the manner in which current practice could be further harmonized.

**VI. Points for Discussion.**

1. The Statistical Commission may wish to:

(a) Consider options suggested for implementation of ISIC Rev. 3;

(b) Review and comment on possible avenues of future work of the Task Force.

**Annex I**

## Task Force on Industrial Statistics

## Terms of Reference

1. The work of the Task Force takes place in the context of these general assumptions:
  - a) when dealing with issues of data collection, "industry" is to be construed narrowly, i.e., as mining, manufacturing and public utilities. However, "industry" should be construed broadly when discussing the implementation of the third revision of the International Standard Industrial Classification of All Economic Activities (ISIC, Rev. 3).
  - b) the Task Force has not addressed "construction" in the current phase of its work. The Working Group may reassign that responsibility or wish to assign that within a future mandate of the Task Force later.
2. The Task Force affirmed that assessing the degree to which ISIC, REV. 3 has been implemented - not the further revision of the ISIC - was within its mandate. It noted that the lack of conversion keys from ISIC, Rev. 2 to ISIC, Rev. 3 was a major impediment to that task. Intercountry comparisons have become increasingly difficult and the widespread adoption of a truly international classification would be the most effective remedy.
3. The Task Force has two overriding goals:
  - a) To review and recommend ways of improving the international comparability of industry statistics;
  - b) To agree on whatever measures are required to reduce duplication in, streamline and better coordinate the collection, compilation and dissemination of industry statistics.
4. The Task Force adopted as an additional agenda item, the systemization of knowledge about the users and uses of industry statistics, with special emphasis on the policy issues that industry statistics are designed to inform.