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DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS
STATISTICS DIVISION

**Meeting of the Technical Subgroup on the on the International
Standard Industrial Classification of All Economic Activities (TSG-ISIC)
New York, 18-20 June 2019**

Summary Report

TSG-ISIC

Introduction

1. The meeting of the Technical Subgroup on the International Standard Industrial Classification of All Economic Activities (TSG-ISIC) of the Expert Group on International Statistical Classifications, organized by the United Nations Statistics Division (UNSD), was held from 18-20 June 2019 in New York, US. The meeting was attended by 14 experts (see Annex I for the list of participants). The meeting was chaired by Mr. John Murphy, US Census Bureau.
2. The meeting reviewed issues that were raised at the TSG-ISIC meeting in May 2016 (such as the treatment of factoryless goods producers (FGPs) and statistical units) and emerging issues arising from national and regional reviews of the Statistical classification of economic activities, such as that in the European Community (NACE), the North American Industry Classification System (NAICS), in the Philippine Standard Industrial Classification (PSIC), etc. The objective was to investigate whether these issues can be addressed in the current structure of ISIC in order to formulate a recommendation to the Expert Group on Classification. Annex II of this report includes the agenda of the TSG-ISIC meeting. All papers and presentations were made available to members of the TSG-ISIC in a password protected wiki page.
3. The meeting was opened by Mr. Ivo Havinga, Associate Director, Chief of the Economic Statistics Branch of UNSD, and Mr. John Murphy, Chair of the TSG-ISIC. Mr. Ivo Havinga introduced the recent restructuring of UNSD where the economic statistics (e.g. national accounts, business and trade statistics) were brought together into a single branch reflecting the integrated nature of these programmes. The classification programme was also restructured and the substantive classification are now under the relevant programmes. Economic classifications are therefore in the Economic Statistics Branch. The coordination of all statistical classification remains with the Data Innovation and Capacity Branch of the United Nations Statistics Division.
4. Mr. Havinga provided an overview of the recent initiatives in economic statistics that are relevant for the discussion on ISIC. This includes the discussion that is taking place at global level on the future of economic statistics through the Friends of the Chair on Economic Statistics and the overall recognition that economic statistics must be more responsive to new and emerging issues and linked more closely to the sustainable development agenda.
5. Mr. Murphy reminded the TSG-ISIC that the main objectives of the meeting include: the review of outstanding issues from the last meeting of the TSG-ISIC and the issues that were raised on ISIC based on the national and regional on-going assessments of the classification with a view to make a recommendation if changes need to be done within the current structure.
6. The present report provides a summary of the main discussion and decisions taken by the TSG-ISIC at its meeting in New York.

Outcome of the discussion

Terms of reference of the TSG-ISIC

7. The terms of reference of the TSG-ISIC were endorsed by the Bureau meeting of the Expert Group on International Statistical Classifications at the end of 2018. The TSG-ISIC took note of its mandate as laid out in the terms of reference, namely to investigate if the issues raised can be addressed in the current structure of the ISIC with additional guidance provided and amended the composition of the TSG-ISIC. Annex III of this report includes the terms of reference with an updated list of the members of the TSG-ISIC.

Factoryless Goods Production

8. The TSG-ISIC reviewed issues related to the current treatment of Factoryless Goods Production, the report prepared by the European Union Task force working on the identification of FGPs and the results of testing the implementation of the FGP identification strategy in France.

9. The TSG-ISIC took note of the difficulties in identifying FGPs and noted the progress of the EU Task Force on FGPs. The TSG-ISIC clarified that the recommendations of the classification of FGPs in ISIC Rev.4 (paras. 142-145) apply to the cases where the contractor is a non-affiliate, either abroad or in the resident economy. If the contractor is a non-affiliate of the principal, information is notoriously difficult to collect on the production arrangements between the two parties, even more so for the extended measures of control of the production arrangements and use of intellectual property. In depth analysis in the presence and economic significance of FGPs by selected countries in the ESS (like France) is that the presence and economic significance is small. Inquiries in the US have also revealed that collection of information on the production arrangements between the principal and contractor leads to high level of non-response. Potentially the FGP production arrangement in developing countries may be different in agriculture and manufacturing both in the case of domestic and cross border contractual arrangements. Additional detail of the discussion is provided below under the section on challenging areas.

10. The TSG-ISIC completed its task on the assessment of the known issues in relation to FGPs, and decided to recommend to the Expert Group on International Statistical Classifications that a clarification note be prepared to further clarify the current recommendations in ISIC Rev. 4. The TSG-ISIC also agreed to continue collecting country experiences in the identification of FGPs and to consider the issue again as part of the ISIC review.

Review of ISIC Revision 4: Fundamental design and uses of ISIC

11. The TSG-ISIC had a discussion on the fundamental elements of the classifications on economic activities which include its structure, its implementation and its revision schedule. The TSG-ISIC recognized the need for classification to be more responsive to the fast-changing transformation of industries from technological breakthroughs. The TSG-ISIC discussed several ways in which the classification can be made more flexible and more responsive by balancing the need to respond to new and emerging policy needs while at the same time ensuring consistency of time series.

12. A revision schedule of ISIC could be developed so that at fixed and regular point in time, say every five years, there is a full review of the structure and content of the classification while in the intermediate years there is a constant review for changes that do not impact the structure of the classification. The review during the intermediate years include clarifications of the language and of the inclusion and exclusion of activities. The revision cycle needs to be coordinated with the revision cycle of relevant international statistical standards, such as the SNA, and also, to the extent possible, the revisions cycle of other classifications in international organizations and countries. The TSG-ISIC decided to include this question on revision schedule in the global consultation questionnaire.

13. Another option mentioned by the TSG-ISIC to address the need for flexibility is to reduce the level of detail of the international classification going, for example, from a 4 digit to a 3-digit classification. This would reduce the need for structural revision and at the same time allowing to be more flexibly implemented. Early action may be required by the TSG members to explore the feasibility and implications for a change to a 3-digit ISIC classification with the understanding that countries would provide additional details by adding additional industry codes or details through the corresponding CPC classification. However, the TSG-ISIC decided against inclusion of this option in the global consultation questionnaire, as the need for flexibility was not the primary purpose of the global consultation.

14. The revision schedule must take into account the time for countries to implement a new version of ISIC and also be coordinated with the revision schedule of related classification such as NAICS and NACE as for the European and North American statistical system. In a fast-changing environment, the implementation of ISIC should be a high priority for countries and international organizations not only to ensure the relevant description of the structure of the economy but also to ensure international comparability. Therefore, the timetable of the ISIC revision should be responsive to the new demand followed by a rapid implementation agenda.

15. The TSG-ISIC will prepare a proposal for a revision schedule for ISIC to the Expert Group on Classification based on the consultation with countries.

16. It was confirmed that the establishment unit is central to the collection and classification of production units at the local level and considered the most eligible and homogenous production unit to be classified by ISIC based on its criteria of inputs, outputs and process. However, kind-of-activity units (KAUs) and enterprises are also classified by ISIC to allow for higher levels of aggregation for SUTs, business and trade statistics. The ISIC is also used for the classification of MNEs and enterprise groups using the top down approach described in the ISIC manual. With the increasing availability and access of administrative and non-traditional data sources, there is increased interest in using the enterprise as the unit of classification. However, there are several problems with the geographical location and lack of homogeneity of production when the enterprise is considered. And the concepts that underlie ISIC would need substantial review and change if the enterprise is chosen as the basis for ISIC.

17. With the multiple use of the ISIC classification and the increasing uptake of sources data beyond survey and economic census data, it was agreed that the global assessment will inquire about the existing practices in the use of ISIC for the classification of production units in addition to establishments. Further

discussion should be held by the TSG ISIC about the potential limitations of the present descriptions of economic activities for the multipurpose use of ISIC and furthermore determine the extent of the change.

Review of ISIC Revision 4: Challenging areas

18. The TSG-ISIC reviewed a number of issues with ISIC that were identified during the review of the classification of economic activities in Eurostat, the Philippines, Brazil, Morocco, Canada, New Zealand and UNSD.

19. Based on the assessment of the issues in the report ESA/STAT/AC.315/4 and ESA/STAT/AC.340-BK10, and on the issues raised by members of the TSG-ISIC during the present meeting, the TSG-ISIC has prepared a consolidated list of issues that will be the basis for the global consultation, thus completing tasks 1-3 of the terms of reference for TSG-ISIC (see Annex III). This consolidated list of issues is presented below.

- **Internet retail sales and e-Commerce sales**
ISIC classes in retail trade are defined on the basis of store retail and non-store retail. This class distinction creates difficulties measuring Internet sales and e-Commerce. As the retail environment changes, omni-channel retail is growing covering a combination of non-store and store retail channels. There are substantial sales using the web in both store and non-store categories of ISIC.
- **Intermediaries in service activities**
The increasing use of Internet enabled technologies is rapidly changing the business practices of several industries. For example, the traditional local travel agencies are declining, and Internet based reservation services are increasingly being used by both businesses and households. New service transaction intermediaries also bring together producers and consumers in new ways. Intermediaries have created the ability for a local traveler to arrange a ride with a local driver in the absence of a traditional local taxi service provider. Intermediaries can also bring together owners of real estate with customers looking for short-term accommodation. In 2017, the Expert Group adopted guidance for classification of these intermediaries (ESA/STAT/AC.340/10 - 15 August 2017 available at <https://unstats.un.org/unsd/classifications/expertgroup/egm2017/ac340-10.PDF>).
- **Audio and video content distribution**
The distribution of both audio and video content has rapidly changed to take advantage of new technologies. ISIC Rev.4 Section J, Information and communication, currently includes distinctions for publishing, program production, broadcasting, and telecommunications activities. Much of the distribution activity is now taking place over a mixture of wired and wireless networks. Internet enabled on-demand services (streaming) are not easily classified to a single location in ISIC.
- **The distinction between wholesale and retail trade**
Several countries have expressed problems with the ability to implement the concepts of wholesale trade and retail trade in ISIC. In many instances, businesses actually perform a mixture of sales to both business and household customers. While surveys may attempt to

separate class level data with additional inquiries for class of customer, concern remains with the quality of available class of customer data when attempting to assign a business to wholesale trade or retail trade.

- **Factoryless goods producers (FGPs)**
Outsourcing of manufacturing transformation services has remained an implementation problem for users of ISIC. Many countries have noted that the FGPs who outsource all manufacturing transformation activities to non-affiliated enterprises, either abroad or in the resident economy are hard to identify. Some countries have expressed the opinion that the FGP activity is not significant while other countries have noted that it is both important and growing in their economies. FGP enterprises are characterized in ISIC as units that perform all of the necessary steps that result in the production of goods but outsource the actual transformation or manufacturing activities to unaffiliated entities domestically or unaffiliated entities outside of the domestic economy. After significant discussion, the technical subgroup recommends no changes in the current guidance in ISIC based on ownership of input materials as discussed in paragraphs 136-145 of ISIC Rev.4 because no firm recommendations for improvement are available. However, the text in the ISIC manual could be further clarified that the FGP activity refers only to a production arrangement between non-affiliated entities, either abroad or in the resident economy.
- **Technology and the application of new technology**
Technology and the application of new technology raises a number of questions for ISIC. Is the application of new technology a new activity or an incrementally new way of performing an existing activity? For example, the use of technology in financial transactions, sometimes referred to as Fintech, has expanded the availability of services to much broader segments of the population than previously had access to physical banks or other service providers. The transfer of money between parties, even in different countries, has been possible for many years using wire transfer services. Now, the same transfer of money can be performed by money transfer apps on a smart phone, greatly expanding the market. Similarly, in the past, loans were provided by banks. The application of technology has seen the rise of alternative lending facilities such as non-bank lending and even arranging peer to peer lending.
- **Statistical units**
ISIC is primarily intended as a classification of establishments. However, the increased fragmentation of production (both domestic and foreign) and the increasing availability and access to administrative and non-traditional data sources put in question the validity of the establishment as the preferred unit. The Expert Group on international classification recognized in 2017 that the review of “the statistical unit model could be a driver for a major review of ISIC, noting that a change from establishments to enterprises as the main unit would require a complete conceptual review of ISIC and would most likely result in major changes, including at structural level” (ESA/STAT/AC.340/4). It is important therefore to make an assessment across countries of the unit level ISIC is applied to.

20. The TSG-ISIC concluded that these issues cannot be addressed within the current structure of ISIC. However, the extent of the changes to ISIC will be assessed after a global consultation with countries, international organizations and relevant groups of experts. The TSG-ISIC agreed therefore to conduct a global assessment in order to seek views and inputs on the list of issues above identified and seek if there are other issues in ISIC Rev. 4.

21. UNSD will conduct the global assessment and will compile the responses for review of the TSG-ISIC. It is expected that the TSG-ISIC will hold a virtual consultation on the results of the global assessment in order to report its result to the Expert Group on International Statistical Classifications.

Way forward

22. The TSG-ISIC has agreed to the following way forward:

- Prepare a set of questions for the global consultation during the period July-August 2019;
- Conduct a global assessment with countries, international organizations and relevant groups of experts on issues in the implementation of ISIC Rev. 4 during September/October 2019;
- Based on the results of the global assessment, prepare a report to the Expert Group on International Statistical Classifications containing recommendations on the extent of the revision of ISIC . The report is expected to be prepared in November 2019 so that can be included in the report of the Expert Group on International Statistical Classifications to the United Nations Statistical Commission in 2020.
- Chair of TSG ISIC will consult with Chair of Expert Group on International Statistical Commission to advance and the complete the ISIC revision in 2021 to be responsiveness to user needs and priorities. A process and timeline will be set out in the Statistical Commission report for its consideration

Annex I – List of participants

Mr. John Murphy (USA) – Chair of the TSG-ISIC

Mr. Francisco De Souza Marta (Brazil)

Mr. Franklin Xavier Assoumou Ndong (Canada)

Ms. Clotilde Masson (France)

Mr. Anthony Kofi Krakah (Ghana)

Mr. Abdelkader Choqiri (Morocco)

Ms. Severa Belista De Costo (Philippines)

Ms. Louella Ragos (Philippines)

Mr. Claude Macchi (Switzerland)

Ms. Fay Dorsett (USA)

Ms. Ana Lopes (Eurostat)

Mr. Ivo Havinga (UNSD)

Ms. Ilaria Di Matteo (UNSD)

Mr. Zhiyuan Qian (UNSD)

Annex II – Agenda of the meeting

Tuesday 18 June 2019 *UNHQ Secretariat Building, S-2724*

9:00 – 9:30 Registration

9:30 – 10:00 Session 1 - Opening of the meeting

- Opening statements
- Objectives and expected outcomes of the meeting
- Presentation of the TOR of the TSG-ISIC (background paper ESA/STAT/AC.370/5)
- Review of the Report of the TSG-ISIC Meeting, May 2016 (background paper ESA/STAT/AC.315/4)

10:00-12:30 Session 2 - Outstanding issues

FGP evaluation, outsourcing transformation and statistical units discussion related to FGP

- Issues related to the current treatment of Factoryless Goods Production (John murphy, Census Bureau)
- Report prepared by the European Union Task force working on the identification of FGPs (Ana Franco, Eurostat)
- Testing the implementation of the "possible FGP" identification strategy in France (Clotilde Masson, INSEE)

12:30 – 14:00 Lunch break

14:00 – 18:00 Session 3 - Review of ISIC Revision 4: Fundamental design and uses of ISIC

- Activity classification and statistical units
 - Fundamental discussion on the classifications on economic activities, about their structure and their implementation within the scope of the business statistics (Claude Macchi, Statistics Switzerland)
 - The Modernisation of Statistical Classifications in Knowledge and Information Management Systems (Andrew Hancock Stats NZ)

Wednesday 19 June 2019 *UNHQ Secretariat Building, S-2725*

9:30 – 12:30 Session 4 Review of ISIC Revision 4: Challenging areas

- Report on the issues collected until now in the EU on problems identified in the present NACE/ISIC (Ana Franco, Eurostat)
 - Proposed changes for NACE.
- Challenges to National Statistical Offices and Statistical Systems in the ASEAN Region: The Philippine Experience Implementing the ISIC Revision 4 (Severa B. De Costo, PSA)
- Presentation on mapping the cases of activities in the context of the digital economy (Francisco Marta, IBGE)
- Factoryless goods producers and E-commerce in Morocco (Abdelkader Choqiri, Morocco)
- Review of ISIC Revision 4: Challenging areas Ghana - Mr. Anthony Krakah, Ghana Statistics Services

12:30 – 14:00 Lunch break

14:00 – 17:30 Session 4 Review of ISIC Revision 4: Challenging areas (continued)

- Input from the Secretariat of the Pacific Community, who are custodians of the Pacific Standard Industrial Classification which is based off the current ISIC, to get a more regional/developing country view of issues. (Andrew Hancock Stats NZ)
- Challenging areas for industry classifications - Mr. Franklin Assoumou-Ndong, Statistics Canada
- Issues with the Australian and New Zealand Standard Industrial Classification (ANZSIC06) in New Zealand - Mr. Andrew Hancock, Stats NZ
- UNSD

Thursday 20 June 2019 *UNHQ Secretariat Building, S-2724*

9:30 – 10:30 Session 5 – Strategy for ISIC revision

- ISIC Revision Assessment Strategy - Mr. John Murphy, US Census Bureau

11:00 – 12:30 Session 6 - Questionnaire for global assessment

- Questionnaire on main issues for the revision of ISIC and CPC for 2007

12:30 – 13:00 Session 7 - Timeline to deliver a recommendation on ISIC to the Expert Group

13:00 Closing of the meeting

Annex III – Terms of reference of TSG-ISIC

Terms of Reference for the Technical Subgroup on ISIC (TSG-ISIC)

Background

The Expert Group on International Statistical Classifications (EG) at its meeting in September 2017 considered a report from the Technical Sub-Group ISIC (TSG-ISIC) which outlined progress on the treatment of factoryless goods producers (FGPs), and the treatment of intermediaries. In addition, the TSG-ISIC was to assess the OECD/UNECE Task Force review on the Statistical Units Model for any impacts on ISIC Rev.4

The EG agreed, at that time, that there was no need to review ISIC Rev.4 and that the TSG-ISIC should assess the issues on its work on factoryless good producers and the statistical units model and report back to the next EG meeting on whether ISIC Rev.4 needed review.

Since the September meeting, the Eurostat Standards Working Group has considered proposals of change in NACE Rev.2, and the US Economic Classification Policy Committee (ECPC), Statistics Canada and Mexico's Instituto Nacional de Estadística y Geografía are assessing issues for reviewing NAICS. Issues identified by both these activities may lead to the identification of issues that warrant reviewing ISIC Rev.4.

The main task of the TSG-ISIC is not to prepare for a future revision of ISIC, but rather to investigate if the issues raised can be addressed in the current structure of ISIC with additional guidance provided. If the TSG-ISIC investigation showed that this was not a practical approach it could recommend to the EG that a review of ISCI Rev. 4 take place.

Scope of work

As decided by the EG, the TSG-ISIC is expected, in the first instance to complete its assessment of the known issues in relation to FGPs, and the statistical units model with reference to the documents presented at the meeting of the EG:

- ESA/STAT/AC.315/4 – Final Report Meeting of the Technical Subgroup for the International Standard Industrial Classification (ISIC)
- ESA/STAT/AC.340-BK10 – Do current issues require a revision of ISIC?

The TSG-ISIC should carry out the following tasks:

1. Reassess the issues presented in paper 4 and background document 10 for relevance and impact for influencing a revision of ISIC.
2. Assess issues raised in the NACE and NAICS proposals for relevance and impact for influencing a revision of ISIC.
3. Consolidate a list of issues from 1 and 2 above, and work with UNSD to enable global consultation on those issues to take place.

4. Analyse the results of the consultation and identify issues for which ‘case laws’ could provide resolution
5. Analyse the extent of the remaining issues which could not be solved by case law and, if they are significant, make proposals of change in the present version of ISIC and if necessary recommend to the EG that a revision of ISIC take place.

Composition of the TSG

Based on discussions within the Bureau of the EG, it is decided to continue with the current composition of members, subject to confirmation of their continual involvement and determination of a Chair. The TSG will consist of the following members:

- Ms. Francisco Marta (Brazil)
- Mr. Franklin Assoumou Ndong (Canada)
- Ms. Clotilde Masson (France)
- Mr. Anthony Kofi Krakah (Ghana)
- Mr. Abdelkader Choqiri (Morocco)
- Mr. Andrew Hancock (New Zealand)
- Ms. Severa Belista De Costo (Philippines)
- Ms. Louella Ragos (Philippines)
- Mr. Claude Macchi (Switzerland)
- Mr. John Murphy (USA)
- Ms. Fay Dorsett (USA)
- Ms. Ana Franco (Eurostat)
- Mr. Ivo Havinga (UNSD)
- Ms. Ilaria di Matteo (UNSD)
- Mr. Zhiyuan Qian (UNSD)

Organization of work

The TSG will communicate through email and the use of conference calls.

A physical meeting is not proposed as no funds are allocated for this and participants would have to attend at their own expense.

Timeline

A final report of the TSG back to the EG is expected by November 2019.

The report should contain explicit recommendations on how to address the issues raised.