UNITED NATIONS
DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS
STATISTICS DIVISION

Meeting of the Expert Group on
International Statistical Classifications
New York, 19-22 May 2015

Brazilian remarks on the need for a revision or update of ISIC Rev.4

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The Brazilian remarks on the need for a revision or update of the ISIC rev.4

I - Brief introduction about the current status of implementation of International Standard Industrial Classification (ISIC Rev. 4) in Brazil

The official Brazilian Industry Classification is CNAE[1] ver. 2.0. CNAE 2.0 is derived from ISIC rev. 4 and followed the same scheduled time for the revision of ISIC Rev. 4. Its implementation in the statistical system and business registers of public administration in Brazil occurred on January 1, 2007[2].

CNAE is used throughout the Brazilian Statistical System for the variety of statistics and surveys requiring industrial activity classification (e.g., enterprise surveys, and some classifications derived from CNAE that are used to household surveys, employment surveys and the System of National Accounts) as well as in administrative registers and files.

A special feature of the Brazilian experience is the large use of CNAE by Public Administration in the organization of its business registers. For this purpose, we created CNAE-Subclasses, a classification which has the same structure as CNAE plus a fifth level where classes are detailed for the specific use of tax administration and other regulation agencies in all levels of Brazilian Public Administration (federal, state and local).

In the business registers of IBGE and annual economic surveys in the year of transition to the new version, the results were reported in two versions of CNAE (1.0 and 2.0). The same was done in 2010 for the Population Census.

In 2015, the System of National Accounts Reference 2010 reported values considering the

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[1] CNAE is an acronym for National Economic Activity Classification Version 2.0. The full name in Portuguese is Classificação Nacional de Atividades Econômicas Versão 2.0 - CNAE V 2.0.

[2] The complete implementation at the statistical system will occur by its adoption in the system of national accounts, base year of 2010, which is been prepared.

new version of CNAE 2.0, thus completing the implementation of ISIC-rev.4-based classification in Brazilian economic statistical system.

II - Remarks of Brazil to the next revision of ISIC based on specific needs for revision of CNAE

This part of the report includes specific activities where the CNAE differs in relation to treatment (scope) from the ISIC rev. 4 and proposals (whenever applicable) that could be discussed for future adjustments in the current structure of the international classification.

SECTION A - Agriculture, forestry and fishing

a) Seeds and seedlings - ISIC rev. 4 - 011 (Growing of non-perennial crops), 012 (Growing of perennial crops) and 013 (Plant Propagation)

In ISIC Rev. 4, the seeds are treated with the respective groups in the cultures of 011 and 012, and seedlings in a specific group of 013. However, as seeds are planted in the ground to grow new plants and seedlings are young plants already sprouted from the seed, it is evident that their productions do not follow the same process. This also includes the production of certified seeds and the spread of genetically modified ones which not only follow different processes, but also aim to different prices and markets. As the production of certified seeds and seedlings in Brazil has been of great and increasingly importance, we decided to create a group (014) in the structure of CNAE 2.0, specifically to reflect those productions.

b) Growing of crops combined with animal production - ISIC Rev. 4 – 0150 (Mixed farming)

In practice, the criteria used for a combined production of crops and animals without a specialized production of crops or animals to classify in this position is difficult to establish, especially for national accounts in the equilibrium analysis. Therefore, in Brazil, we've chosen to apply to all agricultural units the general principle and classify them by their main activity. Thus, categories of groups 011 or 012 are used to classify agriculture even when mixed farming is found and categories of group 014 are used to classify animal production

in spite of the existence of mixed farming.   As a result, CNAE 2.0 doesn't have a group that directly corresponds with 015 of ISIC Rev.4.

c) Division 01: Crop and animal production, hunting and related service activities

There is a clear distinction between growing of crops and animal production when production function is examined for both activities. As a result, in order to follow the basic principle of classification, we suggest those activities to be separately treated in the next revision of ISIC.

If we take a look at the current structure, there's an imbalance between group categories for agriculture (011, 012, 013) and the sole group conceived for animal production (014). Furthermore, groups 011, 012 and 013 are clearly similar in terms of production function whereas group 014 actually differs from those ones. Thus, the Division 01 combining different production function groups that, in Brazil's evaluation, should be splitted.

Proposal/Suggestion: Splitting into two different divisions: i) growing of crops; and ii) animal production.

SECTION C – Manufacturing

a) Alcohol and sugar production

An important issue to be addressed when the new period of ISIC revision begins, is related to the characteristic of sugar cane and alcohol production.

The sugar cane ethanol has a significant production in Brazil as anhydrous ethanol used in a mixture with gasoline or alcohol in a hydrated form, which is used directly as fuel.

In spite of being two totally different products, Brazilian manufacturing units can interchangeably produce both. Company's main production varies according to the international commodities prices.

The solution to classify all units as food industry does not seem appropriate since all fuel alcohol would be considered as food production.

As a result, CNAE had to establish a different treatment for alcohol production used as fuel in order to separate it from other forms of alcohol production.

The production of alcohol used as fuel is classified in the production of other biofuels, in a group that includes the production of other fuels: Division 19 - Manufacture of coke and refined petroleum products/ Group 19.3 – Production of biofuels/ Class 1931 – Production of alcohol).

The solution proposed by IBGE aimed to delineate a division that could best represent a concept of proximity both in terms of production function and the uses to which the goods and services were put. Nonetheless, we are surely opened to discuss the best way to treat sugar cane/alcohol production in the next ISIC revision.

Proposal/Suggestion: Brazil would like to have Expert Group help on how to treat sugar cane production (and for other products that are also used to produce fuel) for the next ISIC revision.

b) Division 19 - Manufacture of coke and refined petroleum products.

In general, the petroleum refining production is the most common and important activity. Thus, we suggest that it should appear at beginning of the title and explanatory notes. For instance, when we present the ISIC and its derived, the lack of knowledge about the production of coke causes many discussions and makes it difficult to understand the central content of this division.

Proposal/Suggestion: Changing the title of this division to "Manufacture of refined petroleum products and coke oven products".

It's important to remark that some other suggestions and questions will be detailed according to the calendar of revision.