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INTERNATIONAL ECONOMIC CLASSIFICATIONS

Progress report on the harmonization of economic classifications

Report of the Secretary-General

SUMMARY

The work of developing an integrated system of activity/goods classifications continues. The second session of the Joint United Nations Statistical Office/Statistical Office of the European Communities Working Group on World-Level Classifications was held in 1979. To harmonize international activity classifications, it agreed upon a list of intermediate-level categories which, it was hoped, would be adopted by the responsible organizations (paras. 6-10). It also considered a one-industry pilot study of the relationships between activity and goods classifications, including the Harmonized System of the Customs Co-operation Council (HS of CCC). Among other things, the study revealed cases where HS would need modification. A study of all industries producing transportable goods is under way, out of which will come a list of proposals to CCC for modifying HS (paras. 11-15). Items for consideration at a third session of the Working Group were agreed upon (paras. 16-19). The United Nations Statistical Office continues to participate in the work of developing HS. In this area as in other areas of classification work, the shortage of personnel remains a problem (paras. 20-24). Progress has been made in finalizing a number of publications, including the International Classification of All Goods and Services and the Classification of the Functions of Government (paras. 25 and 30). Points for discussion by the Commission are included (para. 31).

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CONTENTS

	<u>Paragraphs</u>	<u>Page</u>
INTRODUCTION . . . . .	1 - 3	3
I. RESULTS OF THE SECOND SESSION OF THE WORKING GROUP ON WORLD-LEVEL CLASSIFICATIONS . . . . .	4 - 19	3
A. Background . . . . .	4	3
B. Proposals to harmonize "industrial" classifications . . . . .	5 - 10	4
C. Harmonization of classifications of activities and products . . . . .	11 - 15	5
D. Plans for the third session of the Working Group on World-Level Classifications . . . . .	16 - 19	6
II. OTHER WORK ON ECONOMIC CLASSIFICATIONS . . . . .	20 - 30	6
A. United Nations Statistical Office participation in the work of the Harmonized System Committee . . . . .	20 - 24	6
B. Other work of the United Nations Statistical Office . . . . .	25 - 30	7
III. POINTS FOR DISCUSSION . . . . .	31	8

Annexes

- I. AGENDA OF THE SECOND SESSION OF THE WORKING GROUP ON WORLD-LEVEL CLASSIFICATIONS
- II. LIST OF DOCUMENTS BEFORE THE WORKING GROUP ON WORLD-LEVEL CLASSIFICATIONS AT ITS SECOND SESSION
- III. LIST OF INTERMEDIATE-LEVEL CATEGORIES

## INTRODUCTION

1. At its twentieth session, the Statistical Commission strongly endorsed the continuation of the work of the United Nations Statistical Office in its effort to harmonize economic classifications. 1/ The Commission had been informed that a Joint United Nations Statistical Office/Statistical Office of the European Communities Working Group on World-Level Classifications had met for the first time and had considered a set of proposals for revising the International Standard Industrial Classification of All Economic Activities (ISIC). 2/ The proposals were accepted as a basis for further study by the Working Group, which, with material assistance from the Commission of the European Communities, was able to hold a second session.
2. Section I of the present report summarizes the results of the second session of the Working Group. It should be noted that the second session had an advantage over the first, because the Council for Mutual Economic Assistance (CMEA) was able to participate. Thus, three organizations producing international activity classifications are now closely connected with the work. Continuation of the arrangement is highly desirable since, among other things, it enhances the possibility of achieving close co-ordination between and among classifications of the same type originated by international and regional organizations. This is one of the chief objectives of the Working Group.
3. A second objective is to increase the degree of co-ordination (harmonization) between classifications of activities and of goods and services. In this work, the Harmonized Commodity Description and Coding System (HS) of the Customs Co-operation Council (CCC) is seen as of particular value. Section II below presents a brief review of the status of the work on HS, the relationships between the Harmonized System Committee (HSC) and the Working Group and other work in progress on economic classifications.

### I. RESULTS OF THE SECOND SESSION OF THE WORKING GROUP ON WORLD-LEVEL CLASSIFICATIONS

#### A. Background

4. The second session of the Working Group met at Luxembourg from 25 to 29 June 1979. The main item of the agenda concerned proposals to harmonize the "industrial" classifications of the United Nations Statistical Office, 3/ SOEC 4/

1/ Official Records of the Economic and Social Council, 1979, Supplement No. 3 (E/1979/23), para. 90.

2/ United Nations publication, Sales No. E.68.XVII.8.

3/ International Standard Industrial Classification of All Economic Activities (ISIC).

4/ General Industrial Classification of Economic Activities within the European Communities (NACE).

and CMEA 5/ at an intermediate level of aggregation. Other matters considered were (a) a pilot study of one industry for the purpose of demonstrating in detail the factors to be taken into account in the process of harmonizing activity and product classifications, and (b) a study of classification structures of a character to facilitate the realization of an integrated system of activity and product classifications. The agenda and the list of documents before the Working Group are given in annexes I and II to the present report.

#### B. Proposals to harmonize "industrial" classifications

5. The Working Group focused on those parts of the "industrial" classifications in which the activity results chiefly in the production of transportable goods and on those few cases in which the activity results in services closely associated with transportable goods. Those parts of the classifications covering construction, trade, finance, government and other services were left for consideration at a subsequent session.

6. Two approaches to the harmonization of "industrial" classifications were presented for consideration. In both cases, the objective was to produce an identical, or virtually identical, intermediate level made up of standard categories of activities so that data collected according to one of the three classifications involved (ISIC, NACE and SCEB) would be equivalent to data obtained through use of the other two classifications, at the intermediate level. The intermediate-level categories would not necessarily be arranged in each of the classifications so that simple aggregation produced the same higher-level groups. Convenient as this might be from an international point of view, discussion at the first session of the Working Group had shown that such an outcome would be difficult to achieve.

7. Much of the second session was devoted to a discussion of the intermediate-level categories and their contents and the relationships between the categories and products in terms of the dissections found in HS. Despite some remaining problems, general agreement was reached on most of the 57 categories submitted to the Working Group for consideration. Where disagreement could not be resolved, the experts undertook to give their views in writing to the three organizations chiefly responsible for the affected classifications.

8. With these views in hand and more detailed information on the relationship between the intermediate-level categories and the products produced in each of them, it should be possible to clarify the content of those of the 57 categories already agreed upon as well as to reach substantial agreement on those still not fixed. The more detailed information will become available as a result of a full study of the links between classifications of activities and products along the lines of the pilot study mentioned in paragraph 4.

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5/ Classification of the Branches of National Economy of the CMEA Member Countries (SCEB).

9. The intermediate-level categories are roughly equivalent to the three-digit major-group level of the 1968 version of ISIC. In that version, there are 40 major groups in the part covering industries producing transportable goods and energy. The increase in the number of categories from 40 to 57 reflects in part the inclusion in the intermediate-level list of some categories appearing at the four-digit level of ISIC. It is anticipated that, when the revision of ISIC is completed, it will not contain many more categories at either the three-digit or four-digit level than the 1968 ISIC.

10. A list of the intermediate-level categories considered by the Working Group is given in annex III to the present report.

#### C. Harmonization of classifications of activities and products

11. Consideration of the problems of harmonizing classifications of activities and products was based upon a pilot study of the dairy industry. It was a concrete illustration of the procedure that would have to be followed to achieve an integrated system of international economic classifications. The Working Group agreed that a full-scale study along the lines of the pilot study should be undertaken; this is, in fact, being done by SOEC. Six intermediate-level categories have already been studied and the results distributed to the members of the Working Group. The work is continuing and most of the intermediate-level categories should have been studied before the twenty-first session of the Statistical Commission.

12. An immediate result of the work will be the formulation of proposals for somewhat modifying HS so as to take more careful account of the industrial-origin criterion in its dissections.

13. Another result should be a better understanding of the relationship between ISIC and the Standard International Trade Classification (SITC), Rev. 2, <sup>6/</sup> leading to closer co-ordination between the two classifications after 1985, by which time it is expected that SITC would have to be revised to take account of the major revisions in the Customs Co-operation Council Nomenclature (CCCN) brought about by the coming into force of HS.

14. The closer relationship between a revised ISIC and a post-1985 SITC should, in the first instance, draw together the activities of the intermediate-level categories discussed in paragraphs 5-10 above and the two-digit and three-digit levels of SITC.

15. Stress was laid on the need to work on activity and product classifications simultaneously, and this is what is being done at the intermediate level. But the study does not stop at the intermediate-level categories. It also compares the dissections found at the lower levels of SITC with classifications of products by industrial origin. <sup>7/</sup> The purpose is to provide the data by which these types of classifications may also be drawn closer together.

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<sup>6/</sup> United Nations publication, Sales No. E.75.XVII.6.

<sup>7/</sup> "Draft International Standard Classification of All Goods and Services (ICGS)" (E/CN.3/493); and the Common Nomenclature of Industrial Products (NIPRO) of the Statistical Office of the European Communities.

D. Plans for the third session of the Working Group  
on World-Level Classifications

16. It was agreed that a third session of the Working Group should take place soon after the twenty-first session of the Statistical Commission, provided that the Commission of the European Communities found it possible to make the necessary arrangements and that no other organization desired to undertake this task.

17. The main purpose of a third session would be to finalize work on the 57 intermediate-level categories for transportable goods and to formalize proposals for amending HS for submission to CCC by the prescribed deadline, namely mid-1981.

18. Other steps in the ISIC/NACE/SCEB harmonization process which the Working Group wished to take up were proposals for restructuring the remaining divisions of these classifications and a summary report on the relationship between activity and trade classifications at the intermediate level, as well as at the more detailed level.

19. A number of experts felt that the Working Group should consider the special needs of developing countries in the structures being designed. It was proposed that those experts should provide notes on this matter to the United Nations Statistical Office, which would act as a clearing-house and would prepare a summary paper on the basis of the notes.

II. OTHER WORK ON ECONOMIC CLASSIFICATIONS

A. United Nations Statistical Office participation in  
the work of the Harmonized System Committee

20. In accordance with the wishes of the Statistical Commission, <sup>8/</sup> the United Nations Statistical Office participates in the meetings of HSC and its working party. The contribution made to these meetings by the Office remains substantial, but because of the over-all limitation on resources, including those available for this work, it remains at the 1977/78 level. This means that the Statistical Office has not been able to contribute to the voluminous documentation for the meetings and has had to exert its influence by oral presentations and by casting its ballot where, from a statistical point of view, it does the most good.

21. In many instances, intervention by the Office has had positive results in terms of the industrial-origin criterion. The study of harmonizing activity and product classifications mentioned in paragraph 11 above has shown - for the six intermediate-level categories completed - that the remaining anomalies are, if not minor, at least manageable. Whether this will prove to be so for some of the more complex industries remains to be determined.

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<sup>8/</sup> Official Records of the Economic and Social Council, 1979, Supplement No. 3 (E/1979/23), para. 90.

22. By the end of 1980, HSC should have considered and agreed upon the dissection of well over 90 per cent of the four-digit CCCN headings. The next step in the development process is an over-all review of the result which, it may be recalled, took more than six years to carry out. In detailed work of this nature, there will be many instances where the system (or as it is sometimes called, "the structured nomenclature") will need to be adjusted. It is with these review sessions in mind that the Working Group called for the formulation of proposals for amending HS to meet more thoroughly the needs of industrial statistics in particular and, more generally, to permit HS to function as a basic reference work in the integrated system under development by the Working Group.

23. The Working Group's study, which will result in the formulation of proposals for adjusting HS, draws a distinction between significant and less important "misclassifications". Every effort is being made to keep the proposals to a minimum. On the basis of statements made at sessions the Statistical Commission and the Working Group by representatives of CCC, there is good reason to expect that the proposals will receive a favourable reception.

24. National statistical offices can have a substantial influence upon the acceptance of these proposals by providing to their HSC delegations briefs reflecting their views on the industrial-origin criterion.

#### B. Other work of the United Nations Statistical Office

25. Work on preparing the International Classification of All Goods and Services (ICGS) for publication as a technical report has not progressed as quickly as had been expected, in part because of the over-all limitation on resources and in part because of the lack of a suitable computer programme. The latter problem has been resolved and the former problem is on the verge of solution. It may, therefore, be possible to have ICGS ready for publication in 1981.

26. In the process of editing ICGS, considerable use was made of the list of "common groupings". "Common groupings" come into the editing process, because they reveal where small changes in ICGS might be made to strengthen the relationship between ICGS and SITC.

27. "Common groupings" consist of combinations of three or four ICGS classes or subclasses, on the one hand, and a similar number of SITC items, on the other. These ICGS/SITC combinations were made with the objective of forming exactly, or almost exactly, equivalent categories. The notion was that such categories would be helpful in analyses where data on trade had to be related to data on production and vice versa.

28. The "common groupings" have not yet been published, because they are subject to change. Changes in ICGS suggested by "common groupings" sometimes have a secondary effect upon one or more of the categories of "common groupings".

29. The United Nations Statistical Office has played an important part in the development of "Codes for the representation of names of countries" of the

International Organization for Standardization (ISO). The ISO standard is based largely on the register of countries and areas developed and maintained by the Statistical Office and used by it for statistical data processing. Some progress has been made in the design of a publication containing the register with a view to encouraging the use of standard designations of countries and areas, including geographical agglomerations and certain economic groupings.

30. The Classification of the Functions of Government (COFOG) was circulated to Member States and international organizations. Their comments on the dissections were taken into account to the extent possible, and COFOG has been submitted for publication. 9/

### III. POINTS FOR DISCUSSION

31. The Commission may wish to:

(a) Comment on the proposed programme of work of the third session of the Working Group (paras. 16-19);

(b) Urge CCC to give as favourable a response as possible to the proposals of the Working Group concerning the industrial-origin criterion (paras. 22-23);

(c) Discuss methodologies in classification design that would result in an "industrial" classification better suited to developing countries while leaving unimpaired the classification's adaptability for use by developed countries and as an instrument for international reporting (para. 19).

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9/ United Nations publication, Statistical Papers, Series M, No. 70 (in press).



Annex I

AGENDA OF THE SECOND SESSION OF THE WORKING GROUP  
ON WORLD-LEVEL CLASSIFICATIONS

1. Adoption of the agenda
2. Reports of statistical bodies on classification questions
  - 2.1 Report of the twentieth session of the United Nations Statistical Commission
  - 2.2 Report of the recent meeting of Directors General of National Statistical Institutes of EC Countries
  - 2.3 Other reports
    - 2.31 Report of the third session of the Committee on Statistics of the United Nations Economic and Social Commission for Asia and the Pacific
    - 2.32 Reports of other bodies working in the field of classifications
3. Summary of comments by experts on methodological questions and on document UNSO/SOEC/1/1
  - 3.1 Methodological questions
    - 3.11 Harmonization of activity and product classification structures
    - 3.12 Other questions of methodology
  - 3.2 Summary of detailed comments by experts on document UNSO/SOFC/1/1
4. Proposals to harmonize ISIC/NACE/CMEA-SCEB at intermediate levels
  - 4.1 A first proposal by the United Nations Statistical Office to harmonize ISIC and NACE at intermediate levels
  - 4.2 A tentative proposal to bring CMEA-SCEB into a close relationship with the dissection proposed in 4.1
  - 4.3 Counter proposal of SOEC to the United Nations Statistical Office proposal on harmonization of ISIC and NACE
5. Harmonization studies taking account of activity and product classifications
  - 5.1 A pilot study by SOEC
  - 5.2 Some problems in harmonizing classifications as shown by "common groupings"

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E/CN.3/545  
English  
Annex I  
Page 2

6. Further work
7. Other business
8. Date and place of next meeting
9. Adoption of the report of the meeting

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Annex II

LIST OF DOCUMENTS BEFORE THE WORKING GROUP ON WORLD-LEVEL  
 CLASSIFICATIONS AT ITS SECOND SESSION

I. Documents prepared especially for consideration by the Working Group

<u>Document No.</u>	<u>Agenda item</u>	<u>Title</u>
UNSO/SOEC/2/1	1	Provisional agenda
UNSO/SOEC/2/2	2	Reports of statistical bodies on classification questions
UNSO/SOEC/2/3	3.11	Harmonization of activity and product classification structures
UNSO/SOEC/2/4	3.12	Summary of comments by experts on methodological questions
UNSO/SOEC/2/5	3.2	Summary of comments by experts on proposals found in document UNSO/SOEC/1/1
UNSO/SOEC/2/6	4.1	A first proposal to harmonize ISIC and NACE at intermediate levels
UNSO/SOEC/2/7	4.2	A tentative proposal to harmonize ISIC and CMEA-SCEB
UNSO/SOEC/2/8	5.1	Pilot study: proposals for harmonization of ISIC and NACE and attempt on a "Central Product Classification" (CPC) - Scheme on a basis of the "Harmonized System" (Dairy Industry and its products)
UNSO/SOEC/2/9	5.2	The "common groupings" and their use for the harmonization of classifications
UNSO/SOEC/2/10	4.3	Counter proposal of SOEC to UNSO proposal on harmonization of ISIC and NACE

II. Other documents available to the Working Group

(SOEC publication)	4.1 and 4.3	General Industrial Classification of Economic Activities within the European Communities (NACE)
(CMEA publication)	4.2	Classification of the Branches of National Economy of the CMEA Member Countries
Series M, No. 4, Rev.2 (United Nations publication)		International Standard Industrial Classification of All Economic Activities (ISIC)

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Annex III

LIST OF INTERMEDIATE-LEVEL CATEGORIES

Identification number	Title	Identification number	Title
01	Agricultural production (including hunting and gathering of forest products)	19	Other food industries
		20	Beverage industries
		21	Tobacco industry
02	Livestock production	22	Textile industry
03	Agricultural and livestock services	23	Ready-made clothing industry
04	Forestry	24	Leather and fur industry (fur apparel excluded)
05	Fishing	25	Foot-wear industry
06	Iron ore mining	26	Sawmills, planing and other wood mills
07	Non-ferrous metal mining	27	Manufacture of wood and cork products (except furniture)
08	Stone quarrying, clay and sand pits	28	Manufacture of paper and paper products
09	Mining of other non-energy minerals	29	Printing, publishing and allied industries
10	Coal mining	30	Manufacture of basic chemicals
11	Crude petroleum and natural gas extraction	31	Man-made fibre industry
12	Services to petroleum and natural gas producers	32	Manufacture of other chemical products
13	Nuclear fuel processing	33	Tyre and tube industry
14	Petroleum refining	34	Manufacture of rubber and plastic articles
15	Coke ovens	35	Manufacture of pottery, china and earthenware
16	Production and distribution of electricity, steam and hot water	36	Manufacture of structured clay products
17	Gasworks and gas distribution		
18	Basic food industries (including prepared animal feeds industry)		

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Identification number	Title	Identification number	Title
37	Manufacture of glass and glass products	47	Manufacture of office, computing and accounting machinery
38	Manufacture of other non-metallic mineral products	48	Manufacture of electrical machinery, apparatus and appliances
39	Iron and steel industries	49	Manufacture of radio, television and communication equipment and apparatus
40	Non-ferrous metal basic industries	50	Manufacture of motor vehicles
41	Foundries	51	Manufacture of aircraft
42	Manufacture of structural metal products, power and marine boilers and other fabricated platework	52	Manufacture of other transport equipment
43	Manufacture of fabricated metal products not elsewhere classified	53	Precision engineering
44	Manufacture of engines and turbines	54	Manufacture of watches and clocks
45	Manufacture of special purposes machinery	55	Manufacture of furniture
46	Manufacture of general purpose machinery	56	Other manufacturing industries
		57	Water works and supply