

## **North American Industry Classification System--Update for 2002**

**AGENCY:** Office of Management and Budget, Executive Office of the President.

**ACTION:** Notice of solicitation of comments on the Economic Classification Policy Committee's recommendations for the 2002 revision of the North American Industry Classification System.

**SUMMARY:** Under Title 44 U.S.C. 3504(e), the Office of Management and Budget (OMB) seeks public comment on the advisability of adopting the proposed North American Industry Classification System (NAICS) updates for 2002. OMB's Economic Classification Policy Committee (ECPC) recommends an update of the industry classification system to extend the harmonized three-country classification structure to construction and to recognize important changes in the retail trade and information sectors. In addition, as an interim measure in the United States, the ECPC recommends restructuring of the Wholesale Trade sector to reflect differences in production functions and to capture more accurately the rapidly-growing business-to-business electronic markets developing in the United States.

This notice: (1) summarizes the background for the proposed revisions to NAICS 1997 in Part I; (2) contains a summary of public comments in Part II; (3) details the proposed structure changes agreed upon by the three countries in Part III; and (4) provides a comprehensive listing of proposed changes for national industries and their link to NAICS 1997 industries in Part IV.

OMB published a notification of intention to complete portions of NAICS in a February 25, 1999, *Federal Register* notice (64 **FR** 9416-9419). That notice solicited comments on the advisability of revising the NAICS 1997 structure for 2002 and solicited comments on the creation of new industries in the Construction and Wholesale Trade Sectors, modifications to the national industries for department stores and nonstore retailers, and other changes identified as necessary during the initial implementation of NAICS 1997. The deadline for submitting comments was April 26, 1999.

After considering all proposals from the public, consulting with a large number of U.S. data users and industry groups, and undertaking extensive discussions with Statistics Canada and Mexico's Instituto Nacional de Estadística, Geografía e Informática (INEGI), the ECPC, INEGI, and Statistics Canada developed a revised structure for both the Construction and Information sectors of NAICS that would apply to all three North American countries.

For Wholesale Trade, after extensive discussions with Statistics Canada and INEGI, the representatives of the three countries' statistical agencies decided to delay three-country changes to this sector and instead plan for a complete restructuring of the distribution network industries (wholesale, retail, transportation, and warehousing) in 2007. In the interim the ECPC recommends restructuring the Wholesale Trade sector to reflect differences in production functions between those wholesalers that take title to goods and those that do not, and to capture more accurately the rapidly-growing business-to-business electronic markets developing in the United States. The ECPC also developed proposed additional U.S. industry detail in the Retail Trade sector for NAICS United States. The ECPC recommends that NAICS United States 2002 incorporate these changes as shown in Parts III and IV.

Following an extensive process of development and discussions by the ECPC, with maximum possible public input, OMB seeks comment on the advisability of revising NAICS to incorporate the changes published in this notice. The modified NAICS would be employed in relevant data collections by all U.S. statistical agencies beginning with the reference year 2002. Statistics Canada and INEGI are recommending acceptance of the proposed revision of the NAICS system for industry classification in the statistical programs of their national systems and are seeking comments in their respective countries. Representatives of the three countries will hold further discussions to consider public comments that they receive.

**DATES:** To ensure consideration of comments on the adoption and implementation of the NAICS revisions detailed in this notice, comments must be in writing. You should submit them as soon as possible, but no later than Monday, June 19, 2000. This proposed revision to NAICS would become effective in the U.S. on January 1, 2002.

**ADDRESSES:** You should send correspondence about the adoption and implementation of NAICS revisions as shown in this Federal Register notice to: Katherine K. Wallman, Chief Statistician, Office of Management and Budget, 10201 New Executive Office Building, Washington, DC 20503, telephone number: (202) 395-3093, FAX number: (202) 395-7245.

You should address inquiries about the content of industries or requests for electronic copies of the tables to: Carole Ambler, Chair, Economic Classification Policy Committee, Bureau of the Census, Room 2633-3, Washington, DC 20233, telephone number: (301) 457-2668, FAX number: (301) 457-1343.

*Electronic Availability and Comments:* This document is available on the Internet from the Census Bureau via WWW browser and E-mail. To obtain this document via WWW browser, connect to <http://www.census.gov/naics>. This WWW page also contains previous NAICS *Federal Register* notices and related documents.

You may send comments via E-mail to [pbugg@omb.eop.gov](mailto:pbugg@omb.eop.gov) with subject NAICS02. OMB will include in the official record comments received via E-mail at this address with this subject by the date specified above.

**FOR FURTHER INFORMATION CONTACT:** Paul Bugg, 10201 New Executive Office Building., Washington, DC 20503, E-mail address: [pbugg@omb.eop.gov](mailto:pbugg@omb.eop.gov), telephone number: (202) 395-3093, FAX number: (202) 395-7245.

## **SUPPLEMENTARY INFORMATION:**

### **Part I: Background of NAICS 1997**

NAICS is a system for classifying establishments by type of economic activity. Its purposes are: (1) to facilitate the collection, tabulation, presentation, and analysis of data relating to establishments, and (2) to promote uniformity and comparability in the presentation and analysis of statistical data describing the economy. Federal statistical agencies use NAICS to collect or publish data by industry. It also is used widely by State agencies, trade associations, private businesses, and other organizations.

INEGI of Mexico, Statistics Canada, and the United States Office of Management and Budget (OMB), through its Economic Classification Policy Committee (ECPC), collaborated on NAICS to make the industrial statistics produced in the three countries comparable. NAICS is the first industry classification system developed in accordance with a single principle of aggregation, the principle that producing units that use similar production processes should be grouped together in the classification. NAICS also reflects in a much more explicit way the enormous changes in technology and in the growth and diversification of services that have marked recent decades. Industry statistics presented using NAICS are also comparable with statistics compiled according to the latest revision of the United Nations' International Standard Industrial Classification (ISIC, Revision 3) for some sixty high-level groupings.

For the three countries, NAICS provides a consistent framework for the collection, tabulation, presentation, and analysis of industrial statistics used by government policy analysts, by academics and researchers, by the business community, and by the public. However, because of different national economic

and institutional structures as well as limited resources and time for constructing the 1997 NAICS, the NAICS structure was not made entirely comparable at the individual industry level across all three countries at that time. The completion effort represented in this notice originally focused on the construction and wholesale trade sectors. In the 1997 NAICS these two sectors were comparable at the two-digit level for all three North American countries.

Throughout its development, NAICS has been guided by four principles:

(1) NAICS is erected on a production-oriented or supply-based conceptual framework. This means that producing units that use the same or similar production processes are grouped together in NAICS.

(2) NAICS gives special attention to developing production-oriented classifications for (a) new and emerging industries, (b) service industries in general, and (c) industries engaged in the production of advanced technologies.

(3) Time series continuity is maintained to the extent possible, given the need to reflect changes in the economy and proposals from data users. Adjustments will be required for sectors where the United States, Canada, and Mexico have incompatible industry classification definitions in order to produce a common industry system for all three North American countries.

(4) The system strives for compatibility with the two-digit level of the International Standard Industrial Classification of All Economic Activities (ISIC Rev. 3) of the United Nations.

The ECPC is committed to maintaining the principles of NAICS. For example, the proposed split in the national industry for department stores will separately identify two distinct and economically significant types of operations in the United States in accordance with principle 1. The ECPC is recommending the revisions for nonstore retailers and new Internet information businesses based on NAICS principle 2. The rapid growth of Internet companies and the lack of a structural method for identifying these emerging industries justify the additional NAICS and U.S. national detail. The current round of completion activities is limited in scope based on NAICS principle 3 regarding time series continuity. The ECPC believes that the narrow focus of the completion activities and the importance of Construction and Information to the economies of all three countries justify the resulting time series breaks. Users are encouraged to implement the most current structure of NAICS as it becomes available.

## **Part II: Summary of Public Comments**

In response to the February 25, 1999, *Federal Register* notice, the ECPC received 28 comments regarding specific industries and recommended changes to the structure of NAICS 1997. Twenty-two of the comments focused on the Construction Sector, three focused on the Wholesale Trade Sector, and three were outside the scope of revision as defined by the ECPC.

Public proposals for individual industries from all three countries were considered for acceptance if the proposed industry was based on the production-oriented concept of the system. When a proposal was not accepted, it was usually because: a) the resulting industry would have been too small in the U.S., b) data indicated that the specialization ratio was low (the specialization ratio indicates the extent to which the establishments in a given industry concentrate on the activities that define the industry), or c) the proposal did not meet the production-oriented criterion for forming an industry in NAICS.

The ECPC received a number of comments that suggested changes to NAICS that were not accepted. All of these suggestions were carefully considered. Some suggestions were modified at the request of the ECPC to better meet the objectives of NAICS. Other suggestions proposed products (rather than industries); these will be considered in the future development of a product system. Still other suggestions for change could not be justified on a production basis, or could not be implemented in statistical programs, for various reasons, and thus were not accepted. The ECPC is preparing individual responses to these suggestions, carefully explaining why they were not accepted.

Many of the twenty-two comments that related to the Construction sector requested changes or structures that were contradictory. For this reason alone, the ECPC was not able to implement all of the requested changes. Other comments requested detail that was not supported by specialization studies performed using 1997 Census of Construction data. A final constraint on the acceptability of proposals was the necessity for three-country comparability. A comment that was justified on a production function basis in the United States was not always supportable by either Canada or Mexico.

The proposed structure of the Construction Sector has limited three-country comparability. In most areas, the representatives of the three countries attained comparability at the five-digit level. The Specialty Trade Contractors subsector is comparable at the four-digit level. This was the result of a desire to allow U.S. agencies to develop separate residential and nonresidential data for Specialty Trade Contractors without creating special aggregations outside of the NAICS structure. Although separate residential and nonresidential specialty trade

industries were not created because of production function considerations, the structure does allow for residential and nonresidential data collection by U.S. statistical agencies. The sixth digit of the structure is reserved for this purpose. This information can be derived from Census Bureau data in Economic Census years. The Bureau of Labor Statistics will provide this information in the Covered Employment and Wages Program when the NAICS 2002 changes are implemented.

A second major proposal in the Construction sector related to project delivery methods. In recent years, Federal and State procurement laws have been changed to allow design-build as an alternative to the traditional design-bid-build process for construction projects in the public arena. This project delivery method alternative to structuring the Construction sector was not accepted in the three-country negotiations for a variety of reasons. First, the design-build terminology is used differently by various practitioners. The variation in use and meaning will cause difficulties in classification and the development of homogeneous industry groupings without extremely detailed questionnaires. Such a level of detail is not practical. Next, while of growing importance in the United States and Canada, design-build is not so prominent in Mexico. Finally, a project delivery method structure would have greatly expanded the number of industries at the lowest level of the classification. The proposed structure has 31 detailed industries for the United States. A further split by project delivery method would further expand the number of detailed industries and reduce the size of each.

The majority of the comments received that related to Wholesale Trade requested a change in the previously agreed upon scope of the sector. After extensive discussions with Canada and Mexico, the representatives decided to recommend that the basic delineation between Wholesale Trade and Retail Trade should remain unchanged. Further, the representatives agreed to undertake a complete restructuring of the distribution network industries (wholesale, retail, transportation, and warehousing) in NAICS 2007. In the interim, the United States has restructured NAICS United States 1997, Sector 42, Wholesale Trade to more closely align with the existing treatment in Canada and Mexico. For the United States, the ECPC has created three new subsectors: 423, Merchant Wholesalers, Durable Goods; 424, Merchant Wholesalers, Nondurable Goods; and 425, Wholesale Electronic Markets and Agents and Brokers. These subsectors more clearly separate types of wholesale trade businesses and will lead to more homogeneous statistical data. The merchant wholesaler subsectors are characterized by establishments that take title to goods and play the role of principal in the buying and selling of goods. The Wholesale Electronic Markets and Agents and Brokers subsector is characterized by establishments that act on behalf of sellers or facilitate wholesale transactions but do not actually take title to the goods.

Wholesale trade is rapidly changing. Many traditional wholesale trade functions are being outsourced to storage, finance, logistics, or transportation specialists. In addition to these changes, the Internet has greatly expanded markets and supplier customer bases. In order to identify these changes to the extent possible, the ECPC recommends that subsector 425, Wholesale Electronic Markets and Agents and Brokers be split into two separate industries. The first would include the wholesale trade electronic markets while the second would include agents and brokers. The electronic markets provide guidance and assistance to both buyers and sellers. They also provide a unified, one stop, purchasing environment with common requirements across a large number of suppliers. The rapid growth of the business to business (B2B) electronic markets reflects the considerable efficiencies that can be obtained through the use of advanced technology. Separate identification of this rapidly growing activity will allow a more thorough and reflective analysis of wholesale trade in relation to the overall changes in distributive trades in 2007.

In addition to working on the sectors described in the February 25, 1999, *Federal Register* notice that were explicitly targeted for completion, the rapid growth of the Internet and electronic commerce resulted in a decision by the three countries to re-evaluate the Information sector as well. Although new in 1997, the Information sector lacked finite categories related to new Internet activities such as Internet service providers, web search portals, and Internet publishing and broadcasting. The second NAICS principle specifically targets new and emerging industries. The North American partners in NAICS agreed that the importance of statistical data related to new Internet businesses outweighed the time series continuity criterion also used in NAICS development. A full description of the recommended provisional changes to the Information sector is included in Part III.

In addition to the changes listed above, the ECPC is proposing several minor changes to titles of NAICS industries that have no impact on the content of those industries. The ECPC recommends the following title changes: NAICS 32611, Unsupported Plastics Film, Sheet, and Bag Manufacturing, will be changed to Plastics Packaging Materials and Unlaminated Film and Sheet Manufacturing.

NAICS 326111, Unsupported Plastics Bag Manufacturing, will be changed to Plastics Bag Manufacturing.

NAICS 326112, Unsupported Plastics Packaging Film and Sheet Manufacturing, will be changed to Plastics Packaging Film and Sheet (including Laminated) Manufacturing.

NAICS 326113, Unsupported Plastics Film and Sheet (except Packaging) Manufacturing, will be changed to Unlaminated Plastics Film and Sheet (except Packaging) Manufacturing.

NAICS 32612, Plastics Pipe, Pipe Fitting, and Unsupported Profile Shape Manufacturing, will be changed to Plastics Pipe, Pipe Fitting, and Unlaminated Profile Shape Manufacturing.

NAICS 326121, Unsupported Plastics Profile Shape Manufacturing, will be changed to Unlaminated Plastics Profile Shape Manufacturing.

NAICS 326130, Laminated Plastics Plate, Sheet, and Shape Manufacturing, will be changed to Laminated Plastics Plate, Sheet (except Packaging), and Shape Manufacturing.

NAICS 444220, Nursery and Garden Centers, will be changed to Nursery, Garden Center, and Farm Supply Stores to describe more completely the content of the industry.

NAICS 452910, Warehouse Clubs and Superstores, will be changed to Warehouse Clubs and Supercenters. The term supercenter more adequately describes the content of the NAICS industry.

NAICS 561330, Employee Leasing Services, will be changed to Professional Employer Organizations to more closely reflect common industry terminology.

The United States is also taking this opportunity to create additional national level detail for department stores and nonstore retailers. These changes will create more meaningful, homogeneous industries for the United States. Department Stores, NAICS 45211, will be split into two new 6-digit industries: Department Stores (except Discount), NAICS 452111, and Discount Department Stores, NAICS 452112.

Electronic Shopping and Mail-Order Houses, NAICS 45411, will be split into three new 6-digit industries: Electronic Shopping, NAICS 454111; Electronic Auctions, NAICS 454112; and Mail-Order Houses, NAICS 454113. The proposed changes for electronic shopping acknowledge the rapid growth of these activities in the United States. The proposed industry for Electronic Shopping includes separate establishments engaged in primarily providing electronic shopping services. The structure and codes for these new industries are detailed in Part IV of this notice.

### **Time Series Continuity**



The standard approach to preserving time series continuity after classification revisions is to create linkages where the series break. This is accomplished by producing the data series using both the old and new classifications for a given period of transition. With the dual classifications of data, analysts can assess the full impact of the revision. Data producers then may measure the reallocation of the data at aggregate industry levels and develop a concordance between the old and new series for that given point in time. The concordance creates a crosswalk between the old and new classification systems. Statistical agencies in the U.S. are planning links between the 1997 NAICS and 2002 NAICS (with U.S. national detail).

### **ECPC Recommendations for the Hierarchical Structure, Industries, and Coding System for the 2002 NAICS Revisions**

Parts III and IV below present the ECPC's final recommendations for how United States statistical agencies would revise the affected sectors and industries in the 2002 NAICS classification system for the United States. The tables show the proposed 2002 hierarchy, including NAICS and U.S. national detail industries, and the proposed coding system in 2002 NAICS sequence, for the affected sectors and industries. Parts III and IV include all ECPC recommended changes to the structure based on public comment and discussions with INEGI and Statistics Canada.

**John T. Spotila**  
*Administrator,*  
*Office of Information and Regulatory Affairs.*

**Part III--Proposed Revisions to the NAICS Structure**

**Section A--NAICS Structure - Construction**

**NORTH AMERICAN INDUSTRY CLASSIFICATION SYSTEM**

**(NAICS 2002)**

**AGREEMENT Number 32**

This document represents the proposed agreement on the structure of the North American Industry Classification System (NAICS) for the construction sector. The detailed NAICS structure along with a brief description of the structure is attached (Attachments 1 and 2). Each country agrees to release a copy of the proposed NAICS structure to interested data users. Comments received will be shared among the countries and additional discussions will be held before a final decision on the structure is made. Each country may add additional detailed industries below the internationally agreed upon level of NAICS, as necessary to meet national needs, so long as this additional detail aggregates to an internationally agreed upon level in order to ensure full comparability among the three countries. This NAICS structure was presented and accepted at the NAICS Committee meeting held on November 30 through December 2, 1999, in Ottawa, Canada.

<b><i>Accepted</i></b>	<b><i>Signature</i></b>	<b><i>Date</i></b>
Canada	_____Richard Barnabe_____	<u>12/2/1999</u>
Mexico	_____Enrique Ordaz_____	<u>12/2/1999</u>
United States	_____Carole Ambler_____	<u>12/2/1999</u>

## ATTACHMENT 1-- NAICS STRUCTURE

23	Construction
236	Construction of Buildings
2361	Residential Building Construction
23611	Residential Building Construction
2362	Nonresidential Building Construction
23621	Industrial Building Construction
23622	Commercial and Institutional Building Construction
237	Heavy and Civil Engineering Construction
2371	Utility System Construction
23711	Water and Sewer Line and Related Structures Construction
23712	Oil and Gas Pipeline and Related Structures Construction
23713	Power and Communication Line and Related Structures Construction
2372	Land Subdivision
23721	Land Subdivision
2373	Highway, Street, and Bridge Construction
23731	Highway, Street, and Bridge Construction
2379	Other Heavy and Civil Engineering Construction
23799	Other Heavy and Civil Engineering Construction
238	Specialty Trade Contractors
2381	Foundation, Structure, and Building Exterior Contractors
2382	Building Equipment Contractors
23821	Electrical Contractors
23822	Plumbing, Heating, and Air-Conditioning Contractors
23829	Other Building Equipment Contractors
2383	Building Finishing Contractors

2389

Other Specialty Trade Contractors

## **ATTACHMENT 2 -- DESCRIPTION OF CONSTRUCTION SECTOR**

### ***Draft Classification for Construction***

Representatives of the statistical agencies of Canada, Mexico, and the United States agree to a draft industrial classification for the Construction sector. The draft classification of the construction sector is divided into subsectors covering Construction of Buildings, Heavy and Civil Engineering Construction, and Specialty Trade Contractors. These subsectors are further subdivided into 10 four-digit industry groups and 12 five-digit industries.

### ***A General Outline***

Establishments in the Construction Sector erect buildings, perform heavy and civil engineering construction, and perform specialized construction trade activities. The classification distinguishes between establishments that are responsible for an entire building or building renovation project and those that perform specific functions during the erection of a building or building renovation project. A subsector is provided for each group. The classification further distinguishes all establishments performing civil engineering and heavy construction activities, whether the complete project or a portion of the project, in a third subsector.

In Construction of Buildings, the classification distinguishes between the erection of residential buildings and the erection of nonresidential buildings. Each of these industry groups includes establishments that are responsible for an entire building or building renovation project. These industry groups include general contractors and design-builders working for owners and operative builders who undertake the entire project on a speculative basis. Establishments in the Construction of Buildings subsector may perform specific construction activities or subcontract for specific tasks. Additionally, each industry group includes establishments that are hired to manage the project, including oversight of the design, financing, bidding, and review processes, and/or act as a liaison between the owner and a general contractor, designer, architect, or engineer.

The classification makes no distinctions in the residential buildings industry group because of differences in the organization of construction establishments among the three countries. National level detail will provide specific information based on the type of structure (single family or multi-family), type of project (new structures or alterations and renovations of existing structures), or type of establishment (general contractor or operative builder) as appropriate in each country. Consideration was given to each of these breakouts but national differences in the operating characteristics of establishments prevented three-

country level comparability. Establishments erecting nonresidential buildings are segregated into establishments erecting commercial and institutional buildings and establishments erecting industrial buildings and manufacturing plants. This NAICS industry level distinction recognizes the differences inherent in erecting the various types of buildings.

Establishments performing heavy construction are separated into four industry groups: Utility System Construction; Land Subdivision; Highway, Street, and Bridge Construction; and Other Heavy and Civil Engineering Construction. Industries in these groups are engaged in large-scale projects and have related production characteristics. Heavy and Civil Engineering Construction establishments can perform the work or subcontract the work to specialized establishments.

Establishments in the Utility System Construction industry group construct lines and related structures for utility systems. For example, Water and Sewer Line and Related Structures Construction establishments that construct pipelines, distribution lines, irrigation systems, water treatment plants, sewage treatment plants, and pumping stations are grouped together. This recognizes the fact that these buildings and structures are inter-related in a network environment and are not meaningfully separated based on the particular type of structure.

Land Subdivision is included in Heavy and Civil Engineering Construction because of the similarity of activities involved with land subdivision and the other industry groups. For example, improved subdivisions often require installation of basic utilities, roads, and similar improvements that are also included elsewhere in the Heavy and Civil Engineering Construction subsector. The production similarities for construction of highways, streets, and bridges justified the third industry group.

The fourth, residual, industry group includes other heavy and civil engineering construction. Examples include marine construction, such as the building of ports and harbors, and construction of dams for retaining water, flood control, or hydroelectric power generation purposes. Heavy and Civil Engineering Construction includes general contractors, design-builders, operative builders, and those specialty trade contractors whose activities generally only apply to the Heavy and Civil Engineering Construction subsector. The activities performed by the specialty trade contractors in this subsector are rarely performed elsewhere.

In Specialty Trade Contractors, NAICS recognizes the highly specialized nature of a large number of small construction establishments. These establishments concentrate on a particular construction activity or group of activities rather than accepting responsibility and risk for an entire project. This

difference separates these establishments from the first two subsectors. Establishments in the Specialty Trade Contractors subsector usually act as subcontractors for the general contractors, operative builders, design-builders, and other establishments that assume the risk for an entire construction project that takes place in the Construction of Buildings subsector. In this capacity, they can perform work as subcontractors or work directly for owners. Specialty Trade Contractors also perform repair, renovation, and maintenance on various systems that fall within their specialty. The skills and equipment used by specialty trade contractors in this subsector have more general application than skills and equipment used by the specialty trade contractors included in Heavy and Civil Engineering Construction.

### ***Limitations and Constraints of the Classification***

Climatic and geological differences within and among the three countries lead to different construction techniques and practices for various types of structures. While wood is a significant input for residential housing in the Northern United States and Canada, concrete and stone are more common in the Southwest United States and in Mexico. Concrete and stone do not require siding and various other protections that are required with wood sheathing. Geological instability results in different structural and foundation requirements. Climate conditions dictate more insulation in northern areas while less insulation is appropriate in drier and warmer climates. These conditions lead to differing size and importance of various industries throughout North America. Each subsector varies across geographic lines based on the availability of raw materials and the environmental conditions that dictate construction practices.

### ***Relationship to ISIC***

Most of the industries in the NAICS Construction Sector are contained in Division 45, Construction, of the International Standard Industrial Classification of All Economic Activities (ISIC, Revision 3) of the United Nations. There are, however, some differences between the two systems. Both NAICS and ISIC exclude preparation of oil and gas fields from Construction. NAICS includes construction management activities within each of the industries in the Construction Sector while ISIC classifies construction management activities in Division 74, Other Business Activities. NAICS includes land subdivision in Construction, while ISIC classifies land subdivision in Division 70, Real Estate Activities.

### ***Some Changes to the National Industries***

During the initial NAICS development effort, the three countries agreed to the boundary and scope of the Construction sector at the two-digit level. Each of the countries developed its own national structure at the three-, four-, five-, and six-digit levels. The changes discussed are identified as NAICS with a prefix of C for Canada, U for the United States, and M for Mexico for previous national detail and NAICS02 for the draft classification.

For Canada, CNAICS 23 was broken into two subsectors: CNAICS 231, Prime Contracting; and CNAICS 232, Trade Contracting. NAICS02 comprises three subsectors: 236, Construction of Buildings; 237, Heavy and Civil Engineering Construction; and 238, Specialty Trade Contractors.

CNAICS 23141, Construction Management, will be distributed throughout all of the new NAICS02 Construction industries.

Land Subdivision and Development, CNAICS 23111 will be moved from the subsector for Building Construction to NAICS02 23721 within the Heavy and Civil Engineering Construction subsector. This move reflects the similarity of the activities performed in the land subdivision industry and other industries in the Heavy and Civil Engineering Construction subsector.

The construction of structures, such as sewage treatment plants and water treatment plants will be moved from CNAICS 23139, Other Engineering Construction, to NAICS02 2371, Utility System Construction, and distributed to the proper industries within the industry group.

For Mexico, the NAICS02 structure is very similar to the MNAICS structure developed in 1997. While there were various minor reaggregations below the industry group level, the subsector levels remained largely unchanged.

MNAICS 236 contained one industry group, 2361 Buildings. NAICS02 now contains two industry groups: 2361, Residential Buildings; and 2632, Nonresidential Buildings.

MNAICS 237 was made up of two industry groups: 2371 Construction of Structures for Water, Electricity, Telecommunications, Petroleum, and Gas; and 2372, Construction of Urban Infrastructure and Transportation Systems. NAICS02 is divided into four industry groups: 2371, Utility Systems Construction; 2372, Land Subdivision; 2373, Highway, Street, and Bridge Construction; and 2379, Other Heavy and Civil Engineering Construction.



As is the case for Canada, MNAICS 23822, Supervision and Management of Construction projects will be distributed throughout the construction industries in NAICS02.

For the United States, the subsector structures for UNAICS and NAICS02 are very similar. Most changes occurred below the subsector level. Of particular note, UNAICS 23311, Land Subdivision and Land Development moved from the subsector for construction of buildings to NAICS02 237, Heavy and Civil Engineering Construction.

UNAICS 23499, All Other Heavy Construction, included water treatment plants, sewage treatment plants and similar buildings that are now included in NAICS02 2371, Utility System Construction.

At the national level, the United States has reinstated an industry for operative residential builders that were not separately identified in UNAICS. This industry had existed in the US SIC. The United States also created a new national industry for residential remodeling establishments. In previous classifications, residential remodelers were classified together with new residential construction.

### ***Achievement of Objectives***

The classification meets the objectives for the North American Industry Classification System (NAICS). It includes industries that group establishments with similar production processes, that is, it applies the production-oriented economic concept. In the main, the hierarchical structure of the classification also follows the production concept.

The industries are highly specialized, and they are economically significant. Disruptions to time series are minimal. The classification achieves comparability at most five-digit levels for the three participating countries. All three countries agree on the detailed definitions of the industries.

Other objectives of the NAICS project are not as relevant in this area of the classification as in others. These objectives are the delineation of new and emerging industries, service industries, and industries engaged in the production of new technologies.

### **Section B -- NAICS Structure - Information**

#### ***Provisional structure proposed for Sector 51, Information***

51 Information  
 511 Publishing Industries (except Internet)  
 5111 Newspaper, Periodical, Book, and Directory Publishers  
 51111 Newspaper Publishers  
 51112 Periodical Publishers  
 51113 Book Publishers  
 51114 Directory and Mailing List Publishers  
 51119 Other Publishers  
 5112 Software Publishers  
 51121 Software Publishers  
  
 512 Motion Picture and Sound Recording Industries  
 5121 Motion Picture and Video Industries  
 51211 Motion Picture and Video Production  
 51212 Motion Picture and Video Distribution  
 51213 Motion Picture and Video Exhibition  
 51219 Postproduction Services and Other Motion Picture and  
 Video Industries  
 5122 Sound Recording Industries  
 51221 Record Production  
 51222 Integrated Record Production/Distribution  
 51223 Music Publishers  
 51224 Sound Recording Studios  
 51229 Other Sound Recording Industries  
  
 515 Broadcasting (except Internet)  
 5151 Radio and Television Broadcasting  
 51511 Radio Broadcasting  
 51512 Television Broadcasting  
 5152 Cable and Other Subscription Programming  
 51521 Cable and Other Subscription Programming  
  
 516 Internet Publishing and Broadcasting  
 5161 Internet Publishing and Broadcasting  
 51611 Internet Publishing and Broadcasting  
  
 517 Telecommunications  
 5171 Wired Telecommunications Carriers  
 51711 Wired Telecommunications Carriers  
 5172 Wireless Telecommunications Carriers (except Satellite)  
 51721 Wireless Telecommunications Carriers (except  
 Satellite)

5173	Telecommunications Resellers
51731	Telecommunications Resellers
5174	Satellite Telecommunications
51741	Satellite Telecommunications
5175	Cable and Other Program Distribution
51751	Cable and Other Program Distribution
5179	Other Telecommunications
51791	Other Telecommunications
518	Internet Service Providers, Web Search Portals, and Data Processing Services
5181	Internet Service Providers and Web Search Portals
51811	Internet Service Providers and Web Search Portals
5182	Data Processing, Hosting, and Related Services
51821	Data Processing, Hosting, and Related Services
519	Other Information Services
5191	Other Information Services
51911	News Syndicates
51912	Libraries and Archives
51919	All Other Information Services

***Draft Classification for Information***

Representatives of the statistical agencies of Canada, Mexico, and the United States provisionally agree to a draft industrial classification for the Information sector. The draft classification of the Information sector is divided into subsectors covering Publishing Industries (except Internet); Motion Picture and Sound Recording Industries; Broadcasting (except Internet); Internet Publishing and Broadcasting; Telecommunications; Internet Service Providers, Web Search Portals and Data Processing; and Other Information Services. These subsectors are further subdivided into 16 four-digit industry groups and 30 five-digit industries.

The Information sector comprises establishments primarily engaged in (a) producing and distributing cultural information, (b) providing the means to transmit or distribute these products as well as data or communications, and (c) processing data.

Many of the industries in the NAICS Information sector are engaged in either producing and manipulating products protected by copyright law, or in distributing them (other than distribution by traditional wholesale and retail methods). Examples are traditional publishing industries, software publishing industries, and film and sound industries. Also included are broadcasting

industries, telecommunication industries, and information access providers and processors that process and distribute information and provide access to facilities for transmission of information. Although many new industries have been created for this sector, most of the activities it contains have existed for some time. A new feature of the revised Information Sector is the inclusion of new industries for activities that have recently appeared in the economy due to the rapid expansion of the Internet. When NAICS was initially conceived, Internet service providers, web search portals, and other forms of Internet distribution of content were in their infancy. These activities are now separately identified in the classification.

The following paragraphs provide a brief description of the individual components of this sector.

The Publishing Industries (except Internet) subsector groups establishments engaged in the publishing of newspapers, periodicals, and books, as well as directory, mailing list, and software publishing. In general, publishers issue copies of works for which they possess copyright for sale to the general public, in one or more formats including traditional print form or in electronic copy such as diskette or CD-ROM. Publishers may publish works originally created by others for which they have obtained the rights, and/or works that they have created in-house.

In NAICS, publishing -- the reporting, writing, editing, and other processes that are required to create an edition of a newspaper, for example -- is treated as a major economic activity in its own right, and classified in the Information sector, whereas printing remains in the NAICS Manufacturing sector. In part, the NAICS classification reflects the fact that publishing increasingly takes place in establishments that are physically separate from the associated printing establishments. More crucially, the NAICS classification of book and newspaper publishing is intended to portray their roles in a modern economy, where they do not resemble manufacturing activities.

Software publishing is included here because the activity -- creation of a copyrighted product and bringing it to market -- is equivalent to the creation process for other types of intellectual products. Reproduction of pre-packaged software is treated in NAICS as a manufacturing activity and custom design of software to client specifications remains in Professional, Scientific, and Technical Services. These distinctions arise because of the different ways that software is created, reproduced, and distributed. The only change to this subsector for 2002 is the new title for Industry 51114 that has been renamed from Database and Directory Publishers to Directory and Mailing List Publishers. This new title and an updated definition better describe the activities included in this industry.

The Motion Picture and Sound Recording Industries subsector groups establishments involved in producing and distributing motion pictures and sound recordings (those involved exclusively in the wholesaling of sound recordings are classified in Wholesale Trade). While motion picture and sound recordings are also "published," the processes involved are sufficiently different from those traditional publishing industries to warrant placing them in the Motion Picture and Sound Recording Industries subsector.

The production and distribution of these products involves a complex process and several distinct industries. The Motion Picture and Video Industries industry group includes separate industries for Motion Picture and Video Production, Motion Picture and Video Distribution, Motion Picture and Video Exhibition, Postproduction Services, and Other Motion Picture and Video Industries. The distribution industry includes establishments primarily engaged in acquiring the distribution rights (major input) for films and programs, and charging such clients as movie theaters and broadcasters to show them; those engaged in wholesaling videos to retail stores and rental outlets are classified in Wholesale Trade. The Sound Recording Industries industry group contains classes for Record Production Companies, Integrated Record Production/Distribution, Music Publishers, Sound Recording Studios, and Other Sound Recording Industries.

Record production companies are primarily engaged in searching out, identifying and contracting artists for whom they arrange and finance the production of master tapes for which they hold the reproduction rights. Establishments in this industry do not own duplication facilities or have distribution capabilities, so they commercialize these rights through leasing/licensing agreements with third parties. Integrated record production companies (major record labels) integrate the production, manufacturing and/or distribution functions, commercializing reproduction rights through these vertically integrated operations. While establishments engaged in record production derive most of their revenues from leasing/licensing the reproduction rights of master recordings and from mechanical royalties, integrated record companies derive most of their revenues from the exploitation of their rights to distribute duplicate sound recordings. No changes were made to this subsector for 2002.

In NAICS 2002, Telecommunications and Broadcasting are split into separate subsectors. This structural change acknowledges that the production and distribution of information or cultural content is significantly different from the creation of the infrastructure used in distribution.

The new Broadcasting (except Internet) subsector, NAICS 515, distinguishes between radio broadcasting, television broadcasting, and cable and other subscription programming. These industry groups are based on differences

in the methods of communication and in the nature of services provided. Broadcasting (except Internet) includes establishments that operate broadcasting studios and facilities for over the air, cable, or satellite delivery of audio and video programming such as music, entertainment, news, talk, and the like. These establishments are often engaged in producing and purchasing programs and generating revenues from the sale of time to advertisers, and from donations, subsidies, and/or the sale of programs. Cable and Other Subscription Programming establishments operate studios and facilities for the broadcasting of programs that are typically narrow cast in nature (limited format such as news, sports, education, and youth-oriented programming). The services of these establishments are typically sold on a subscription or fee basis.

NAICS 2002 recognizes for the first time the significant differences between traditional publishing and broadcasting and similar activities using the Internet in a new subsector for Internet Publishing and Broadcasting, NAICS 516. The unique combination of text, audio, video, and interactive features present in informational or cultural products on the Internet justifies the creation of the new subsector. NAICS separates Internet Publishing and Broadcasting in order to identify and statistically characterize this area of rapid growth in the economies of the three North American partners in NAICS.

The new Telecommunications subsector, NAICS 517, is primarily engaged in operating, maintaining, and/or providing access to facilities for transmitting voice, data, text, sound, and full motion picture video between network termination points. In contrast to the Broadcasting subsector, the Telecommunications subsector generally does not produce information or cultural content. Telecommunications includes groupings and industries based on the technologies used. As such, there are separate industry groups for Wired Telecommunications Carriers, Wireless Telecommunications Carriers (except Satellite), Telecommunications Resellers, Satellite Telecommunications, Cable and Other Program Distribution, and Other Telecommunications. All of these industry groups, except Telecommunications Resellers, operate transmission facilities that may be based on a single technology or a combination of technologies. The Cable and Other Program Distribution industry group includes establishments that operate cable systems, direct-to-home satellite systems, or other similar systems.

Another new subsector in NAICS groups establishments that provide Internet access; Internet search services; and data processing, hosting, and related services. The Internet Service Providers, Web Search Portals, and Data Processing Services subsector, NAICS 518, is subdivided into two industry groups. The Internet Service Providers and Web Search Portals industry group includes establishments that provide access to the Internet or provide the means

to search for information on the Internet. The Data Processing, Hosting, and Related Services industry group includes establishments that process data for others. Mainframe computer time-share facilities and web hosting establishments are included with Data Processing, Hosting, and Related Services.

The final subsector, Other Information Services, NAICS 519, provides a classification for other information providers, such as news syndicates, as well as repositories of information products in the form of libraries and archives. Libraries and archives provide access to information products stored in their physical facilities. Museums, however, are classified in sector 71, Arts, Entertainment, and Recreation.

## **Section C -- NAICS United States - Wholesale Trade**

Representatives of the statistical agencies of Canada, Mexico, and the United States conducted extensive discussions on the content and conceptual structuring of industries for wholesale trade of goods. Due to the complexity of this dynamic sector and structural differences among the three countries, no additional three-country comparability was obtained for wholesale trade. Canada, Mexico, and the United States agree on the overall content of Wholesale Trade but will retain unique national industry detail within the sector. However, the United States has taken the insights gained from these discussions and incorporated them into a new national structure for Wholesale Trade.

As in the 1997 NAICS United States there are two main types of wholesalers included in Wholesale Trade for the 2002 NAICS United States: those that sell goods on their own account and those that arrange sales and purchases for others for a commission or fee.

(1) Establishments that sell goods on their own account are known as wholesale merchants, distributors, jobbers, drop shippers, import/export merchants, and sales branches. These establishments typically take title to the goods being sold and maintain their own warehouse, where they receive and handle goods for their customers. Goods are generally sold without transformation, but may include integral functions, such as sorting, packaging, labeling, and other marketing services. Throughout this notice, these establishments are referred to as merchant wholesalers.

(2) Establishments arranging for the purchase or sale of goods owned by others or the purchase of goods on a commission basis are known as agents and brokers, commission merchants, import/export agents and brokers, auction companies, and manufacturer's representatives. These establishments do not take title to the goods being sold. Throughout this notice, these establishments are referred to as business to business electronic markets and agents and brokers.

Sector 42, Wholesale Trade, would be divided into three subsectors in the United States: subsector 423, Merchant Wholesalers, Durable Goods; subsector 424, Merchant Wholesalers, Nondurable Goods; and subsector 425, Wholesale Electronic Markets and Agents and Brokers. Each of these subsectors is further divided into industry groups and industries to meet the detailed needs of the U.S. statistical community.

Subsector 423, Merchant Wholesalers, Durable Goods, is split into nine industry groups that follow the structure of NAICS 1997. These industry groups



are further divided into thirty-seven national level industries. The key difference between the content of subsector 421, Wholesale Trade, Durable Goods in 1997 and subsector 423, Merchant Wholesalers, Durable Goods, is the exclusion of electronic markets, and agents, brokers, and other intermediaries that do not take title to the goods being sold in subsector 423. Merchant wholesalers in NAICS 2002 are defined to include those establishments that buy or sell goods on their own account. Included are wholesale merchants, distributors, jobbers, drop shippers, import/export merchants, and manufacturer's sales branches. The key characteristic of wholesale establishments included in subsector 423 is ownership of the goods that are being sold.

Subsector 424, Merchant Wholesalers, Nondurable Goods, mirrors the structure of NAICS 1997 subsector 422, Wholesale Trade, Nondurable Goods. Again, the significant difference is the exclusion of electronic markets, and agents and brokers and other intermediaries that do not take title to the goods being sold. Subsector 424 is split into nine industry groups that are further divided into thirty-two national level industries classifying merchant wholesalers of nondurable goods.

Subsector 425, Wholesale Electronic Markets and Agents and Brokers is a new subsector for NAICS United States 2002. Establishments in the Wholesale Electronic Markets and Agents and Brokers subsector arrange for the sale of goods owned by others on a fee or commission basis. These establishments, unlike those in subsectors 423, do not take title to the goods being sold. They are acting on behalf of the buyers and sellers of goods.

This subsector is being created to classify agents and brokers as well as electronic markets that facilitate wholesale trade. Over the past two years, the explosive growth of wholesale trade on the Internet has radically changed the role of agents and brokers and greatly expanded potential markets for suppliers. While a wholesale trade business was previously constrained by geography and the cost of initiating contact with potential customers, the Internet has created inexpensive, efficient national markets for suppliers. The United States proposal for subsector 425, therefore, creates a new national industry for these electronic markets in wholesale trade, separate from the more traditional agents and brokers. The outsourcing of storage, transportation, finance, and other traditional wholesale trade functions is immensely eased with the advent of these new national electronic wholesale markets. In order to gather data to better understand these changes in the context of all distributive trade industries, they will be separately identified and categorized in NAICS United States 2002.

NAICS United States 1997 included 69 separate national industries in Wholesale Trade. NAICS United States 2002, includes 71 national industries in Wholesale Trade. With the addition of only two national industries, the

restructuring of Wholesale Trade creates more homogeneous statistical data for users, eases the burden of code assignment for sales representatives and wholesale trade brokers, and separately identifies emerging trends for study and analysis. Although additional international comparability was not obtained, the changes to Sector 42, Wholesale Trade, in the United States represent a major improvement in the statistics generated for wholesale trade using NAICS. These changes also position the United States to measure and analyze more completely all distributive trade industries during future NAICS revisions. Part IV of this notice includes the entire proposed structure for Wholesale Trade.