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**The outline of the 12th revision draft of
Japan Standard Industrial Classification**

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We, Japanese government will carry out the 12th revision of Japan Standard Industrial Classification (what we call “JSIC”) by the end of 2007. The draft of revision has been prepared under the consultation among related ministries of the government in 2006FY (last March) and will be submitted to the Statistics Council of Japan for the inquiry soon. We expect to receive the report to the inquiry from the Council in the fall of 2007, this year and the 12th revised edition of JSIC will come into effect shortly after that.

Major points of revisions are as follows.

- 1 Current section A “Agriculture” and B “Forestry” are merged and new Section A “Agriculture and Forestry” is established.
- 2 Current division “Scientific and development research institutes” and “Professional services” are separated from section Q “ Services, N.E.C(Not elsewhere classified)” to which they belong and new section L “Scientific research, Professional and Technical services” is established.
- 3 Current division “Laundry, beauty and bath services” and “Services for amusement and hobbies ” are separated from section Q “Services, N.E.C” to which they belong and new section N “Services related to daily life, Services for amusement and hobbies” is established.

Current section Q “Services, N.E.C” makes up about 18% of all establishments and employees of industries in Japan and literally leads to a big basket stuffed with services not elsewhere classified. Thus, we often hear voices from users, that the content of this section is very vague.

In this revision, we’ve divided these services into other sections including new sections as above, taking into consideration the improvement of comparability with ISIC. We expect that the revised section R “Services, N.E.C”

percentage of establishments and employees in all industries will decrease from about 18% to 5%.

In the process, current division “Goods Rental and Leasing” in section Q “Services, N.E.C” is merged with section L “Real Estate”, focusing on their similarity of activity “lease and rental”, and new section K “Real Estate, Goods Rental and Leasing” is established.

- 4 In new section L “Scientific research, Professional and Technical services”, new class “holding companies whose only activity is owning a group of subsidiary corporation” is established. So far we’ve been classifying holding companies including this new class, as the same in terms of major economic activities common throughout all establishments under the management.

ANNEX 1

Draft Correspondence Table JSIC Rev.11 and JSIC Rev.12

<JSIC Rev.11>

<JSIC Rev.12 (draft)>

A Agriculture	→	<u>A Agriculture and Forestry</u>
B Forestry	→	
C Fisheries	→	B Fisheries
D Mining	→	C Mining, Stone Quarrying and Gravel Pits
E Construction	→	D Construction
F Manufacturing	→	E Manufacturing
G Electricity, Gas, Heat Supply and Water	→	F Electricity, Gas, Heat Supply and Water
H Information and Communications	→	G Information and Communications
I Transport	→	<u>H Transport, Postal Services</u>
J Wholesale and Retail Trade	→	I Wholesale and Retail Trade
K Finance and Insurance	→	J Finance and Insurance
L Real Estate	→	<u>K Real Estate, Goods Rental and Leasing</u>
		<u>L Scientific Research, Professional and Technical Services</u>
M Eating and Drinking Places, Accommodations	→	<u>M Accommodations, Eating and Drinking Services</u>
		<u>N Services Related to Daily Life, Services for Amusement and Hobbies</u>
N Medical, Health Care and Welfare	→	
O Education, Learning Support	→	O Education, Learning Support
P Compound Services	→	P Medical, Health Care and Welfare
Q Services, N.E.C.	→	Q Compound Services
R Government, N.E.C	→	R Services, N.E.C.
S Industries Unable to Classify	→	S Government, N.E.C
	→	T Industries Unable to Classify

Note: Underlined sections are established anew in this revision.

ANNEX 2

General Rules of the Japan Standard Industrial Classification (Rev.11)

Section 1 Definition of Industry

For the purpose of this Industrial Classification, industry refers to all economic activities related to producing and providing goods and services performed at establishments in the form of a social division of labor. This includes profit-making and non-profit-making activities, such as agriculture, construction, manufacturing, wholesale trade, retail trade, financing, medical services, welfare, education, religious and public services.

Activities within a household involving production and services provided to the family by its member(s) are not included in the definition of industry.

Section 2 Definition of Establishment

For the purpose of this Industrial Classification, establishment refers to the unit of location of economic activities, and shall in principle comply with the following requirements.

- (1) Economic activities are conducted under a single business principal, occupying a certain place or plot of land.
- (2) Production or supply of goods and services is conducted continuously with personnel and facilities provided for this purpose.

Establishments in other words include, in general, those places that are known as works, manufacturing plants, offices, business offices, shops, restaurants, hotels, amusement and recreation facilities, schools, hospitals, government offices, stations, mining offices and farmhouses.

In this case, if economic activities are performed within a single compound under a single business principal, this is deemed to be one establishment, while even within a single compound, if economic activities are performed under different business principals, each is deemed to be a different establishment, under its own business principal.

Meanwhile if it is not possible to discern whether a single establishment occupies a single plot, provided the same business accounting books such as sales ledgers and wage ledgers cover the same plot, this is deemed one plot and one establishment.

In cases where business activities are conducted on two or more neighboring plots, each is to be deemed in principle a different establishment. In cases however where the business accounting books used are the same and inseparable, this may be deemed one plot and one establishment.

Modes of economic activity however are diverse. Therefore for convenience' sake, these

are on occasion treated in the following manner.

- (1) In cases of individuals such as peddlers and private taxi drivers with no fixed location for conducting economic activities, nor any specific establishment, the residences of these individuals are deemed to be their establishment.
- (2) In cases of individuals such as writers, painters and home workers all engaged in work at their residences with no specific establishments, the residences of these individuals are deemed to be their establishments.
- (3) In cases where employees change day by day and wage ledgers are not used either, at places such as guardhouses and police stations, these places, even located at a distance, are not considered to be establishments as a rule, but are bundled with their administrative establishments to be deemed one establishment as a whole.
- (4) With regard to economic activities in agriculture, forestry and fisheries conducted in farmlands, forests, at sea etc., the locations of these activities are not considered to be establishments, but offices or business offices that administer these activities, or residences of the establishment's proprietors are deemed to be the establishments.

For those who engage in agriculture, forestry and fisheries having facilities such as shops and factories in one compound (in premises), if economic activities other than agriculture, forestry and fisheries are conducted there, each of these activities is deemed to have its own independent establishment.

- (5) While sites of construction work are not considered to be establishments, they are bundled with offices administering the sites (or with residences of the establishment's proprietors in cases where individual enterprises have no office) to be deemed one establishment as a whole.
- (6) In railway transport, where several structural organs (railway sections, engineer's wards etc.) exist in one compound, each organ is deemed an establishment. In cases however where administrative managers such as stationmasters and section managers are not assigned to such organs as stations and sections, these are bundled with organs having administrative managers to be deemed an establishment as a whole.
- (7) In cases where two or more schools are established together in one compound, each school of a different type is deemed to be a separate establishment. (Schools in this case refer to those as stipulated in the School Education Act.)

If a certain business principal engaged in operations other than education runs a school at the same location, this school is deemed to be a different establishment to the one for the purpose of education.

- (8) With regard to state and local public entities, each organ established separately under decrees or municipal ordinances is deemed to be an establishment, even if located in one compartment.

In the case of public corporations or revenue-producing operations run by the state or local public entities, each relevant organ is deemed to be an establishment.

(9) Establishments such as warehouses, repair shops and cargo collection facilities, all for own use, and working solely for the establishment of the same business principal, are on occasion for statistical reasons, bundled with the principal establishment to be deemed one establishment as a whole.

(10) In addition, in cases where it is difficult to verify the existence of establishments, there may be slight differences in the treatment of establishments, depending on the statistical survey.

For example, if work is conducted at part of a residence, this may on occasion be treated as follows:

- a) An entire establishment is deemed to exist there.
- b) This will be deemed an establishment only if the revenue from the work accounts for the majority of household income.
- c) An establishment is deemed to exist only if an employee or employees are present.
- d) An establishment is deemed to exist only if a board-like public sign is posted.

Furthermore if multiple subcontracts are being performed under a specific contractor, the establishments of the subcontractors may be bundled with that of the contractor.

Section 3 Classification Criteria

This Industrial Classification is used for determining the scope of industries targeted by statistical surveys, and for presenting the results of statistical surveys by industrial group. Under this Classification, economic activities performed at establishments, or industries, are classified and arranged systematically, focused on following major points:

- (1) Types of goods produced or services provided (use, functions etc.)
- (2) Ways of producing goods or providing services (facilities, technologies etc.)
- (3) Types and properties of raw materials and objects of services and types of items stocked (merchandise, etc.)

The number of establishments, number of employees, amount of production or sales and other such factors were taken into consideration to determine the different classifications.

Section 4 Composition of Classifications

This Industrial Classification is composed of four stages, namely sections, divisions, groups and classes. The composition (in the eleventh revision) includes 19 sections, 97 divisions, 420 groups and 1,269 classes.

For the classification codes contained in this Industrial Classification, alphabet letters are used for sections, two-digit figures for divisions, three-digit figures for groups and four-digit figures for classes.

Sections	Divisions	Groups	Classes
A Agriculture	1	4	20
B Forestry	1	5	9
C Fisheries	2	4	17
D Mining	1	6	30
E Construction	3	20	49
F Manufacturing	24	150	563
G Electricity, Gas, Heat Supply and Water	4	6	12
H Information and Communications	5	15	29
I Transport	7	24	46
J Wholesale and Retail Trade	12	44	150
K Finance and Insurance	7	19	68
L Real Estate	2	6	10
M Eating and Drinking Places, Accommodations	3	12	18
N Medical, Health Care and Welfare	3	15	37
O Education, Learning Support	2	12	33
P Compound Services	2	4	8
Q Services, N.E.C.	15	68	164
R Government, N.E.C.	2	5	5
S Industries Unable to Classify	1	1	1
(Total) 19	97	420	1,269

Section 5 Unit Applied to Classifications

The unit applied to this Industrial Classification is the establishment.

The unit in applying this Classification to individuals is the establishment to which the individuals belong. Application to those other than establishments and individuals, for example to enterprises, is dealt with in the same manner as for establishments.

Section 6 Method of Determining Industry for Classifying Establishments

The industry under which an establishment is classified is determined on the basis of economic activities performed by the establishment.

Namely, if economic activities falling under a single classification are performed in an establishment, these economic activities dictate the industry classification. If economic

activities fall under multiple classifications, the major economic activity is the key in determining the industry. In this case, the major economic activity refers, among multiple items, to the largest in terms of revenue or sales during the past year, coming from goods produced, commodities handled or services provided, however with any portion earned from contingent factors other than regular economic activities of the establishment being deducted from revenue. (*Note*)

Transfer of goods or provision of services between establishments belonging to the same enterprise (excepting administrative work conducted by the head office etc.) are treated in the same manner as sales or services provided for compensation. Also, sales or provision of processing services for a fee to private enterprises in agriculture, forestry or fisheries are treated in the same manner as those for households of general consumers.

As indicated above, as a rule the industry under which establishments are classified is determined on the basis of the economic activities providing the largest amount of revenue or sales, however in cases where it is difficult or inappropriate to follow this rule, the number of employees or facilities may become a decisive factor.

Industries of establishments in the process of business conversion, under a suspension of operations, or preparing for start-up are treated as follows:

- (1) If an establishment has been converted into a business during the past twelve months, the post-conversion business is deemed as a rule to be its major activity. However, if the conversion is of a temporary nature and, in view of facilities available, if there is a possibility of the establishment reverting to the previous business, the business performed prior to the conversion may be deemed its major activity.
- (2) If the business is converted periodically on a seasonal basis, the business earning the largest annual revenue will be deemed its major activity, regardless of the type of business being performed at the date of survey.
- (3) Industries of establishments under a suspension of business or in the process of liquidation are determined by the economic activities performed prior to the suspension or start of liquidation.
- (4) Industries of establishments preparing for start-up are determined by the economic activities they perform when launched.

This is the basic means of determining to which industry an establishment belongs. Industries of head and branch offices engaged in managerial operations, and industries of establishments working solely for the establishment of the same business principal and of establishments of holding company are treated in the following manner:

- (1) The industry of head, branch and local offices mainly engaged in managerial work should be the same in terms of major economic activities common throughout all establishments under the management.
- (2) Ancillary economic activities of warehouses, repair shops, railways, all for own use,

and of railway transport should be in the same industry as that of the principal establishments.

- (3) Industries of holding companies mainly managing subsidiaries should be determined in the same manner as head offices primarily engaged in managerial operations.
- (4) Other than the above, major economic activities performed at the establishments should as a rule determine the industry to which they belong.

(Note)

Application (grading) of the industries to which establishments belong in accordance with this Industrial Classification is carried out in serial order from the highest-ranking classification to the lowest. In particular, in cases where an establishment engages in economic activities falling under multiple classification items, these economic activities should first be grouped in divisions. The economic activities earning the largest amount in revenue or sales will determine the division in which the establishment is to be classified. The economic activities falling under the division as determined should then be sorted into major groups, and the major group in which the establishment is to be classified determined based on the largest amount of revenue or sales. Groups and industries for the classification are then determined in the same manner.

Section 7 Scope of Government Services

This Industrial Classification is a classification by type of economic activity, therefore, whether under public or private management, the same economic activities have the same classifications. Accordingly, the “Government” classification in this Industrial Classification includes, of state and local public bodies, the Diet, courts, central government offices and their local branch offices and bureaus, prefectural government offices, municipal and ward offices, town and village offices etc., all of which are government and public agencies that essentially engage in legislative, judicial and administrative affairs. Others are classified under the relevant industries according to their operations, in the same manner as general industries.