

SEC 1 SECTOR CLASSIFICATION

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Introduction

- 11 workshops on SEC 1 Sector Classification held during February 2024 in order to collect feedbacks from sector communities
- Discussion focused on:
 - i) appropriateness of grouping particular NACE Classes together;
 - li) appropriateness of sector definition
- In parallel a survey on the Sector Classification documents was held
- Workshops and survey combined: 362 comments have been identified.

Overview: 1st part of outcomes

Critical changes

- Tobacco
- Construction and Engineering
- Construction Materials
- Construction and Furnishings

Less critical changes

- Agriculture
- Food and Beverages
- Forestry
- Paper and Wood products
- Education
- Information Technology
- Marketing
- Media and communication
- Professional Services (no changes)
- Chemicals and Polymers
- Metal processing



Generic changes

Generic changes: Issues

- **Issue 1: NACE Classes often combine activities that are a best fit to different sectors.**
The nature of these combinations may differ:
 - Catch all NACE Classes, often indicated as « *Other [economic activities] n.e.c.* »
 - E.g. NACE Class C.32.99 Other manufacturing n.e.c.
 - Economic activities that fit under more than one sector:
 - E.g. NACE Class F.41.00 Construction of residential and non-residential buildings
 - Economic activities which – strictly speaking – belong to sector A, but are so commonly integrated in sector B that not including them there would misrepresent the boundary of that sector
 - E.g. NACE Class C.28.13 Manufacture of other pumps and compressors
- **Issue 2: Affecting a NACE Class to a certain sector affects the boundary of that sector.**
This may not be appropriate in all cases.

Generic changes: example 1

Chemicals and polymers

C. 32.99 Other manufacturing n.e.c.

- ✓ manufacture of protective safety equipment, e.g.: • manufacture of linemen's safety belts and other belts for occupational use • manufacture of cork life preservers • manufacture of safety headgear and other personal safety equipment, e.g. protective face shields/visors, of plastics, e.g. athletic helmets) • manufacture of fire protective clothing • manufacture of metal safety headgear and other metal personal safety devices • manufacture of ear and noise plugs, e.g. for swimming and noise protection • manufacture of gas masks • manufacture of biohazard protective clothing and accessories • manufacture of bulletproof vests • manufacture of clean room suits and accessories
- ✓ manufacture of pens and pencils of all kinds whether or not mechanical
- ✓ manufacture of pencil leads
- ✓ manufacture of date, sealing or numbering stamps, hand-operated devices for printing, or embossing labels, hand printing sets, prepared typewriter ribbons and inked pads
- ✓ ...

Metal processing

Textiles

Generic changes: example 1

C. 32.99 Other manufacturing n.e.c.

- ✓ ...
- ✓ manufacture of globes
- ✓ manufacture of umbrellas, sun-umbrellas, walking sticks, seat-sticks
- ✓ manufacture of buttons, press-fasteners, snap-fasteners, press-studs, slide fasteners
- ✓ manufacture of electronic cigarettes
- ✓ manufacture of cigarette lighters and other lighters
- ✓ manufacture of articles of personal use, e.g.: smoking pipes, scent sprays, vacuum flasks and other vacuum vessels for personal or household use, wigs, false beards, eyebrows
- ✓ manufacture of miscellaneous articles, e.g.: candles, tapers, etc.; artificial flowers, fruit and foliage; jokes and novelties; hand sieves and hand riddles; tailors' dummies; burial coffins
- ✓ manufacture of floral baskets, bouquets, wreaths and similar articles
- ✓ taxidermy activities
- ✓ manufacture of scale models designed for demonstration
- ✓ ...

Household durables

Currently under Chemicals, to be classified under Food and Beverages (see below)?

Professional Services

Generic changes: example 2

F.41.00 Construction of residential and non-residential buildings

- ✓ This class includes the construction of complete residential or non-residential buildings, as well as additions and alterations. Includes:
- ✓ construction of all types of buildings ...
- ✓ erection of prefabricated buildings requiring on-site assembly
- ✓ complete remodelling or renovating of existing residential or non-residential buildings involving several specialised construction activities
- ✓ construction of air-supported buildings, e.g. air domes
- ✗ *construction of industrial facilities, except buildings, see 42.99 [Construction and Engineering]*
- ✗ *development of building projects, see 68.12 [Real estate and Services]*
- ✗ *architectural and engineering activities, see 71.1 ; project management for construction, see 71.1 [Professional Services]*

Currently under Construction and Engineering, but a common activity exercised by REITS [Real estate]

Generic changes: example 3

C.28.13 Manufacture of other pumps and compressors

- ✓ manufacture of air or vacuum pumps, air or other gas compressors
- ✓ manufacture of pumps for liquids whether or not fitted with a measuring device
- ✓ manufacture of pumps for internal combustion engines, e.g. oil, water and fuel pumps for motor vehicles
- ✓ manufacture of hand pumps
- ✗ *manufacture of hydraulic and fluid power pump, see 28.12 [Machinery and Equipment]*

Part of Machinery and Equipment, but fully integrated in the automotive sector [Motor vehicles]

Generic changes: Proposals

- Issue 1: NACE Classes often combine activities that are a best fit to different sectors.**

EFRAG Secretariat proposal: using a 1 to n approach in assigning NACE economic activities to different sectors. Insert in the Basis for Conclusions an explanation on the reasons why and list the NACE Classes that have been used multiple times.
- Issue 2: Including a NACE Class to a certain sector affects the boundary of that sector.**

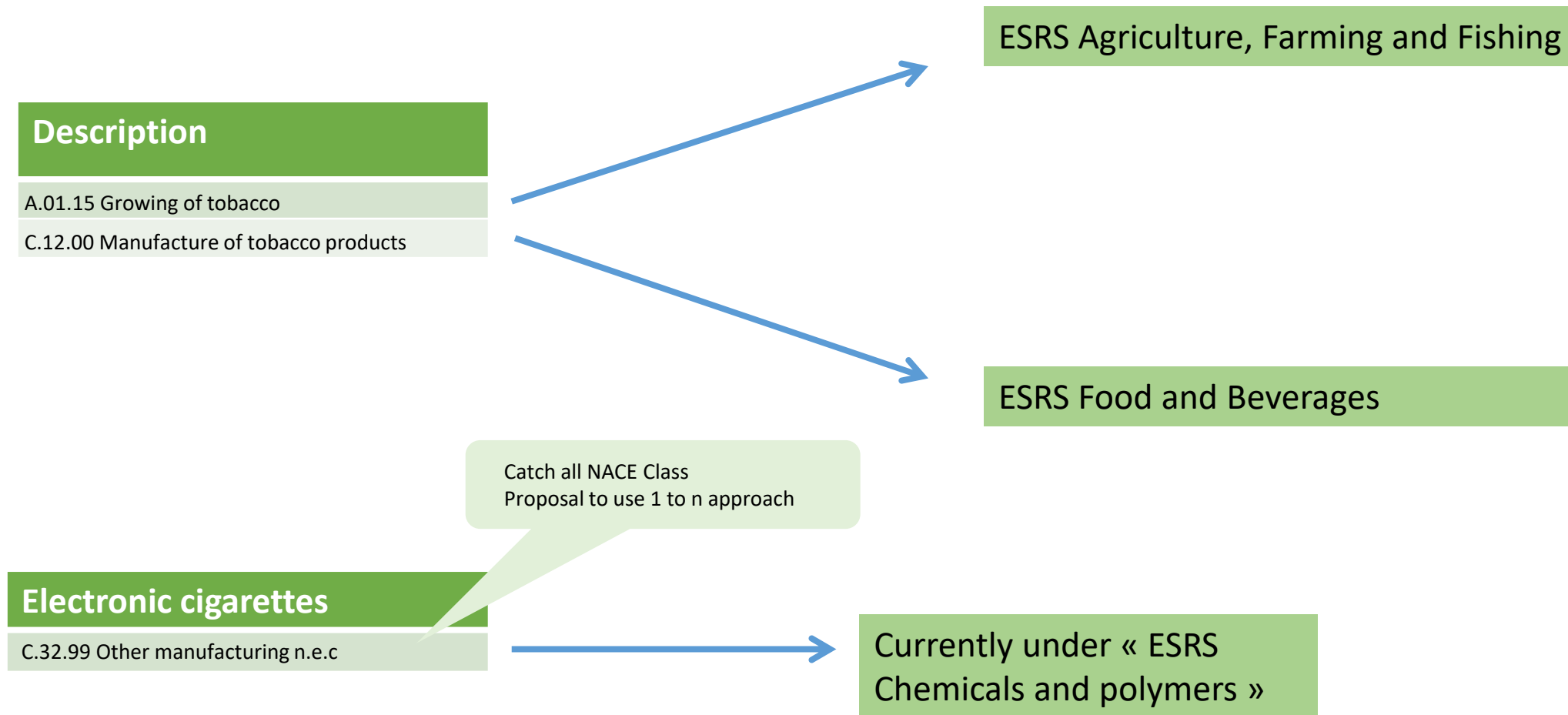
EFRAG Secretariat proposal: introduce a new concept, differentiate between boundary defining NACE Classes (the core activity which will determine the sustainability matters and resulting disclosures) and non-boundary defining NACE Classes which will determine additional sustainability matters and resulting disclosures, but do not expand the boundary.

E.g. the inclusion of Metal and Wood products in the Construction Materials sector (see below).



Tobacco

Tobacco > Agriculture and Food and Beverages



Splitting Tobacco - Arguments pro and contra

Pro

- Growing tobacco plants is highly similar to growing of other crops and subject to the same sustainability matters
- Tobacco has negative health impacts, similar to the production of alcohol, which is part of Food and Beverages
- Tobacco is a high impact sector, including it in first 8 draft standards helps in addressing the issues in this area earlier

Contra

- Tobacco sector includes new and emerging tobacco and non nicotine products
- Existence of electronic cigarettes
- Existence of heated tobacco products
- Existence of dedicated EU regulation on these products

EFRAG Secretariat proposal:

- **Split Tobacco sector across the Sectors Agriculture and Food and Beverages, describing it in each of these sectors as a separate subsector.**
- **Include manufacture of electronic cigarettes in Food and Beverages, using a 1-to-n approach to NACE Class C.32.99**



Construction and Engineering

Construction and Engineering

EFRAG Secretariat proposal: use a number of NACE Classes (see list below) currently assigned to Construction and Engineering also in the Real estate sector and in Mining.

Reasons:

- REITS engage in these activities when retrofitting existing buildings
- Mining companies exercise the activity of site preparation themselves when they own the necessary tools for this.

Construction and Engineering

NACE Classes to use twice	Current sectors	Other sectors	Reason	
F.41.00 Construction of residential and non-residential buildings	Construction and Engineering	Real estate	REITS engage in these activities when retrofitting existing buildings	
F.42.21 Construction of utility projects for fluids	Construction and Engineering	Real estate		
F.42.22: Construction of utility projects for electricity and telecommunications	Construction and Engineering	Real estate		
F.42.91 Construction of water projects	Construction and Engineering	Real estate		
F.43.11 Demolition	Construction and Engineering	Real estate		
F.43.12 Site preparation	Construction and Engineering	Mining, quarrying and Coal Real estate		Mining companies exercise the activity of site preparation themselves when they own the necessary tools for this.
F.43.13 Test-drilling and boring	Construction and Engineering	Real estate		
F.43.21 Electrical installation	Construction and Engineering	Real estate		
F.43.23 Installation of insulation	Construction and Engineering	Real estate		
F.43.24 Other construction installation	Construction and Engineering	Real estate		

Construction and Engineering

NACE Classes to use twice	Current sectors	Other sectors	Reason
F.43.31 Plastering	Construction and Engineering	Real estate	REITS engage in these activities when retrofitting existing buildings
F.43.32 Joinery installation	Construction and Engineering	Real estate	
F.43.33 Floor and wall covering	Construction and Engineering	Real estate	
F.43.34 Painting and glazing	Construction and Engineering	Real estate	
F.43.35 Other building completion and finishing	Construction and Engineering	Real estate	
F.43.41 Roofing activities	Construction and Engineering	Real estate	
F.43.50 Specialised construction activities in civil engineering	Construction and Engineering	Real estate	
F.43.60 Intermediation service activities for specialised construction services	Construction and Engineering	Real estate	
F.43.91 Masonry and bricklaying activities	Construction and Engineering	Real estate	
F.43.99 Other specialised construction services n.e.c.	Construction and Engineering	Real estate	



Construction Materials

Construction Materials

Abrasives – arguments pro and contra of inclusion in Construction Materials

Pros

- No arguments provided

Contra

- Abrasives (C. 23.91) are considered consumables used in various applications including the construction sector.
- It is not a product made of mineral but a finished product composed of layers of material that are for the most part not minerals
- Conventional abrasives (grinding wheels, fiber discs, flap discs, abrasive belts, etc) are accessories that are mounted on a machine.

EFRAG Secretariat proposal: include abrasives in the Machinery and Equipment sector.

Construction Materials

Refractory products – arguments pro and contra of inclusion in Construction Materials

Pros

- Refractory products are special products for high-temperature industrial applications e.g. steel-, metals-, cement-, glass and ceramic production, waste incineration, petrochemical processes etc. - not for construction purposes in the usual sense.
- Refractories are non-metallic mineral products but no construction products according to the European Construction Product Regulation (CPR).
- Refractory products fit more into the construction materials sector than any of the other sectors listed.

Contra

- Refractory products are mostly used in industrial kilns (for the production of steel or other ceramic products).
- For that reason refractory products (NACE Class C.23.20) belong in the Machinery and Equipment sector

EFRAG Secretariat proposal: keep refractory products in the Construction Materials sector.

Construction Materials

EFRAG Secretariat proposal: use a number of NACE Classes (see list below) currently assigned to other sectors also in the Construction Materials sector.

Reason:

- The NACE Classes refer to construction materials

Construction Materials

NACE Classes to use twice	Current sectors	Other sectors	Reason
C.22.21 Manufacture of plastic plates, sheets, tubes and profiles	Chemicals and polymers	Construction Materials	The NACE Classes refer to construction materials
C.22.23 Manufacture of doors and windows in plastic	Constructions and Furnishings	Construction Materials	
C.22.24 Manufacture of builders' ware of plastic	Constructions and Furnishings	Construction Materials	
C.24.20 Manufacture of tubes, pipes, hollow profiles and related fittings, of steel	Metal processing	Construction Materials	The NACE Classes refer to construction materials
C.25.11 Manufacture of metal structures and parts of structures	Metal processing	Construction Materials	
C.25.12 Manufacture of doors and windows of metal	Metal processing	Construction Materials	
C.25.62 Manufacture of locks and hinges	Metal processing	Construction Materials	
E.38.21 Materials recovery	Water and Waste	Construction Materials	

Construction Materials

- The sector definition is to be adapted to the reclassification of the NACE Codes per the above.



Construction and Furnishings

Construction and Furnishings > Household durables

Ceramics - arguments pro and contra of including in Construction and Furnishings

Pros

- No arguments provided

Contra – different views

- Ceramics are non-metallic mineral products but no construction products
- Used for high-temperature industrial applications e.g. steel-, metals-, cement-, glass and ceramic production, waste incineration, petrochemical processes, ...
- NACE Class C.23.42 – manufacture of ceramic sanitary products to be included under Construction Materials – no arguments provided

EFRAG Secretariat proposal include ceramics as a subsector under Construction Materials.

Construction and Furnishings > Household durables

- **EFRAG Secretariat proposal include the following NACE Classes as a subsector under Construction Materials**
 - C.23.42 Manufacture of ceramic sanitary fixtures
 - C.23.43 Manufacture of ceramic insulators and insulating fittings
 - C.23.44 Manufacture of ceramic insulators and insulating fitting and
 - C.23.45 Manufacture of other ceramic products.
- **EFRAG Secretariat proposal add the following to Household durables**
 - C.23.41 Manufacture of ceramic household and ornamental articles
 - C.31.00 Manufacture of furniture
 - C.32.91 Manufacture of brooms and brushes



Agriculture, Farming and Fishing
Food and Beverages
Forestry and Wood products

Agriculture, Farming and Fishing

- **EFRAG Secretariat proposal: explain in Basis for Conclusions why not integrated into Agriculture, Farming and Fishing**
 - **Food and Beverages**
 - Methods to transform raw foods and ingredients (cleaning, refrigeration, fermentation, baking, frying, canning,...) create more and different health risks for customers and end-users [than growing plants or raising animals]
 - Packaging (retail quantities) will play a higher role in Food and Beverages
 - Agriculture IRO's are covered by the reporting on value chain
 - **Forestry and Wood products**
 - Forestry management will differ from Agriculture in IRO's such as carbon storage (or loss of storage), biodiversity, ...
 - Wood products have particular risks in relation to resource inflow of wood fibres
 - **Salt mining**
 - Besides the harvesting of seasalt (solar evaporation), other methods such as deep shaft mining or the drilling a well into a salt deposit layer rely on mining techniques and create similar IROs as other mine operations (industrial hazards, water usage, affected communities,...)

Food and Beverages

C. 21.10 Manufacture of basic pharmaceutical products

- ✓ manufacture of active pharmaceutical ingredients to be used for their pharmacological properties in the manufacture of medical products, e.g. antibiotics, basic vitamins, salicylic and O-acetylsalicylic acids - processing of blood manufacture of food products edible within a maximum of three days after production:
- ✓ manufacture of chemically pure sugars
- ✓ manufacture of probiotics
- ✓ processing of glands and manufacture of extracts of glands etc
- ✗ *manufacture of advance cell and gene therapy pharmaceutical preparations [Pharma and Biotech]*

Proposal to use 1 to n approach to assign manufacturing of vitamins to Food and Beverages

EFRAG Secretariat proposal: use NACE Class C.21.10 twice, once in « Food and Beverages » and once in « Pharma and Biotechnology »

Reason: vitamins are seen as a food product

Forestry and Wood products

- **EFRAG Secretariat proposal:**
 - For reasons of interoperability with GRI sectors: merging ESRS Sector « Forestry » with « Paper and Wood products »

- **EFRAG Secretariat proposal:**
 - Use the following NACE Classes multiple time: in « Forestry and Wood products », and in « Construction Materials »
 - C.16.21 Manufacture of veneer sheets and wood-based panels
 - C.16.22 Manufacture of assembled parquet floors
 - C.16.25 Manufacture of doors and windows of wood
 - Reason: wood is an important resource in the construction sector.



Education

Education

Q. 85.59 Other education n.e.c.

- ✓ education that is not definable by level - academic tutoring - remedial courses - professional examination review courses - language instruction and conversational skills instruction - computer training (e.g. general computer usage, programming courses, usage of computer applications) - relaxation courses (e.g. meditation courses, breathing technics, courses of awareness through movement, courses on stress and anxiety relief techniques) - sewing courses - oenology courses - family life courses, e.g. parent-child courses - training on plant protection products
- ✓ ...

Proposal to use 1 to n approach to assign other education to Education and Healthcare

EFRAG Secretariat proposal: use NACE Class Q. 85.59 twice, once in « Healthcare » once in « Education ».

Reasons:

- Relaxation courses have besides an educational element, also a mental health component, so the activity belongs under two sectors

Education

R. 88.91 Child-day care activities

- ✓ day-care activities for children provided in private homes or day-care centres
- ✓ after-school care activities
- ✓ day-care activities for children with disabilities

EFRAG Secretariat proposal: re-allocate NACE Class R. 88.91 from « Healthcare » into « Education ».

Reasons:

- value chain for child-day care is closer to Education
- Impacts relate more to educational and social elements



Information Technology



INFORMATION TECHNOLOGY: DESCRIPTION



The Information Technology sector includes the activities of data processing and hosting activities, as well as other activities that primarily supply information. It also includes providing expertise in the field of information technologies: writing, modifying, testing and supporting software.

Undertakings in the Information Technology sector offer products and services globally to retail, business, and government customers, and includes undertakings involved in the development and sales of applications software, infrastructure software, and middleware.

The sector also includes IT services undertakings delivering specialised IT functions, such as consulting and outsourced services. New sector business models include cloud computing, software as a service, virtualisation, machine-to-machine communication, big data analysis, and machine learning.

EFRAG Secretariat proposal: rewrite the IT sector description.

Reason: the current description is missing activities such as datacenters – description should also pay attention to the ethical use of data and the use of artificial intelligence.

Information Technology

C. 33.20 Installation of industrial machinery and equipment

- ✓ This class includes the specialised installation of machinery. However, the installation of equipment that forms an integral part of buildings or similar structures, e.g. installation of escalators, electrical wiring, burglar alarm systems or air-conditioning systems, is classified as construction. This class includes:
 - installation of industrial machinery in industrial plant
 - installation and assembly of industrial process control equipment
 - installation of other industrial equipment, e.g.:
 - communication equipment
 - mainframe and similar computers
 - irradiation and electromedical equipment etc.
 - dismantling large-scale machinery and equipment
 - activities of millwrights
 - machine rigging
 - installation of bowling alley equipment
 - installation of warehouse machinery and equipment
 - day-care activities for children provided in private homes or day-care centres

✓ ...

Proposal to use 1 to n approach to assign installation of mainframes and similar computers to « Information Technology »

EFRAG Secretariat proposal: use NACE Class C.33.20 twice, once in « Information Technology » and once in « Machinery and Equipment »

Reason: NACE Class C.33.20 covers activities that are not limited to one sector.



Marketing

Arguments pro and contra

Pro

- Interoperability with GRI

Contra

- Professional services is far too broad and encompasses too many activities
- Marketing relates to assessing personal data and therefore implies other sustainability matters than other professional services

EFRAG Secretariat proposal:

- For reasons of interoperability with GRI, merge « Marketing » with « Professional Services ».



Media and Communication

Media and Communication

S. 91.12 Archive activities

- ✓ Archive activities include the activities carried out by archival services of all types, with a view to building, storing, classifying, physical or digital archive collections and communicating them to the general public or to a particular category of users. This class includes: - activities of public archives providing service to the general public or to a special clientele, e.g. students, scientists, staff, members as well as operation of government archives - activities related to the acquisition or collection of archives - activities related to the identification, stocktaking, description and classification of archives - activities related to the safety and maintenance of archive items (monitoring of the sanitary status and climatic conditions, safety and security, rehabilitation) - activities related to communication of archives to the public on site or remotely - digitisation of archival documents for digital archive collections

✓ ...

Proposal to use 1 to n approach to assign digitisation of archival instruments to « Media and Communication »

EFRAG Secretariat proposal: use NACE Class S. 91.12 twice, once in « Recreation and Leisure » once in « Media and Communication».

Reason:

- Electronic storage of archives that are open to the public fit more under the Media sector



Chemicals and polymers

Chemicals and polymers

EFRAG Secretariat proposal: re-assign the following NACE Classes to the Construction and Engineering sector

C.20.30 Manufacture of paints, varnishes and similar coatings, printing ink and mastics.

C.20.52 Manufacture of glues

C.20.60 Manufacture of man-made fibres

C.22.21 Manufacture of plastic plates, sheets, tubes and profiles

Reason: these Classes relate to Construction materials

EFRAG Secretariat proposal: re-assign the following NACE Class to Household durables (former Construction and Furnishings)

C.32.91 Manufacture of brooms and brushes

Reason: manufacturing of brooms and brushes relates more to Household durables

Chemicals and Polymers

EFRAG Secretariat proposal: use NACE Class C. 32.99 multiple times

Reason:

- NACE Class C.32.99 is a catch-all Class combining economic activities that do not fit under one sector

EFRAG Secretariat proposal: re-assign NACE Class C.20.15 Manufacture of fertilisers to Mining

Reason:

- Assigning to Mining allows aligning with recommendations of the Platform for Sustainable Finance

Chemicals and polymers

Chemicals and polymers

C. 32.99 Other manufacturing n.e.c.

- ✓ manufacture of protective safety equipment, e.g.: • manufacture of linemen's safety belts and other belts for occupational use • manufacture of cork life preservers • manufacture of safety headgear and other personal safety equipment, e.g. protective face shields/visors, of plastics, e.g. athletic helmets) • manufacture of fire protective clothing • manufacture of metal safety headgear and other metal personal safety devices • manufacture of ear and noise plugs, e.g. for swimming and noise protection • manufacture of gas masks • manufacture of biohazard protective clothing and accessories • manufacture of bulletproof vests • manufacture of clean room suits and accessories
- ✓ manufacture of pens and pencils of all kinds whether or not mechanical
- ✓ manufacture of pencil leads
- ✓ manufacture of date, sealing or numbering stamps, hand-operated devices for printing, or embossing labels, hand printing sets, prepared typewriter ribbons and inked pads
- ✓ ...

Metal processing

Textiles



Chemicals and polymers

C. 32.99 Other manufacturing n.e.c.

- ✓ ...
- ✓ manufacture of globes
- ✓ manufacture of umbrellas, sun-umbrellas, walking sticks, seat-sticks
- ✓ manufacture of buttons, press-fasteners, snap-fasteners, press-studs, slide fasteners
- ✓ manufacture of electronic cigarettes
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- ✓ manufacture of miscellaneous articles, e.g.: candles, tapers, etc.; artificial flowers, fruit and foliage; jokes and novelties; hand sieves and hand riddles; tailors' dummies; burial coffins
- ✓ manufacture of floral baskets, bouquets, wreaths and similar articles
- ✓ taxidermy activities
- ✓ manufacture of scale models designed for demonstration
- ✓ ...

Household durables

Professional Services



Metal processing

Metal processing

- **EFRAG Secretariat proposal: adapt the sector definition to reflect the use of two subsectors: manufacturing and metal processing**

EFRAG Secretariat proposal: use the following NACE Classes twice, once in Metal processing, once in Construction and Engineering.

NACE Classes to use twice	Current sectors	Other sectors	Reason
C.25.11 Manufacture of tubes, pipes, hollow profiles and related fittings, of steel	Metal processing	Construction Materials	The items produced under these activities are also construction materials.
C.25.12 Manufacture of doors and windows of metal	Metal processing	Construction Materials	
C.25.21 Manufacture of central heating radiators, steam generators and boilers	Metal processing	Construction Materials	
C.25.62 Manufacture of locks and hinges	Metal processing	Construction Materials	

The EFRAG Secretariat thinks it is not appropriate to include NACE C.24.10 « Manufacture of basic iron and steel and of ferro-alloys » into the Construction Materials sector given the very nature of these activities



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