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GAINING NAICS STATUS

STAND-ALONE INDUSTRY CODE FOR COMPOSTING

Establishing a stand-alone code for composting will provide robust statistical data of critical value to the finance community and other stakeholders.

Part I

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COMPOSTING in the U.S. as a commercial activity employing people and contributing to the economy has been around for decades. Today, there are over 3,000 commercial composters in the U.S. and thousands more businesses including service and equipment providers supporting the processing infrastructure. Despite this size and depth, a number of fundamental questions about the industry cannot be answered with a great degree of authority or conviction. How big is the market for compost in terms of total revenue and product volume? How many people does the sector employ? How much does it contribute to local, state and national economies?

One pathway to generating and tracking these statistics — and gaining recognition as an industrial sector — is for composting to become a stand-alone commercial activity within the North American Industry Classification System (NAICS). Currently, commercial composting is embedded within various industry codes that make it extremely difficult to extract economic data and statistics relevant to only this sector. Having a stand-alone industry code allows stakeholders (including entrepreneurs, investors, municipalities and policy makers) to accurately describe the economic contributions of the composting sector, measure growth and extrapolate trends.

Obtaining industry code recognition is a complicated process that is likely to require a significant investment of time and money. The value and impact on the composting industry of having a stand-alone code, however, is profound and well worth the effort. The first step is to get collectively up to speed on the issues and process so informed decisions can be made going forward.

This article series in *BioCycle* explains the benefits associated with industry code recognition and sets forth a possible road map for the composting industry to achieve this important objective. Part 1 is a primer on the NAICS and explains its value. Part 2 will explore where within NAICS the organics recycling sector might best fit. Where the industry is classified has many important implications. Part 3 will make recommendations and provide a road map to NAICS recognition.

WHAT IS NAICS?

NAICS (pronounced "Nakes") replaced the Standard Industry Classification (SIC) system in 1997 as the "standard for use by Federal statistical agencies in classifying business establishments for the collection, tabulation, presentation and analysis of statistical data describing the U.S. economy," according to a Frequently Asked Questions fact sheet on the Census Bureau's website. Canada, Mexico and the U.S. developed NAICS to produce common industry definitions and facilitate economic analyses. The statistical agencies of each country produce information on inputs and outputs, industrial performance, productivity, unit labor costs and employment. In the U.S., NAICS is administered by the Office of Management and Budget (OMB). Included in collecting information and producing statistics are the Bureau of Economic Analysis, the Bureau of Labor Statistics and the Census Bureau.

NAICS groups business establishments (defined as a single location where business is conducted such as a factory, store, facility, warehouse, etc.) into industries according to similarity in the processes used to produce goods or services. A company may own/operate several business establishments performing the same or different types of economic activities. Each business establishment would be assigned a NAICS code based on its primary business activity. The parent company itself, therefore, is not directly tracked but its economic activities are captured through the tracking of its business establishments.

NAICS employs a six digit hierarchical classification system, with each digit in the code representing a series of progressively narrower categories. The first two indicate the economic sector, the third digit designates the subsector and the fourth is the industry group. The fifth digit designates the NAICS industry and the sixth is the national industry. For all three

Benefits of an industry code include validation and recognition of composting's contribution and relevance to the economy.

countries, the first five digits are comparable in code and definitions for most NAICS sectors. The sixth digit tracks country-specific detail. NAICS has approximately 1,175 six digit codes. Including Corresponding Index Entries, which provide more specific details and references associated with each six digit code, NAICS identifies approximately 19,720 commercial activities.

Because NAICS tracks industries, not products or services, the OMB is developing the North American Product Classification System (NAPCS) in cooperation with Canada and Mexico. NAPCS will attempt to capture all of the products and services associated with the industries defined in NAICS. Once completed, multiple NAPCS codes could be linked to any individual business establishment to fully capture all of the products it produces and services it provides. This has particular relevance to the composting industry in that composting facilities are typically offering waste disposal services as well as marketing products, including compost, compost-based soil amendments and related landscape and horticulture products. The initial phase of NAPCS's development will target service industries; however, a plan to establish a stand-alone NAICS code for composting must also address the ongoing NAPCS process to ensure that products and services currently and likely to be produced or offered by composting facilities are fully recognized within NAPCS.

CURRENT "RECOGNITION" OF COMPOSTING

The official NAICS website — www.census.gov/eos/www/naics — is managed and maintained by the U.S. Census Bureau. Typing "compost" within the search box on the top left side of the home page results in links to three industry codes that reference "compost" in some way:

325311 Nitrogenous Fertilizer Manufacturing: Although this code is the first search result, its application to composting is imprecise at best. This code relates exclusively to: 1) Manufacturing nitrogenous fertilizer materials and mixing ingredients into fertilizers; 2) Manufacturing fertilizers from sewage or animal waste; and 3) Manufacturing nitrogenous materials and mixing them into fertilizers. It may seem as though this code applies to composting of certain feedstocks, as some composters make soil amendments out of biosolids and animal waste; however, upon closer look at the Corresponding Index Entries (CIE), this code explicitly excludes compost with the reference "Fertilizers, Natural Organic (Except Compost), Manufacturing." The CIE make it clear that this code is meant to capture the manufacturing of nitrogenous fertilizers such as ammonia, nitric acid and urea.

325314 Fertilizer (Mixing Only) Manufacturing: At first glance, this code is somewhat confusing in that in contains references to "mixing only" as well as "manufacturing." The official definition on the Census Bureau/NAICS website is, "[t]his U.S. industry comprises establishments primarily engaged in mixing ingredients made elsewhere into fertilizers." This code captures manufacturing of fertilizer mixes as opposed to the actual manufacturing of the raw ingredients that are combined into fertilizer mixes. The analogy would be a code describing companies that make cake mixes from raw materials (flour, sugar, cocoa, etc.) purchased from other vendors. That said, this code is probably the one most used by composters when required to identify a NAICS code most closely resembling their commercial activities. Indeed, two CIE for this code appear quite promising: "Compost Manufacturing" and "Potting Soil Manufacturing."

Despite these references, the 325314 Fertilizer (Mixing Only) Manufacturing code it is not a good solution for the composting industry for the following three reasons:

1) Composting is being categorized as a fertilizer, which is problematic to many composters due to regulatory and compliance issues associated with such classification.

2) This is not a stand-alone code for composting; therefore, it is very difficult to extract economic data and statistics exclusive to the composting industry. Composting-related activities are only a part of other activities allowed under this code, including CIE references to: Fertilizers, mixed, made in plants not manufacturing fertilizer materials; Mixing purchased fertilizer materials; Nitrogenous fertilizers made by mixing purchased materials; Phosphatic fertilizers made by mixing purchased materials; Potassic fertilizers made by mixing purchased materials.

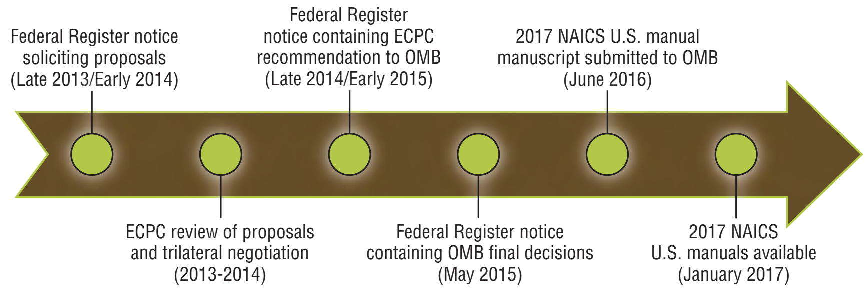
3) Notwithstanding the CIE references to "Compost Manufacturing," it is very clear that this code is meant to capture the mixing activities (making fertilizer mixes) not the manufacturing of the raw ingredients being mixed together into a fertilizer or even compost blend.

562219 Other Nonhazardous Waste Treatment and Disposal: This code captures the disposal services the composting industry provides. Here is the official definition:

"This U.S. industry comprises establishments primarily engaged in (1) operating nonhazardous waste treatment and disposal facilities (except landfills, combustors, incinerators and sewer systems or sewage treatment facilities) or (2) the combined activity of collecting and/or hauling of nonhazardous waste materials within a local area and operating waste treatment or disposal facilities (except landfills, combustors, incinerators and sewer systems, or sewage treatment facilities). Compost dumps are included in this industry."

Although some say, "there's no such thing as bad publicity," most composters do not go out of their way to describe themselves as being in the "compost dump" business. This classification is inadequate because it ignores the manufacturing of a finished compost product sold as is or often blended into a variety of soil mixes for industrial, residential and agriculture uses.

Figure 1. NAICS revision process timeline



PROCESS AND TIMELINE

NAICS undergoes a revision process every five years to ensure it accurately reflects an evolving economy. The next NAICS revision takes place in 2012. Although the public notice period for public comments associated with the 2012 revision ended on July 12, 2010, the composting industry has the opportunity to be well prepared to participate in future revisions. Extrapolating from the 2012 revision time line, the 2017 revision process is likely to commence as early as 2013 (Figure 1), giving the industry approximately two years to formulate, agree and execute a work plan. As the composting industry contemplates a bid for a stand-alone NAICS code, special attention should be given to the four organizing principles of NAICS and how they will determine where composting should be classified within the code. First, NAICS groups business establishments based on similarities in the process used to produce goods or services. Second, according to a fact sheet on the NAICS update process, "special attention is given 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."

Third, NAICS attempts to maintain time series continuity as much as possible, meaning it tries to ensure that prior year data is comparable over time so that trends can be identified and analyzed. And four, NAICS tries to maintain "compatibility with the two-digit level of International Standard Industrial Classification of All Economic Activities (ISIC Rev. 4) of the United Nations.," to be discussed in more detail in Part 2.

Proposals for change will also be evaluated against other criteria:

Cross-Border Considerations: A proposal to add composting as a stand-alone industry will have cross-border implications, as composting is an active industry in Canada and Mexico as well the U.S. Accordingly, coordination among governmental bodies and composting industry associations in all three counties will be required.

Minimum Size Threshold: Proposed new industries must meet minimum size requirements, i.e., a sufficient number of establishments so that Federal agencies can publish industry data without disclosing information about the operations of individual firms. Even today, with tools such as *BioCycle*'s FindAComposter (www.findacomposter.com), our industry can substantiate its local and national presence. Over the next couple of years, more can be done; and later in this series we will make specific recommendations on how the composting industry can document, substantiate and articulate its significant economic contributions.

Cost Considerations: Proposed changes must be able to be adopted by agencies within their normal operations. Explains the fact sheet on the NAICS update process, "The ability of government agencies to classify, collect, and publish data . . . will be taken into account." The cost of adopting the change is a factor of consideration.

Production Process Description: Proposals need to include specific detail about the economic activities to be covered by the proposed industry, especially with regard to production processes, specialized labor skills and unique materials used.

Relationship To NAICS: Proposals should describe the relationship of the industry candidate to existing NAICS industries as well as provide an overview of the industry in all three countries.

Interaction With NAPCS: NAICS proposals will be assessed in the context of both NAICS as well as NAPCS to see whether the suggestion is better addressed in both or one of these classification systems.

BENEFITS TO THE INDUSTRY

A stand-alone industry code for the composting industry has the potential to provide tremendous value. Benefits include: 1) Validation and recognition of composting's contribution and relevance to the economy; 2) Various agencies within the government

NAICS RESOURCES

The following web-based sources were used to assist in writing Part I of the NAICS series. See this article on BioCycle.net for direct links to these resources:

- NAICS Frequently Asked Questions
- NAICS Update Process Fact Sheet

2007 NAICS Definitions:
- Nitrogenous Fertilizer Manufacturing
- Fertilizer (Mixing Only) Manufacturing
- Other Nonhazardous Waste Treatment and Disposal
- International Standard Industrial Classification of All Economic Activities (ISIC Rev. 4) of the United Nations (Compost Reference)

dedicated to collecting, tabulating, presenting and analyzing key data about this sector for the benefit of all stakeholders; 3) Availability of data for private sector industry research firms; 4) Necessary foundation to enable the investment community to conduct due diligence, which over time, should drive interest in the sector and lower the cost of capital for composters; 5) Ability to articulate economic contributions more accurately and forcefully, which is critically important when engaging policy makers, municipalities, regulators, the general public and other stakeholders; 6) Ability for composters to make more informed business decisions on critical matters such as where to expand, what to produce, what to charge and how to allocate resources.

Part I of this article series has covered a lot of ground, which is necessary to introduce a very complex topic of significant importance to the composting industry. Having laid the groundwork, Part 2 will discuss where, within NAICS, composting might fit best. It will examine how other countries have classified composting and the pros and cons of alternatives worthy of consideration. The adage, "be careful what you wish for" is appropriate in this context because where within NAICS composting establishes a stand-alone code has material implications, as will be discussed in Part 2. ■

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