

Foreign Affiliates Statistics (FATS): concepts, legal framework, EU data

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Outline

- General concepts (MSITS)
- FATS compilation and dissemination in the European Union

FATS – general concepts



How do we understand FATS?

Abbreviation:

- In the past: **F**oreign **A**ffiliates' **T**rade in **S**ervices
- Now extended: **F**oreign **A**ffilia**T**es **S**tatistics
- Statistics describing the overall operations of foreign-controlled affiliates (direct investment enterprises)
- part of AMNE statistics (*Activities of Multinational Enterprises*)
- Traditional focus on services now extended by including manufacturing sector
- Chapter IV of MSITS 2010, consistent with international standards (BPM6, BD4, SNA2008)

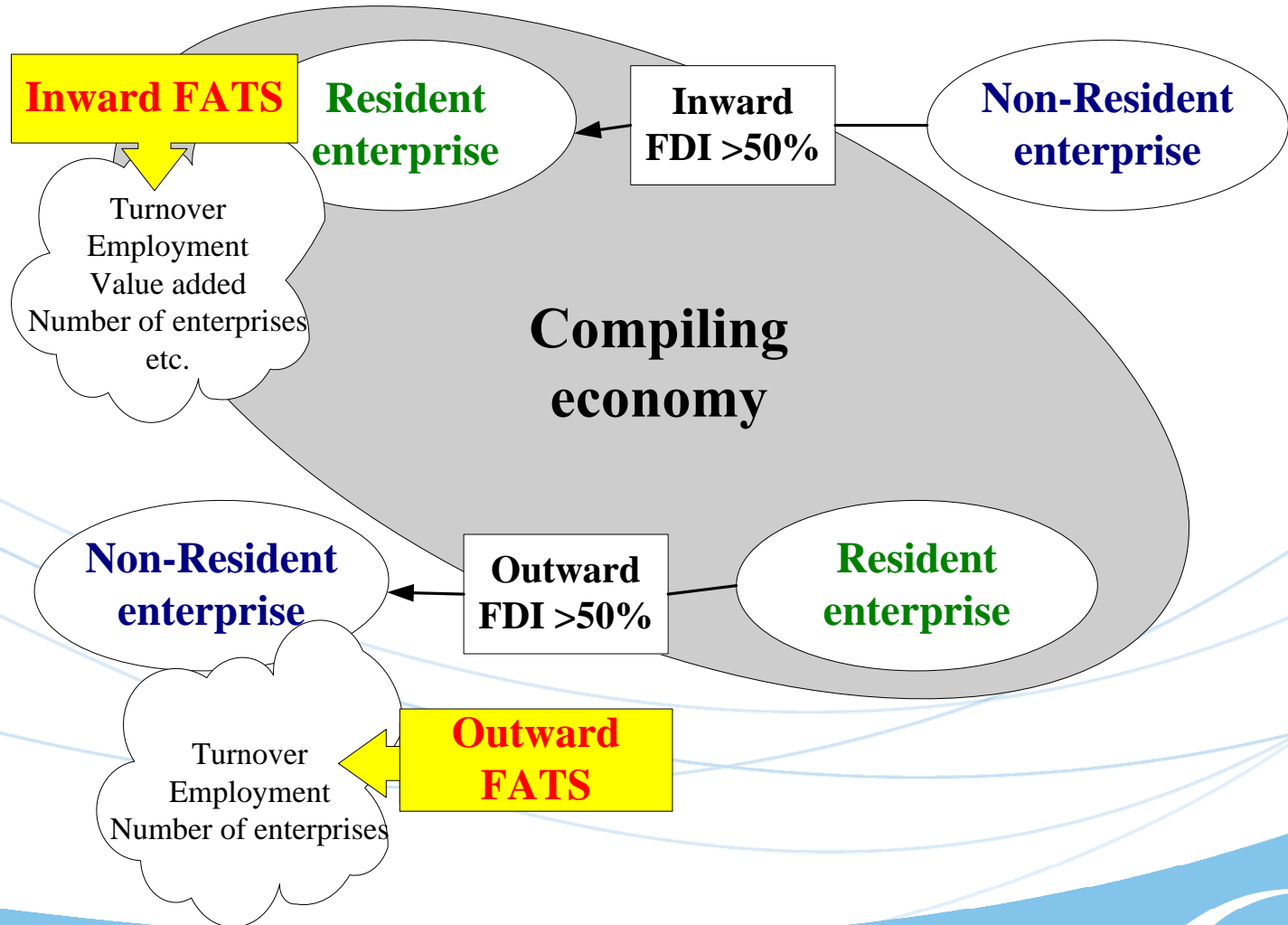
Rationale for compiling FATS

- extend the information provided by international trade statistics (transactions) and FDI statistics (transactions, stocks, income)
- describe international commercial presence of enterprises
- measure the economic impact of one country on another one
- very relevant for research on economic globalisation – both in terms of reasons and effects/impacts
- policy relevant – GATS

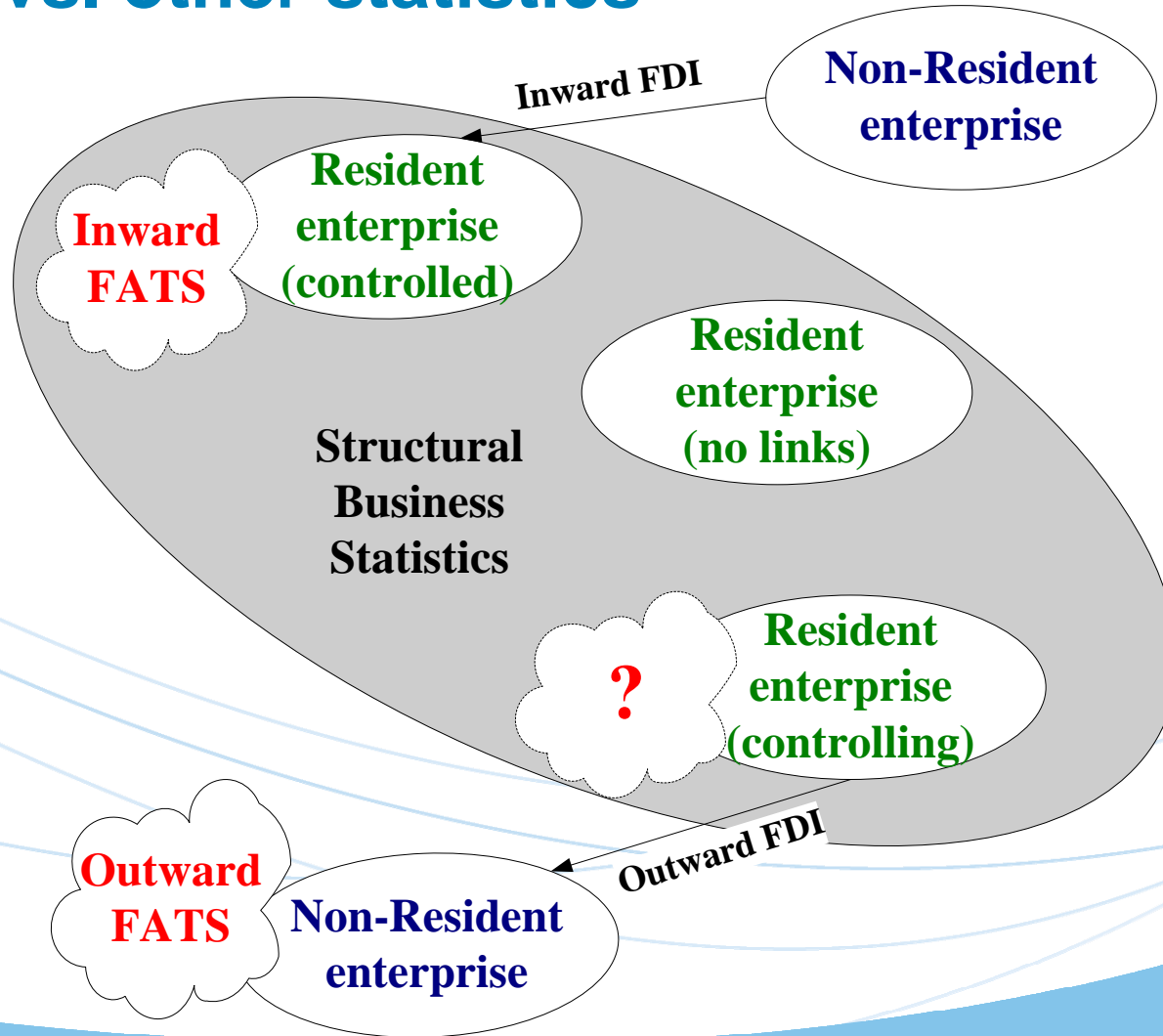
Relation between FDI statistics and FATS

- **FDI** – capital links between enterprises resident in different countries
- **FATS** – real economic activity of the capital located abroad (extension of the information provided by FDI)
- **FDI** – 10% or more of voting power in the *FDI enterprise* (ownership)
- **FATS** – concept of control over the *affiliate* (e.g. ‘power to name the majority of its directors or otherwise to legally direct its actions’ (MSITS); in practice mostly 50% or more voting power, incl. indirect control)
- **FDI** – statistics according to individual country shares
- **FATS** – affiliate’s characteristics attributed as a total

Inward vs. Outward FATS



FATS vs. other statistics



Ultimate vs. Intermediate controlling unit

- Ultimate investor = controlling unit at the end of the control chain
- Intermediate investor = himself controlled by another unit
- MSITS: FATS should include all affiliates, held directly or indirectly, irrespective whether the direct investor in the compiling economy is the ultimate or intermediate investor **(national perspective)**
- ...but international organisations aggregating the results should collect data referring to ultimate investors only, in order to avoid double-counting of the same affiliates **(international perspective)**

Statistical unit in the MSITS

- **Enterprise** (company)...
- ...or **establishment** (individual business location)
- Both correct, having both advantages and disadvantages
- **Enterprise**: financial characteristics more natural, links to FDI data collection
- **Establishment**: more precise attribution of economic activity possible
- Enterprises used in the EU, establishments in the USA
- Metadata should contain statistical unit information in order to facilitate data interpretation and analysis

Dimensions of FATS

1. **Economic activity** of the foreign affiliate

- MSITS: ISIC (ICFA groupings as a starting point)
- EU: NACE (EU implementation of ISIC)

2. **Partner country**

- Inward FATS: country of the (ultimate) controlling investor
- Outward FATS: country of residency of the foreign affiliate

3. **Characteristics** (variables) – see next slide

4. *Product – longer term goal, applicable to some variables*

FATS variables (MSITS, SNA)

Basic measures:

- sales (turnover) and/or output
- employment
- value added
- exports and imports of goods and services
- number of enterprises (affiliates)

Additional measures: assets, compensation of employees, net worth, net operating surplus, gross fixed capital formation, taxes on income, research and development expenditures, purchases of goods and services (intermediate consumption)

Data compilation

- Two basic **approaches** to developing FATS:
 1. directly request information from enterprises via surveys (Inward FATS – affiliates, Outward FATS – parents)
 2. (Inward FATS only) identify the foreign-controlled subset of the existing data on resident enterprises
- **Mixes** of the two approaches possible
- Potential **synergies**:
 - Inward FATS: business registers, business statistics surveys
 - Outward FATS: FDI registers, FDI surveys
- Advantage of separate FATS surveys (approach 1): possibility of tailoring the requested data (variables, classifications) and survey periodicity to data compiler's needs and data reporters' capacities

Summary of main concepts

- Inward – Outward FATS
- FATS – AMNE
- Ownership – Control
- Ultimate – Intermediate controlling unit
- Direct – Indirect affiliates
- Enterprise – Establishment
- Services – Manufacturing (and others)
- Dedicated survey – Subset of existing data
- Economic activity – Partner country – Variables
- FDI – FATS – Business statistics

FATS compilation and dissemination in the European Union



Common legal framework of FATS in the EU

- **Regulation (EC) No 716/2007** of the European Parliament and of the Council of 20 June 2007 on Community statistics on the structure and activity of foreign affiliates

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:171:0017:0031:EN:PDF>

- Implementing regulations of the European Commission on derogations, definitions, classifications, quality reporting

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- **FATS Recommendations Manual 2009 ed.** (not legally binding)

http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-AR-09-014/EN/KS-AR-09-014-EN.PDF

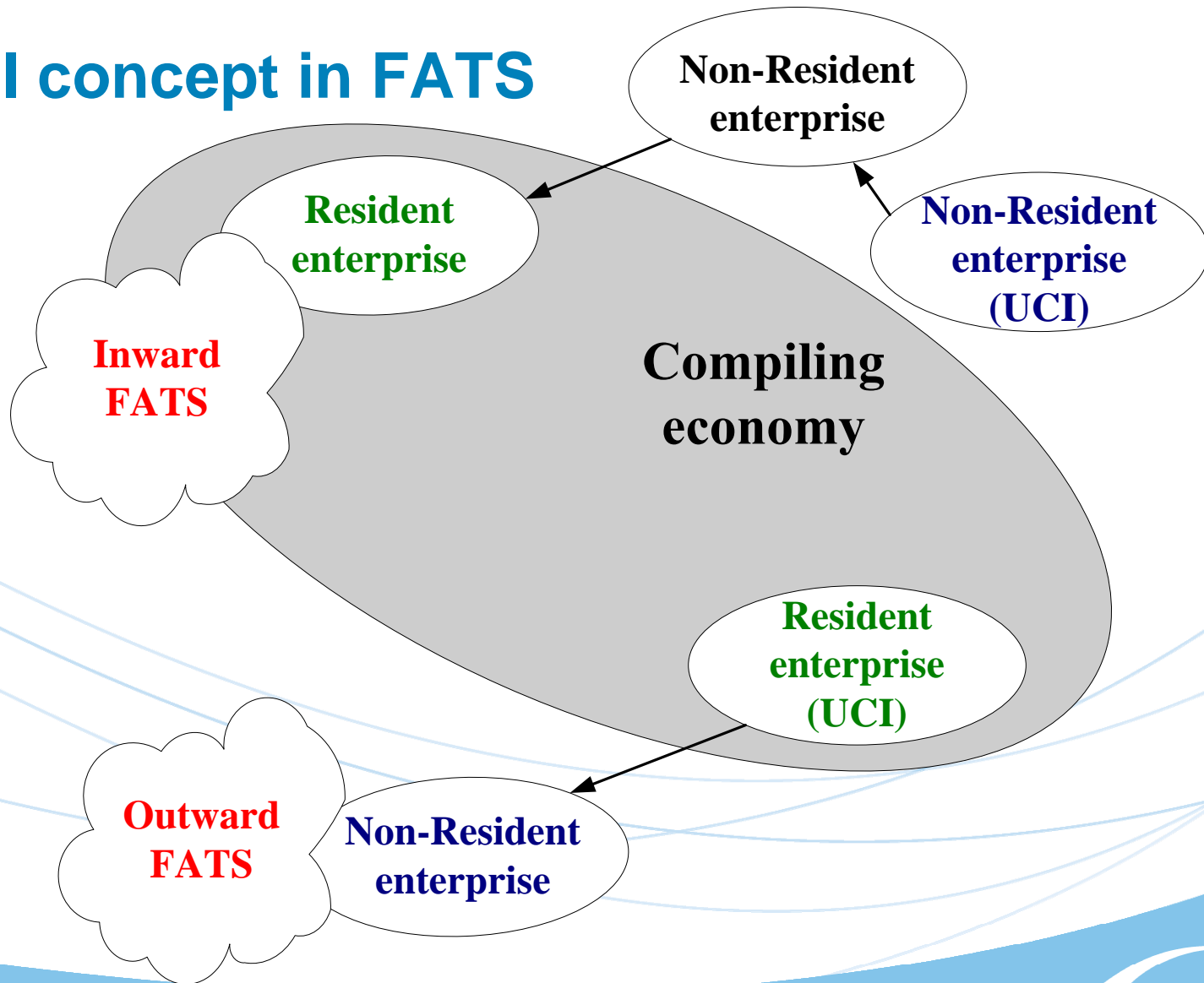
Distribution of roles

- National statistical institutes and/or central banks:
 - collect FATS data from enterprises and other sources
 - compile and publish national figures
- Eurostat – the statistical office of the European Union, part of the European Commission (EU ‘government’):
 - sets methodological standards (in agreement with Member States)
 - collects aggregated data from EU national data compilers (no microdata)
 - analyses the quality of country data
 - calculates EU figures (from 2011)
 - publishes country and EU data

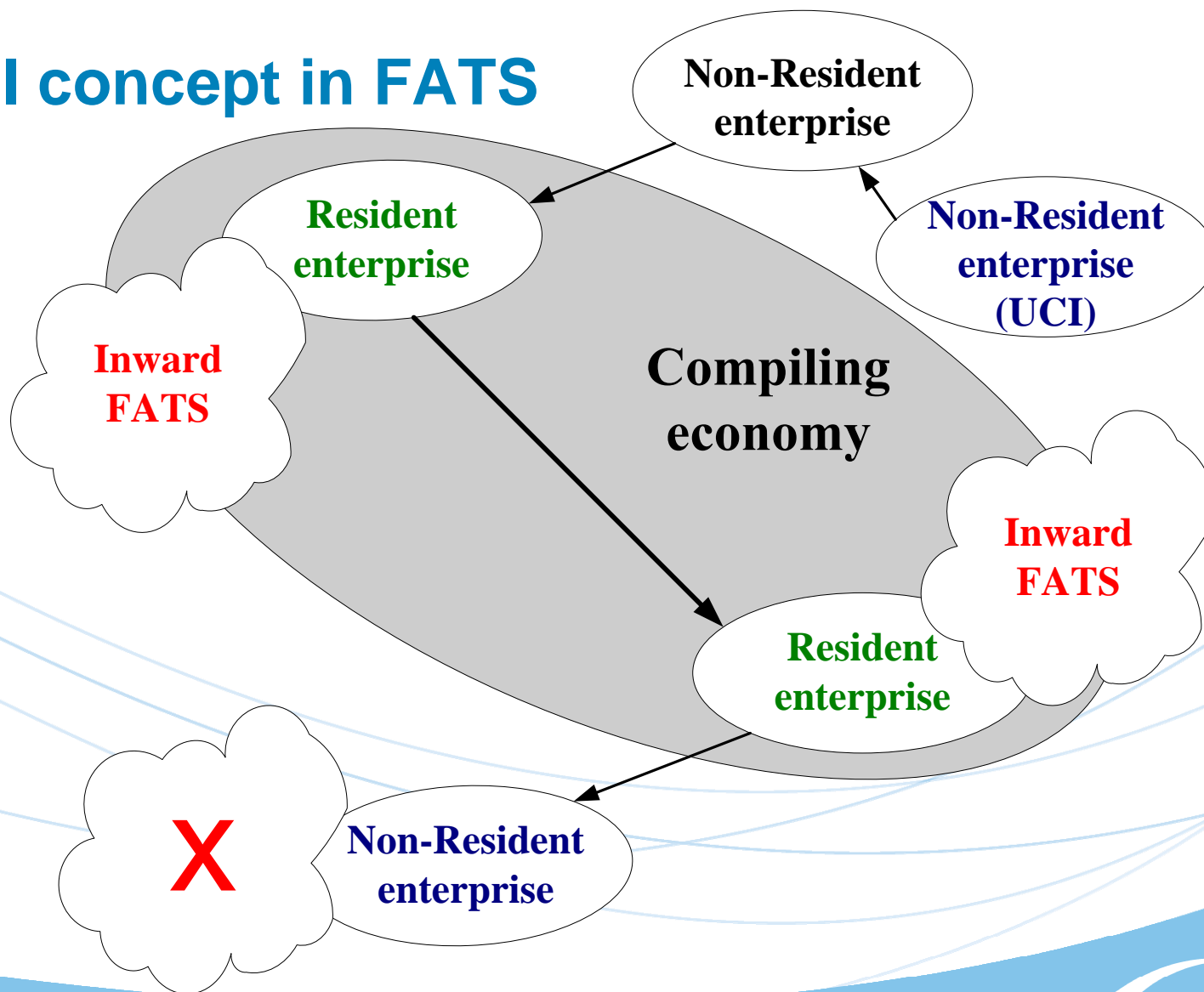
UCI concept vs. national perspective

- UCI = *Ultimate Controlling Institutional Unit*
- UCI in the most cases is *global group head*, i.e. the enterprise on the top of the control chain in a multinational corporation, able to influence the management of lower level enterprises (i.e. appoint the board), but not controlled itself by any other unit
- **UCI approach** (required for data sent to Eurostat):
 - Inward FATS: the country of ownership/control is where the UCI of an affiliate is resident
 - Outward FATS: data are collected only from resident companies being UCI's of an enterprise group
- UCI approach necessary in order to avoid double-counting when data aggregated for the whole European Union
- **National perspective**: data on all affiliates irrespective UCI collected and published by some EU Member States for their national purposes but UCI-based data transmitted to Eurostat

UCI concept in FATS



UCI concept in FATS



Statistical unit

■ Enterprises...

*...the smallest combination of **legal units** that is an organisational unit producing goods and services, which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources*

...an enterprise or part thereof (e.g. a workshop, factory, warehouse, office, mine or depot), situated in a geographically identified place; at or from this place economic activity is carried out for which (with some exceptions) one or more persons work for one and the same enterprise; they can be both legal and natural persons.

■ ...and branches

...local units not constituting separate legal entities, which are dependent on foreign-controlled enterprises

Statistical unit vs. reporting unit

■ Inward FATS:

...we ask a resident enterprise being an affiliate of a foreign enterprise group about its own characteristics

THUS: **statistical unit = reporting unit**

■ Outward FATS:

...we ask a resident enterprise being head of an enterprise group about characteristics of other enterprises (its foreign affiliates)

THUS: **statistical unit \neq reporting unit**

FATS characteristics (variables) in the EU

- Number of enterprises
 - Turnover
 - Number of persons employed
- } **Inward & Outward FATS**
- Value added at factor cost
 - Gross investment in tangible goods
 - Personnel costs
 - Production value
 - Total purchases of goods and services
 - Purchases of goods and services for resale
 - Total intra-mural R&D expenditure
 - Total number of R&D personnel
- } **Inward FATS**

Data collection

■ Inward FATS:

- in most of the cases data collected by national statistical institutes
- mostly the synergies with structural business statistics data collection used (encoding of foreign affiliates in SBS data)
- variable definitions and activity codes as in SBS (but less details)

■ Outward FATS

- data collection both by NSIs and NCBs
- separate survey or part of the FDI survey
- survey population based on the FDI register, business register, annual financial statements, direct contacts and media information
- variable definitions from SBS, activity codes as in FDI statistics (~same details)

Data requirements

- **Periodicity:** annual (first compulsory reference period 2007)
- **Timeliness:** t+20 months
- **Classification:** NACE Rev. 1.1 (Rev. 2 from reference year 2008 in Inward FATS and 2010 in Outward FATS)
- **Dimensions:**
 - Inward FATS: 1) 26+14 main partners x detailed activities
2) all partners x total economy (C-K excl. J)
 - Outward FATS: 1) 9 main partners x detailed activities
2) 24 other partners x 17 main activities
3) all partners x total economy (C-O excl. L)

Major methodological challenges

- Data completeness – population frame, response rate
- Asymmetric burden distribution between countries
- Estimations when thresholds applied (OFATS)
- UCI attribution
- Rapidly changing corporate structures – constant updates
- Special Purpose Entities (SPE)
- Consolidated reporting (turnover but not only, OFATS)
- Trade variables, esp. intra-group trade
- Level of detail vs. confidentiality
- Asymmetries Inward vs. Outward FATS
- Links Inward FATS – SBS: consistency of confidentiality

EuroGroups Register

- Register of multinational corporations active in the EU
- Ongoing project, currently 5000 biggest groups
- Corporate structures, ID numbers, key characteristics (where available), UCI, SPE...
- Source: commercial databases, verified and completed by national business registers statisticians
- Restricted access to EU NSIs and (soon) NCBs
- Main users: FATS and FDI statisticians

Data coverage

■ Inward FATS:

- 2006: 15 Member States
- 2007: 24 Member States + Norway
- 2008: 22 Member States + Norway
- first EU aggregates planned for 2009 data

■ Outward FATS:

- 2006: 12 Member States
- 2007: 23 Member States + Croatia (derogations: ES, LU, PL, UK)
- 2008: 23 Member States + Croatia
- first EU aggregates planned for 2009 data

FATS common data publication

<http://epp.eurostat.ec.europa.eu>

↑ 'Statistics Database'

The screenshot displays the 'Data Navigation Tree' interface. The tree is organized into several main categories under 'Database by themes':

- General and regional statistics
- Economy and finance
- Population and social conditions
- Industry, trade and services
 - Short-term business statistics (sts)
 - Structural business statistics (sbs)
 - SBS - main indicators (sbs_na)
 - SBS - industry and construction (sbs_ind_co)
 - SBS - trade (sbs_dt)
 - SBS - services (serv)
 - SBS - regional data - all activities (sbs_r)
 - Business demography statistics - all activities (bd)
 - Factors of Business Success statistics - all activities (fobs)
 - Foreign controlled EU enterprises - inward FATS (fats)
 - Foreign control of enterprises - Reference year 2003 and onwards (fats_03)
 - Foreign control of enterprises - breakdown by economic activity and a selection of controlling countries (fats_g1a_03)
 - Foreign control of enterprises - breakdown by controlling countries (fats_g1b_03)
 - Foreign control of enterprises - Reference years 1996 - 2002 (fats_96)
 - Foreign affiliates of EU enterprises - outward FATS (fats_out)
 - European Union Foreign Affiliates Statistics - Employment (fats_out_emp)
 - European Union Foreign Affiliates Statistics - Turnover (fats_out_tur)
 - European Union Foreign Affiliates Statistics - Enterprises (fats_out_ent)
 - Inter-enterprise relations statistics - all activities (ier)
 - International sourcing statistics - all activities (iss)
 - Demand for services statistics - all activities (ds)
 - Information society statistics (isoc)
 - Tourism (tour)
 - Statistics on the production of manufactured goods (prom)
 - Postal services (post)

**Thank you very much
for your attention!**

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