



EUROPEAN COMMISSION
EUROSTAT

Directorate G: Global Business Statistics
Unit G2: Structural business statistics and global value chains

UNSD Friends of the Chair Group

Paper on FDI by ultimate host/ultimate investing country

1. Existing conceptual background

The OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4) defines two possible ways to identify the home country of the direct investor for inward FDI and the host country of the direct investment enterprise for outward FDI:

- i) by immediate host country/investing country
- ii) by ultimate host country/ultimate investing country (UHC/UIC)

BD4 also indicates that the identification of the immediate host country/investing country is generally straightforward while the identification of ultimate investing country is more complex and that of ultimate host country even more so. As a consequence, the standard presentation according to the directional principle is based on the immediate host country/investing country. Under the supplemental series there is on dataset aimed to compile FDI positions according to ultimate investing country. This information is requested by geographical allocation and by industry classification.

2. Current situation in EU FDI statistics

At the moment, EU FDI statistics are only collected according to the immediate counterpart country, either host country or investing country. This follows the approach for the compilation of balance of payments statistics and will not change with the implementation of the new international Manual, as Eurostat does not have the above mentioned supplemental series included the obligatory annual FDI data requirements.

However, it is frequent, particularly when looking into the structure on MNEs, that, for instance, the direct investor resident in the immediate investing country is simply a direct investment enterprise of another direct investor resident in a third country and so on. MNEs have set up global structures with sometimes complex links to optimize the results of their business activity. As a consequence, traditional FDI statistics compiled according to the immediate counterpart country have become insufficient to allow a sound economic

analysis of cross-border direct investment flows and positions. European policy makers and other data users request also FDI data according to ultimate host /ultimate investing country. This demand cannot be responded currently.

In addition, the attractiveness of certain countries for setting up SPEs as conduits for channelling funds may provoke that FDI statistics defer substantially when being broken down by immediate or ultimate investing country. Users of Eurostat FDI statistics frequently raise questions related to this issue. A typical example of this situation refers to EU inward FDI positions and transactions from China which are reported at relatively low levels compared with the figures attributed to Hong Kong, used as territory to channel Chinese investment into the EU.

Still some EU Member States have disseminated this kind of information. Some examples are the following:

- France (Banque de France) has published Inward FDI stocks by ultimate investing country: http://www.banque-france.fr/fileadmin/user_upload/banque_de_france/publications/QSA29_Article-2.pdf
- Austria (Oesterreichische Nationalbank) regularly publishes inward FDI positions at the end of the year according to ultimate investing country: <http://www.oenb.at/isaweb/report.do?lang=EN&report=950.7>
- Finland (Bank of Finland) has published a study about the impact “Effects of the new statistical standards on Finland's FDI positions” that includes an analysis of inwards and outward FDI positions by ultimate investing country: http://www.suomenpankki.fi/fi/julkaisut/selvitykset_ja_raportit/bof_online/Documents/BoF_Online_04_2011.pdf

The US Bureau of Economic Analysis (BEA) also publishes FDI data by ultimate beneficiary owner, a similar concept to ultimate investing country (<http://www.bea.gov/international/di1fdibal.htm>).

One of the main difficulties of this measurement is the identification of the ultimate controlling entity and where it resides. For instance, in inward FDI, the resident direct investment enterprise is not aware in many cases of its ultimate controlling entity and/or its country of residency. For this reason, the availability and/or quality of this key element may sometimes prevent the production of this information. The identification of the ultimate investment host and its corresponding country maybe even more complicated due to the fact that it is necessary to trace the transaction itself to find out where it ends up.

The usage of the available information stored in the EuroGroups Register (EGR) may help in the identification of the ultimate host/investing country. The EGR is maintained by Eurostat as a key infrastructure for measuring globalisation, particularly in the area of foreign affiliates statistics and FDI. The EGR is the statistical register of multinational groups created by the cooperation between Eurostat and the statistical offices of EU Member States and

EFTA countries. It offers a global view on the largest enterprise groups active in Europe and contains structural economic information and ownership links on their statistical enterprises and constituent legal units.

3. Role of the FOC Group

Due to the importance of this phenomenon in the context of measuring economic globalisation, this issue should be part of the research work under the frame of the FOC. In this regard the following elements could be taken into account for the discussion:

- This is not a conceptual or methodological issue. The data gap is clearly identified and is provoked by the difficulty to identify the ultimate host and ultimate investing country.
- Guidelines for the compilation of information on ultimate host and ultimate investing country could be provided, including best practices and proxy recommendations.
- The compilation of this information would allow a better linkage between FDI and FATS statistics as the latter ones are compiled according to the concept of ultimate controlling unit (UCI).
- International cooperation should be encouraged through initiatives like the EGR or others. International organisations should also coordinate the data collection initiatives in this field and the support to their member countries.
- The provision to the OECD of the supplemental series on inward FDI positions according to ultimate investing country should be encouraged as a first step towards the collection of this type of data.
- A kind of priority setting exercise could be done. For instance, defining priorities between ultimate investing country (inward FDI) or ultimate host country (outward FDI) and between FDI positions or flows.