



# FATS, FDI, and Multinational Companies

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# Overview of Presentation

- International recommendations on Foreign Affiliates Statistics (FATS) and Foreign Direct Investment (FDI)
- General FATS and FDI compilation issues
- U.S. experience with multinational companies and FATS compilation
- Other Business Services as compiled for the Balance of Payments and connection to FATS

# International Recommendations on FATS and FDI

- Manual of Statistics on International Trade in Services (MSITS 2010)
- Balance of Payments and International Investment Position Manual 6<sup>th</sup> edition (BPM6)
- Eurostat FATS Recommendations Manual
- OECD Benchmark Definition of Foreign Direct Investment 4<sup>th</sup> edition (BD4)
- OECD Handbook of Economic Globalisation Indicators (HEGI)

# FDI Concepts and Principles

- Resident enterprise establishes a lasting interest in an enterprise located in another economy
- Lasting interest defined as the direct or indirect ownership of 10 per cent or more the voting power
- FDI comprises the initial transaction and all subsequent transactions (debt and equity)
- For balance of payments, FDI aggregates and components reported on an asset/liability basis
- For FDI by partner country and economic activity, data are reported on a directional basis

# Types and Uses of FDI Statistics

- FDI statistics cover three broad categories
  - direct investment transactions (financial flows)
  - direct investment positions (gross stocks)
  - direct investment income
- Included in the balance of payments and international investment position; investment income is also included in the national accounts (GNI)
- Can be used in the absence of FATS to obtain insights into the impact of globalization on particular countries
- FDI financial transactions and related investment position and income measures are not FATS variables

# Concepts of Trade in Services

- Conventional: Resident / non-resident transactions (exports and imports)
- Broader view
  - Resident / non-resident trade
  - Plus: Sales through affiliates (commercial presence mode of supply)
- Rationale for broader view
  - Many services require proximity of producer and consumer
  - Broader view is reflected in recent trade agreements, most notably GATS

# What are FATS?

- Statistics about the operations of majority-owned foreign affiliates
  - With a particular focus on services
- FATS entities represent a subset of the FDI population
  - An understanding of FDI concepts and principles is critical for developing FATS





# Major Uses of FATS Data

- Globalization analysis
  - Applicable to goods as well as services
  - Particularly relevant for services due to the frequent requirement for proximity between producer and consumer
- Monitoring GATS commercial presence mode of supply (mode 3)

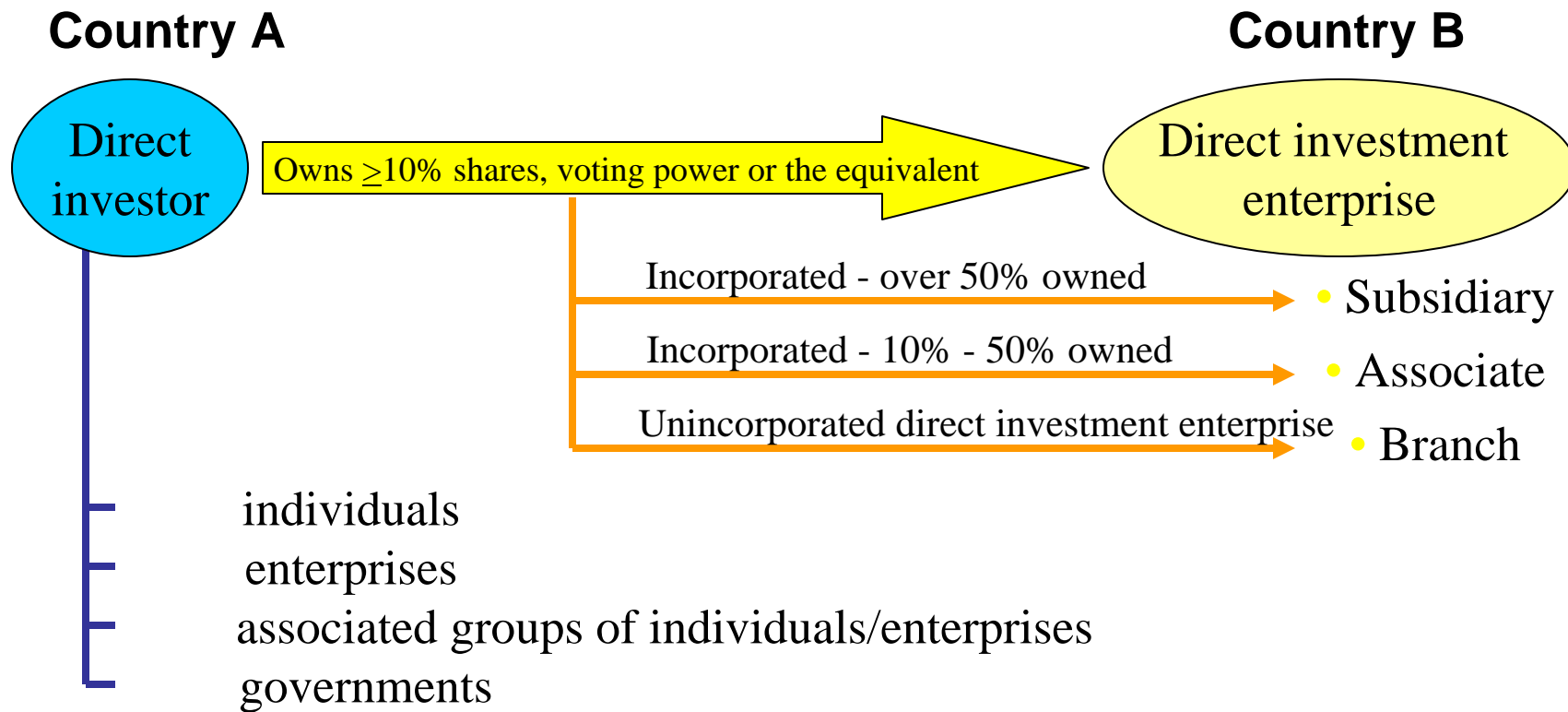


# Dimensions of FATS

- Economic activity (industry) of the foreign affiliate
- Partner country identification
- Variables (sales/output, employment, value added, trade, number of entities, others )
- Product classification
  - Longer-term goal
  - Applicable to certain variables

# The FDI Universe

**FDI: the direct investor makes an international investment to obtain a lasting interest in an enterprise abroad**

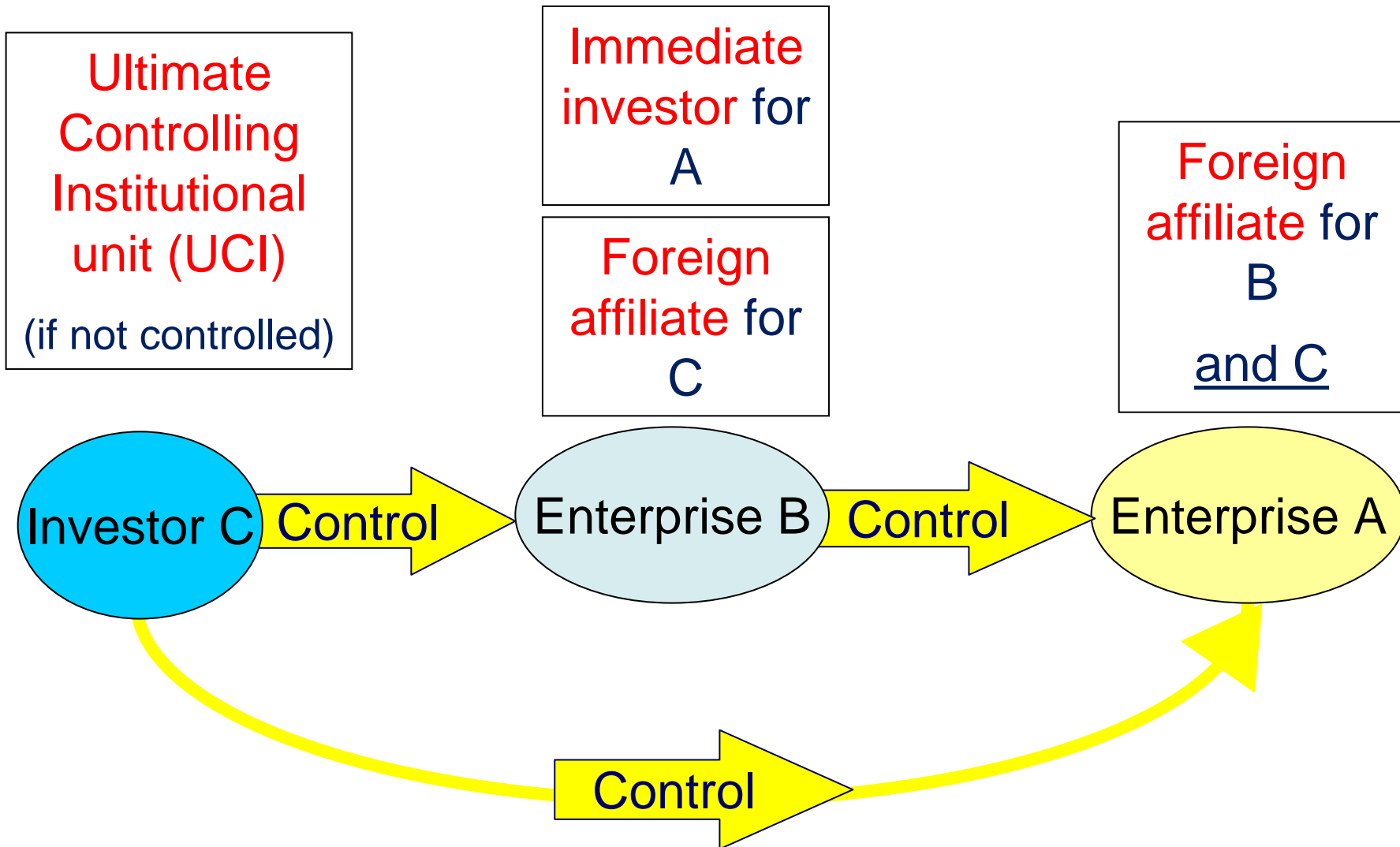




# Control: An Essential Concept

- FATS compiled, as a first priority, for foreign-controlled subset of foreign affiliates
- Control defined in OECD Framework for Direct Investment Relationships (FDIR)
- Deemed to exist if majority ownership (i.e. control of more than 50%) of the voting power at each stage of ownership chain

# Control : Direct and Indirect

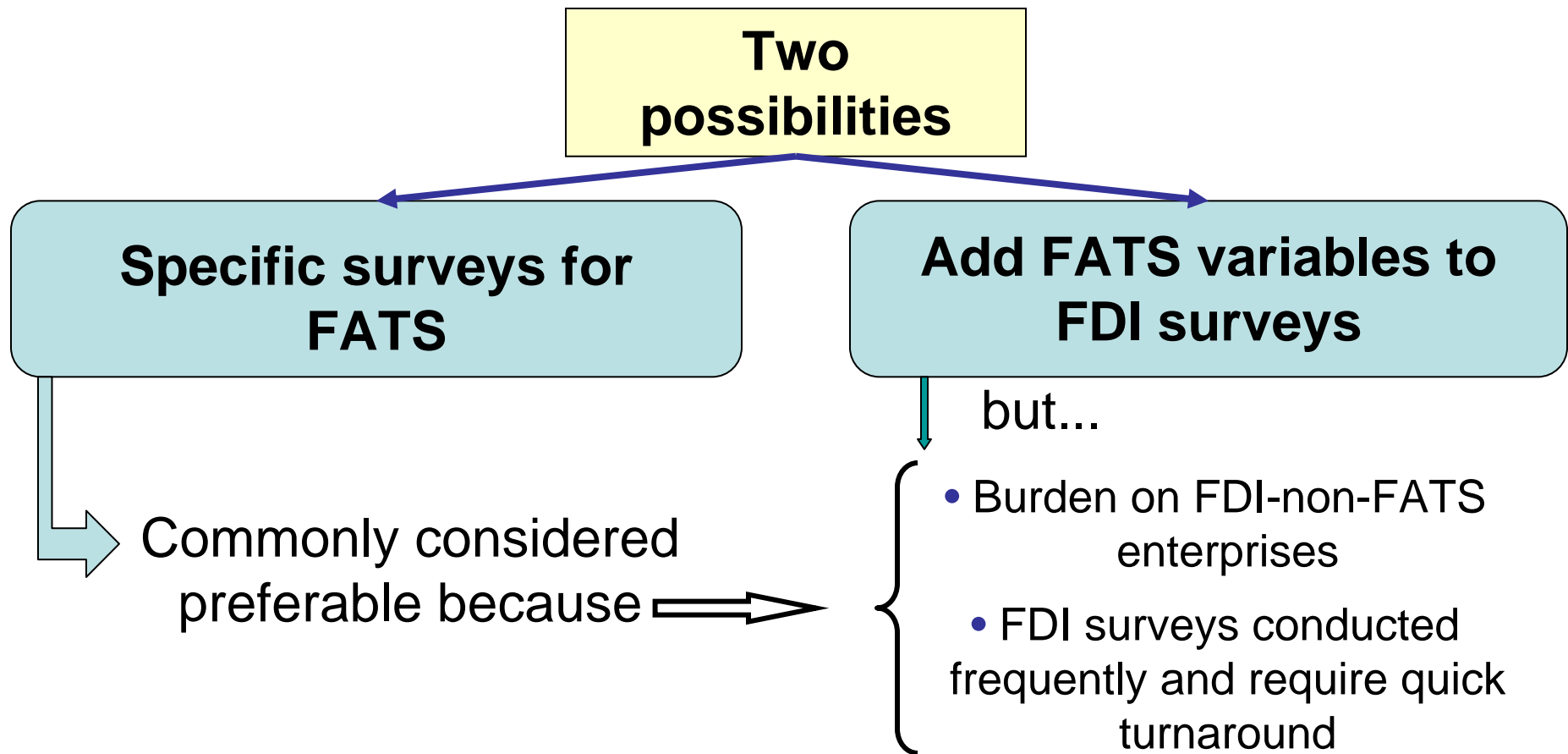




# Compilation Issues

- Two principal methods of data collection
  - Identifying the foreign-owned subset of domestic firms for which data are already collected
    - Can be used only for inward investment
  - Separate surveys
    - FDI surveys
    - Special purpose FATS surveys

# Collect FATS Through FDI Surveys?



# FATS Sources for Selected Economies

	Inward			Outward		
	FDI survey	Resident enterprise statistics	Separate survey	FDI survey	Resident enterprise statistics	Separate survey
Australia		X				X
Austria	X			X		
Belgium		X		X		
Canada				X		
Czech Republic		X		X		
Denmark		X				
Finland	X	X		X		
France		X		X		
Germany	X			X		
Hong Kong, China		X				
Hungary	X			X		
Italy			X	X		
Japan			X			X
Luxembourg	X					
Netherlands		X				
Norway	X					
Poland		X				
Portugal	X			X		
Sweden			X			X
Switzerland	X			X		
Turkey		X				
United Kingdom		X				
United States			X			X



# Business Registers for FDI/FATS

- Domestic business statistics register
  - Identify foreign-owned enterprises and follow ownership chain to determine UCI
  - Identify enterprises with foreign affiliates and probe to determine locations of affiliates
- Administrative records such as business tax returns with foreign activity indicator
- Regulatory reports for financial transactions
- Financial reports and media reports
- Commercial databases

# Statistical Units

**Units considered in FATS  
statistics may be**

## Enterprises

- Enterprise 1
- Enterprise 2
- Enterprise 3

## Establishments of enterprises

- Establishment 1a
- Establishment 1b
- Establishment 2a
- Establishment 2b
- Establishment 2c
- Establishment 3a  
= Enterprise 3

# Economic Variables for FATS

Most are drawn from System of National Accounts

## Basic FATS variables

(minimum recommended by MSITS)

- Sales (turnover) and/or output
  - Employment
  - Value added
- Exports and imports of goods and services
  - Number of enterprises

- Assets
- Compensation of employees
  - Net worth
    - Net operating surplus
- Gross fixed capital formation
  - Taxes on income
- Research and development expenditures

Additional FATS variables

# Recording FATS Variables

Accrual  
basis

Recording when the transaction occurs rather than when the related payment is made

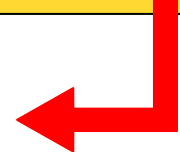
Period of  
recording

**Flow** variables → reference year  
**Stock** variables → end of reference year

Reference  
year

Calendar year in principle  
If only fiscal or accounting year is available

**Explanatory note**

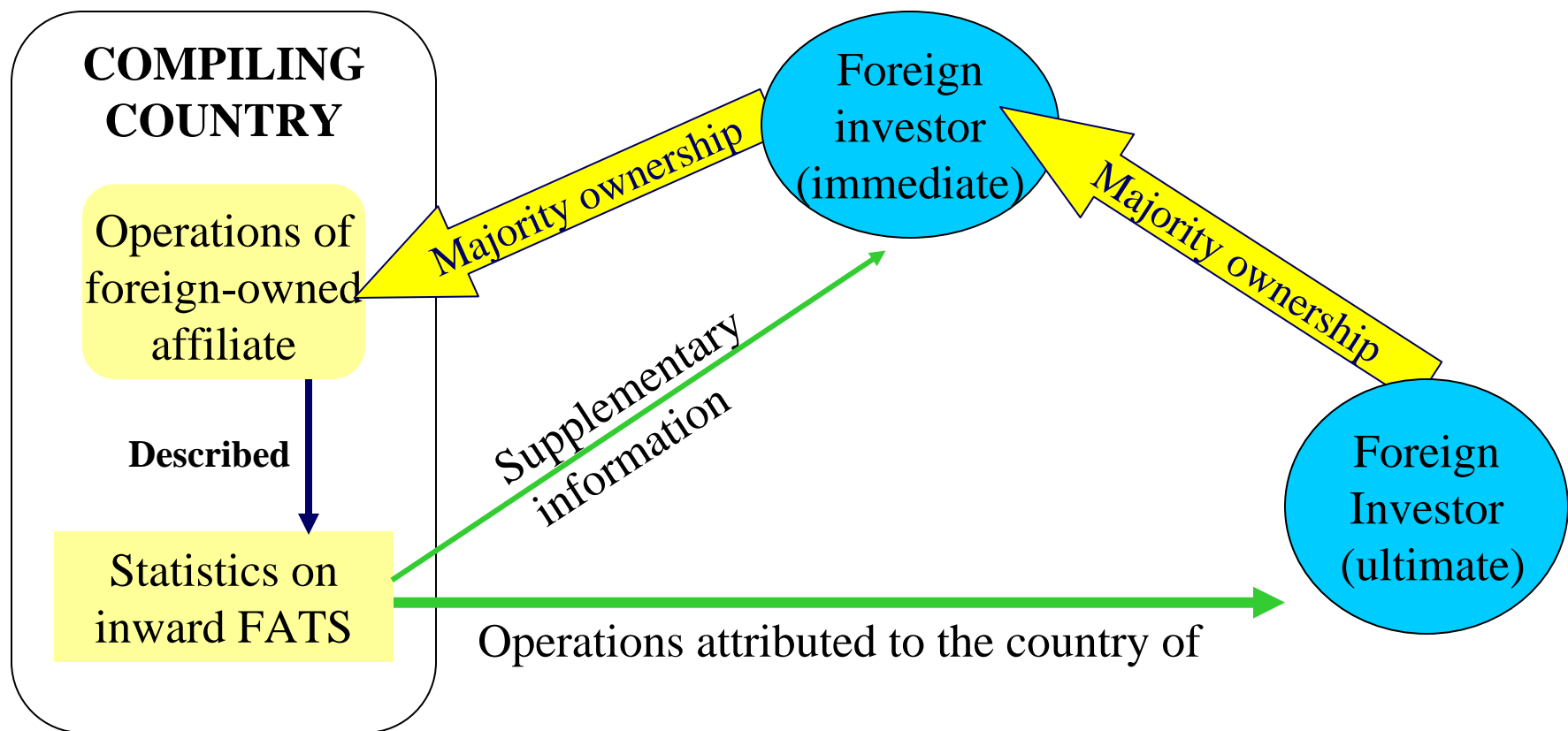




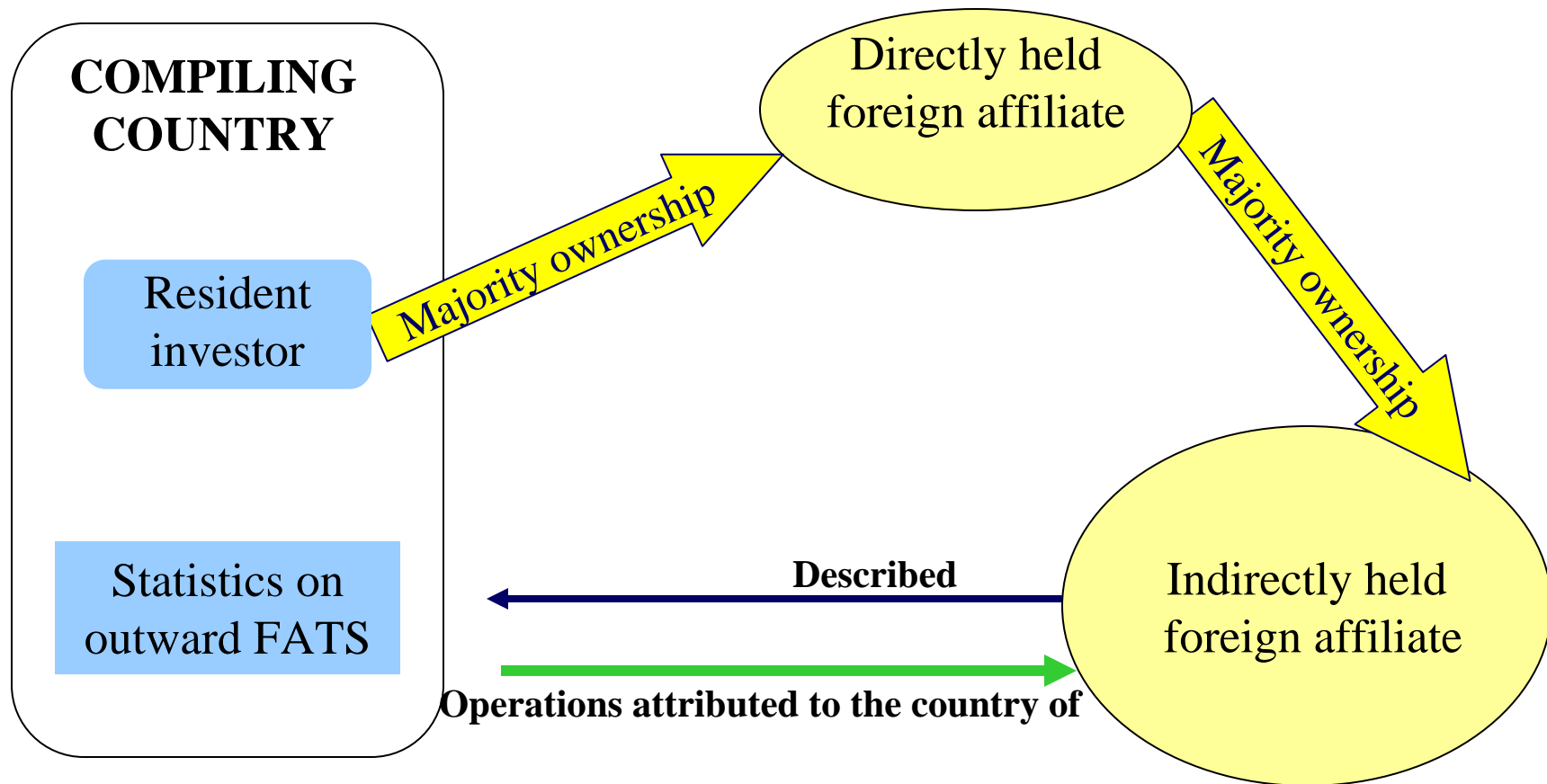
# Attribution of FATS Variables

- By partner country
  - Inward FATS: Ultimate investor
  - Outward FATS: Location of affiliate
- By economic activity
  - Industry: ICFA
  - Product: Long-term goal

# Geographical Attribution Inward Investment



# Geographical Attribution Outward Investment





# Classification by Activity and by Product

- **First priority**
  - Foreign affiliates classified by their primary activity (industry)
- **Long-term goal**
  - Product breakdown for variables such as sales, imports and exports

# ICFA 2010

## ICFA headings/elements

## ISIC Rev. 4 code

### AGRICULTURE, FORESTRY AND FISHING

Crop and animal production, hunting and related service activities

*Support activities to agriculture and post-harvest crop activities*

Forestry and logging

*Support services to forestry*

Fishing and aquaculture

### MINING AND QUARRING

Mining support service activities

### MANUFACTURING

Repair and installation of machinery equipment

### ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY

*Electric power generation, transmission and distribution*

### WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES

Water collection, treatment and supply

Sewerage

Waste collection, treatment and disposal activities; materials recovery

Remediation activities and other waste management services

### Section A

div. 01

*group 016*

div. 02

*group 024*

div. 03

### Section B

div. 09

### Section C

div. 33

### Section D

*class 3510*

### Section E

div. 36

div. 37

div. 38

div. 39

# ICFA 2010 (continued)

## ICFA headings/elements

## ISIC Rev. 4 code

### CONSTRUCTION

Section F

### WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES

Section G

Wholesale and retail trade and repair of motor vehicles and motorcycles

div. 45

Wholesale trade, except of motor vehicles and motorcycles

div. 46

Retail trade, except of motor vehicles and motorcycles

div. 47

### TRANSPORTATION AND STORAGE

Section H

Land transport and transport via pipelines

div. 49

*Passenger rail transport, interurban*

*class 4911*

*Freight rail transport*

*class 4912*

*Other passenger land transport*

*class 4922*

*Freight transport by road*

*class 4923*

*Transport via pipeline*

*class 4930*

Water transport

div. 50

*Sea and coastal water transport*

*group 501*

*Inland water transport*

*group 502*

Air transport

div. 51

Warehousing and support activities for transportation

div. 52

Postal and courier activities

div. 53

# ICFA 2010 (continued)

## ICFA headings/elements

## ISIC Rev. 4 code

### ACCOMMODATION AND FOOD SERVICE ACTIVITIES

Accommodation

**Section I**

div. 55

Food and beverage service activities

div. 56

### INFORMATION AND COMMUNICATION

**Section J**

Publishing activities

div. 58

*Publishing of books, periodicals and other publishing activities*

*group 581*

*Software publishing*

*group 582*

Motion picture, video and television programme production, sound recording and music publishing activities

div. 59

Programming and broadcasting activities

div. 60

Telecommunications

div. 61

Computer programming, consultancy and related activities

div. 62

*Computer programming activities*

*class 6201*

*Computer consultancy and computer facilities management activities*

*class 6202*

*Other information technology and computer service activities*

*class 6203*

Information service activities

div. 63

*Data processing, hosting and related activities; web portals*

*group 631*

*Other information service activities*

*group 639*

*News agencies activities*

*class 6391*

*Other information service activities n.e.c*

*class 6399*

# ICFA 2010 (continued)

## ICFA headings/elements

## ISIC Rev. 4 code

### FINANCIAL AND INSURANCE ACTIVITIES

Financial service activities, except insurance and pension funding

Section K

div. 64

Insurance, reinsurance and pension funding, except compulsory social security

div. 65

*Life insurance*

*class 6511*

*Non-life insurance*

*class 6512*

*Reinsurance*

*class 6520*

*Pension funding*

*class 6530*

Activities auxiliary to financial services and insurance activities

div. 66

*Activities auxiliary to financial service activities, except insurance and pension funding*

*group 661*

*Activities auxiliary to insurance and pension funding*

*group 662*

*Fund management activities*

*group 663*

### REAL ESTATE ACTIVITIES

Section L

### PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES

Section M

Legal and accounting activities

div. 69

Legal activities

group 691

Accounting, bookkeeping and auditing activities; tax consultancy

group 692

Activities of head offices, management consultancy activities

div. 70

.....

.....

# ICFA 2010 (continued)

## ICFA headings/elements

*Activities of head offices*

*Management consultancy activities*

Architectural and engineering activities; technical testing and analysis

Scientific research and development

Advertising and market research

*Advertising*

*Market research and public opinion polling*

Other professional, scientific and technical activities

Veterinary activities

### **ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES**

Rental and leasing activities

Employment activities

Travel agency, tour operator reservation service and related activities

Security and investigation activities

Services to buildings and landscape activities

Office administrative, office support and other business support activities

### **EDUCATION**

### **HUMAN HEALTH AND SOCIAL WORK ACTIVITIES**

Human health activities

Residential care and social work activities

### **ARTS, ENTERTAINMENT AND RECREATION**

Creative, arts and entertainment activities

Libraries, archives, museums and other cultural activities

Sporting and other recreational activities; gambling and betting activities

### **OTHER SERVICE ACTIVITIES**

Activities of membership organizations

Repair of computers and personal and household goods, other personal service activities

## ISIC Rev. 4 code

*group 70.1*

*group 70.2*

div. 71

div. 72

div. 73

*group 73.1*

*group 73.2*

div. 74

div. 75

### **Section N**

div. 77

div. 78

div. 79

div. 80

div. 81

div. 82

### **Section P**

### **Section Q**

div. 86

div. 87, 88

### **Section R**

div 90

div 91

div 92, 93

### **Section S**

div 94

div 95,96



# United States Experience

- First collected FDI operations data for 1950, covering outward investment
- Collection became more regular and detailed in the late 1970's/ early 1980's
- Authority- International Investment and Trade in Services Survey Act
  - Surveys are mandatory
  - Data are confidential
- Subject to Paperwork Reduction Act





# U.S. Experience: Collection Methods

- Largely a survey-based system
  - Benchmark surveys
    - Conducted every 5 years
    - Most comprehensive in subject matter
    - Lowest reporting thresholds
  - Annual surveys in interim years
    - Higher exemption levels
    - Use statistical sampling
    - Estimates made for below-threshold and non-sampled companies

# U.S. Experience: Collection Methods

- Link to Census Bureau establishment-level data every 5 years
  - Advantages
    - Greatly increased industry detail
    - Easy to compare to domestic economy
    - No added reporting burden
  - Limitations
    - Applies only to inward investment
    - Less timely
    - Less frequent

# U.S. Types of Data Collected

- Balance sheets
- Income statements
- Sales
- Employment and employee compensation
- Research and development expenditures
- Taxes
- U.S. trade in goods
- Value added (estimates built up from other items)



# U.S. Adaptation to Services Needs

- Built on existing system
- Modifications to improve information on services
  - Sales broken down between goods, services, and investment income
  - Sales recorded by destination
  - More detailed industry classification
    - Aided by North American Industry Classification System, which gave greater emphasis to services

# Statistical Unit

- For inward FDI
  - Each U.S. affiliate reports on a fully consolidated domestic basis
- For outward FDI
  - U.S. parent reports on a fully consolidated domestic basis
  - Foreign affiliates reports generally more deconsolidated
    - Never consolidated across country lines
    - Consolidated across industry lines only for integrated operations

# Benchmark Surveys

- Most comprehensive for coverage and data content
- Different forms depending on firm size
- Conducted every five years and provide basis for estimates between benchmark years
- Inward FDI/FATS benchmark survey
  - Most recently conducted for 2007
  - Included 5,652 reporting U.S. affiliates
- Outward FDI/FATS benchmark survey
  - Most recently conducted for 2009
  - Included 26,961 affiliates by 2,263 U.S. parents

# Annual Surveys

- Smaller affiliates do not report
  - If sent a survey, they file an exemption claim that collects only a few data items (sales, assets and liabilities, net income, and identification information)
- Introduced statistical sampling in 2003
  - Every other year, mid-size firms report on “EZ” (easy) form
  - Sampling designed to maintain adequate industry and country coverage



# Maintaining the Sampling Frame

- Firms can enter the FDI universe
  - Acquisition of an existing company
  - Establishment of a new affiliate
- Firms can exit the FDI universe
  - Liquidation
  - Sold to a domestic firm
- Press reports, reports to other government agencies, or purchased mailing lists

# Timeliness and Frequency

- Financial and operating data published annually
  - Release advance summary estimates of MNC operations 16 months after the reference year
    - Global totals for selected data items
  - Preliminary estimates published about 18 months after the reference year
    - Country and industry detail for several items
- Revised the following year

# Presentation on Services Supplied Through Affiliates

- Sales of services only
- Excludes U.S. cross-border trade, which is recorded in the balance of payments accounts
  - U.S. affiliates: Sales in the United States
  - Foreign affiliates: Sales to foreign persons
- Majority-owned affiliates only



# Presentation on Services Supplied Through Affiliates (cont'd)

- Classified by primary industry of affiliate
  - Covers affiliates in all industries
  - Greater detail shown for services industries
- Geographic classification
  - Foreign affiliates: country of location
  - U.S. affiliates: country of their ultimate beneficial owner

# United States Inward FATS Questionnaire

## PART II – FINANCIAL AND OPERATING DATA OF U.S. AFFILIATE – Continued

### Section C — DISTRIBUTION OF SALES OR GROSS OPERATING REVENUES

Distribute sales or gross operating revenues among three categories — sales of goods, sales of services, and investment income. For the purpose of this distribution, "goods" are normally outputs that are tangible and "services" are normally outputs that are intangible. When a sale consists of both goods and services and cannot be unbundled (i.e., the goods and services are not separately billed), classify the sales as goods or services based on whichever accounts for a majority of the value. Give best estimates if actual figures are not available.

**NOTE — BEFORE COMPLETING THIS SECTION, PLEASE SEE THE INSTRUCTIONS FOR ITEMS 45 THROUGH 50 ON PAGE 25.** Insurance companies also see page 26, V.A. for special instructions.

**Utilities and Oil & Gas Producers and Distributors** — To the extent feasible, revenues are to be allocated between sales of goods and sales of services. Revenues earned from the sale of a product (e.g., electricity, natural gas, oil, water, etc.) are to be reported as sales of goods. Revenues earned from the distribution or transmission of a product (e.g., fees received for the use of transmission lines, pipelines, etc.) are to be reported as sales of services.

		Bil.	Mil.	Thous.	Dols.
<b>45. TOTAL SALES OR GROSS OPERATING REVENUES, EXCLUDING SALES TAXES —</b> Equals item 35, and also sum of items 46 through 48	2243	1			000
<b>46. Sales of Goods</b>	2244	1			000
<b>47. Investment income included in gross operating revenues.</b> Include ALL interest and dividends generated by finance and insurance subsidiaries or units.	2245	1			000
<b>48. Sales of Services, Total —</b> Sum of items 49 and 50	2246	1			000
<b>49. To U.S. persons or entities</b>	2247	1			000
<b>50. To foreign persons</b>	2257	1			000

# United States Outward FATS Questionnaire

## Part II — FINANCIAL AND OPERATING DATA OF MAJORITY-OWNED FOREIGN AFFILIATE — Continued

**Section B — Distribution of Sales or Gross Operating Revenues** — See *Additional Instructions* for Part II, Section B, on page 10 at the back of this form.

Distribute sales or gross operating revenues among three categories – sales of goods, sales of services, and investment income. For the purpose of this distribution, "goods" are normally economic outputs that are tangible and "services" are normally economic outputs that are intangible. When a sale consists of both goods and services and cannot be unbundled (i.e., the goods and services are not separately billed), classify the sales as goods or services based on whichever accounts for a majority of the value. Give best estimates if actual figures are not available. Insurance companies also see **Special Instructions, B.3.d. and e., page 12.**

47. Sales or gross operating revenues, excluding sales taxes	TOTAL Column (1) equals the sum of columns (2) through (7)		Local sales		Sales to U.S.		Sales to other countries	
			To other foreign affiliates of the U.S. Reporter(s)	To unaffiliated customers	To U.S. Reporter(s)	To unaffiliated customers	To other foreign affiliates of the U.S. Reporter(s)	To unaffiliated customers
			(2)	(3)	(4)	(5)	(6)	(7)
	Bil.	Mil.	Thous.	Dols.				
a. Column (1) equals item 34.								
b. Each column of line 47 equals the sum of items 48, 49 and 50.								
2054	\$			\$		\$		\$
<b>• BY TYPE</b>								
48. Sales of goods	1			2	3	4	5	6
2055								
49. Sales of services	1			2	3	4	5	6
2056								
50. Investment income	1			2	3	4	5	6
2057								





# Services Delivered Through Affiliates (2010)

- Supplied to foreign markets by majority-owned foreign affiliates of U.S. firms
  - \$1,131 billion
  - 110% higher than cross-border exports of private services
- Supplied to the United States by majority-owned U.S. affiliates of foreign firms
  - \$696 billion
  - 89% higher than cross-border imports of private services



# Conclusion

- New international standards provide updated concepts and principles for FATS and FDI
- FATS represents a subset of FDI for those firms owned more than 50% by nonresident investors
- Different approaches can be used for compiling inward FATS and outward FATS
- Priority FATS variables should be attributed by economic activity and by partner country

# More Information

- MSITS 2010 Chapter IV
- Eurostat 2009 FATS Manual
- OECD Benchmark FDI Definition
- OECD Globalization Manual
- UN web site
  - <http://unstats.un.org/unsd/tradeserv/TFSITS>
- US BEA web site
  - [www.bea.gov/international](http://www.bea.gov/international)