
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 201)
- Balance of Payments and International Investment Position Manual 6th edition (BPM6)
- Eurostat FATS Recommendations Manual
- OECD Benchmark Definition of Foreign Direct Investment 4th 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

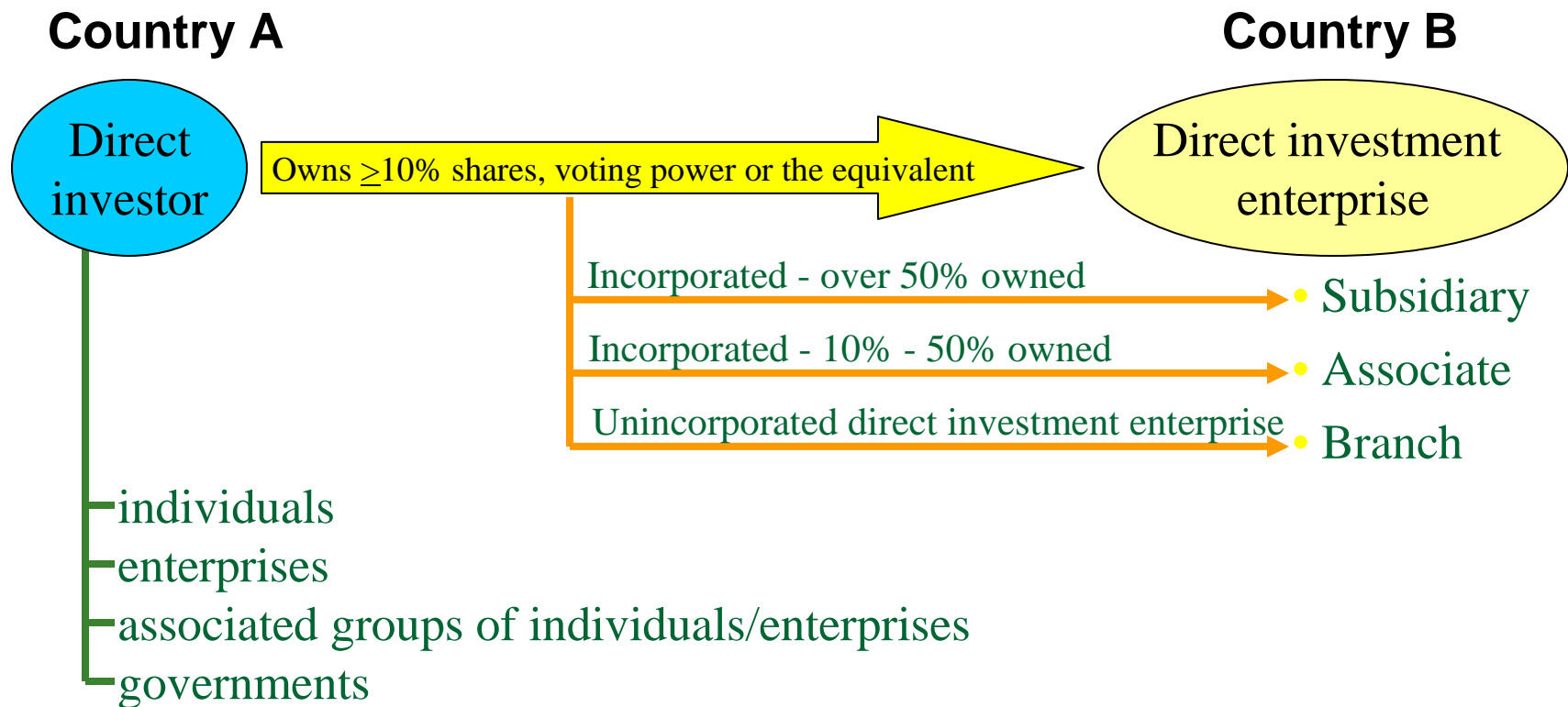
- Globalization analysis
 - Applicable to goods as well as services
 - Particularly relevant for services due to the frequent requirement for proximity between producer and consumer
- Monitoring GATS commercial presence mode of supply (mode 3)

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

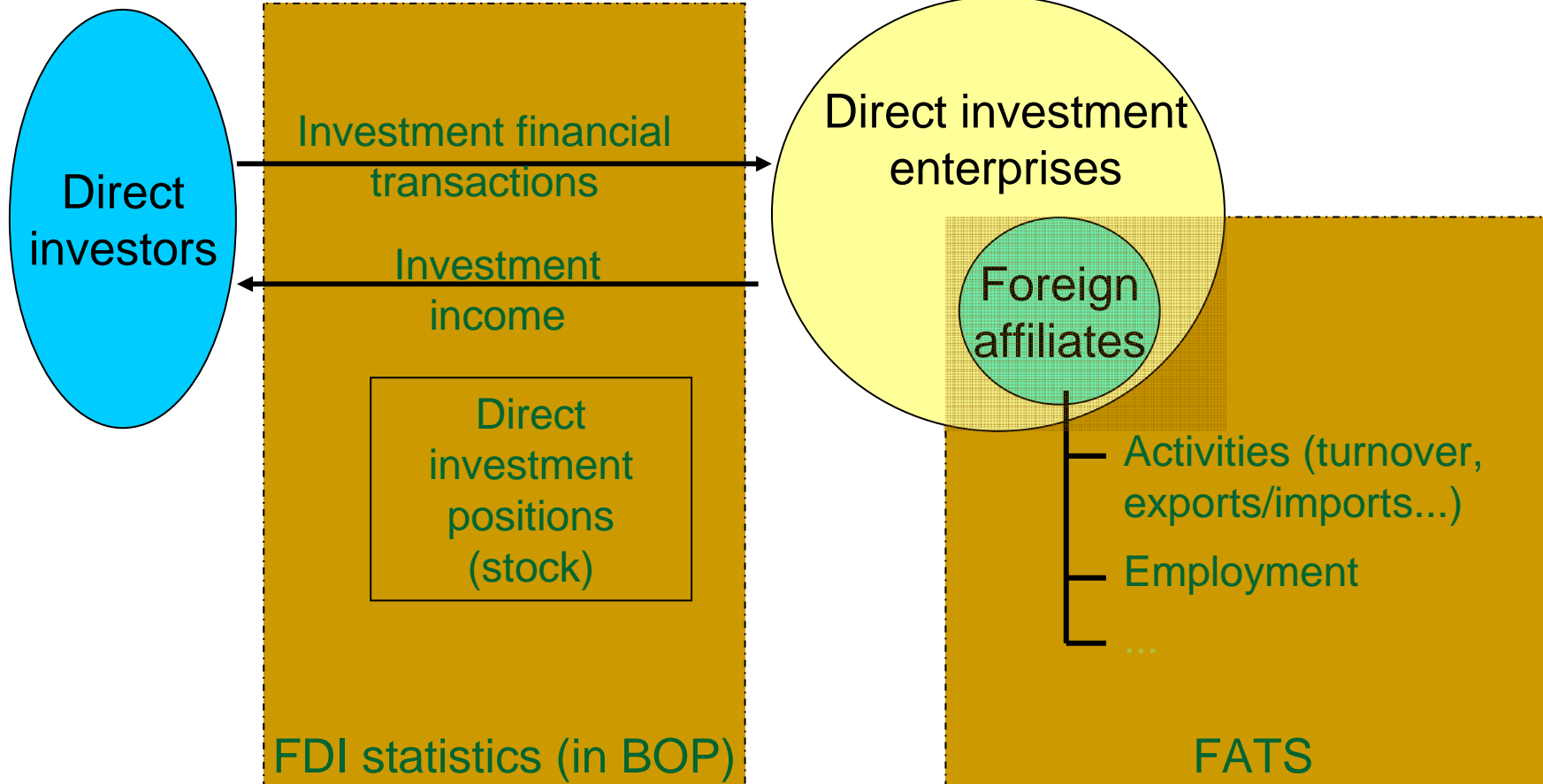
FDI: the direct investor makes an international investment to obtain a lasting interest in an enterprise abroad



FDI Statistics and FATS

Country A
(outward FDI/FATS)

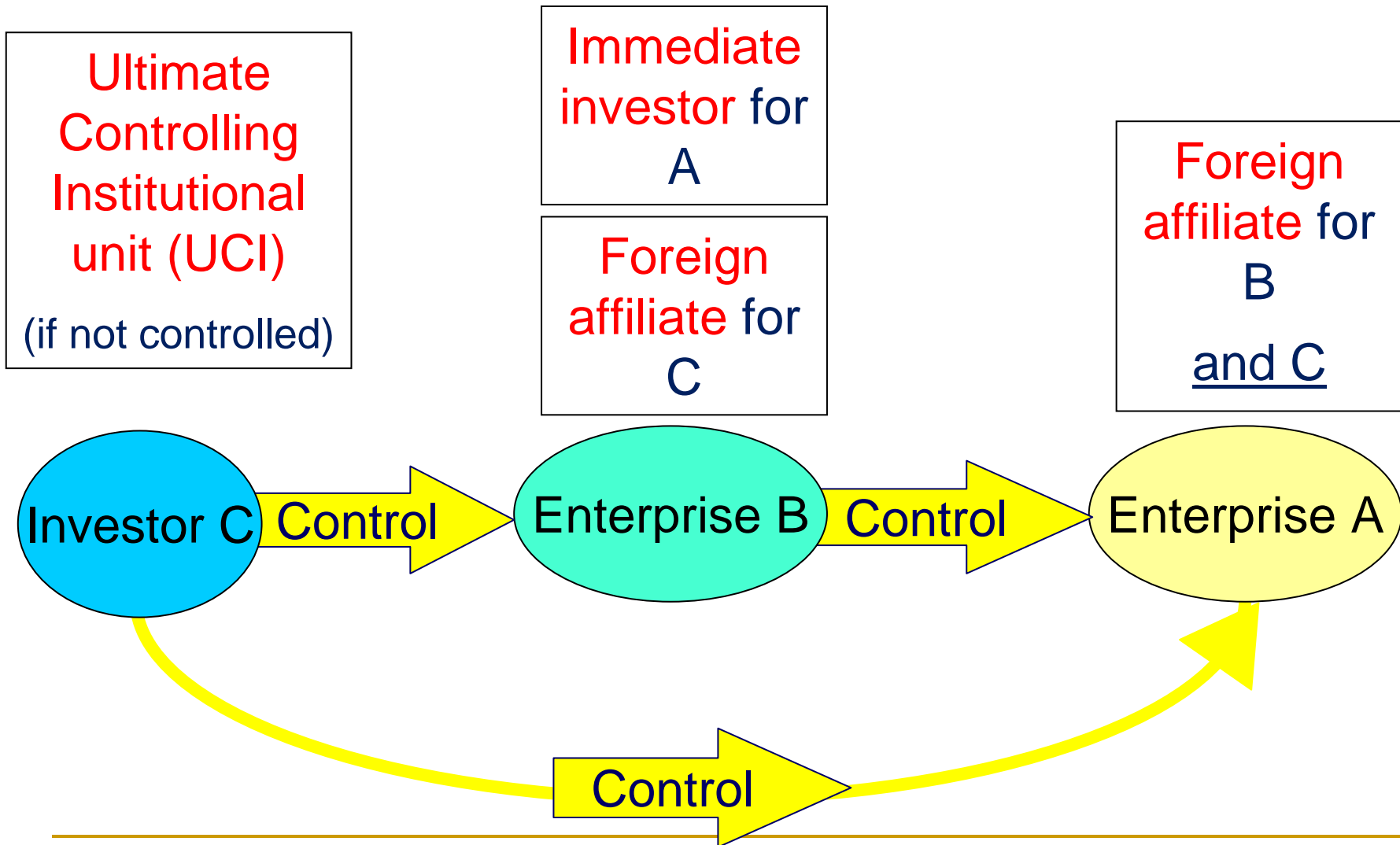
Country B
(inward FDI/FATS)



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

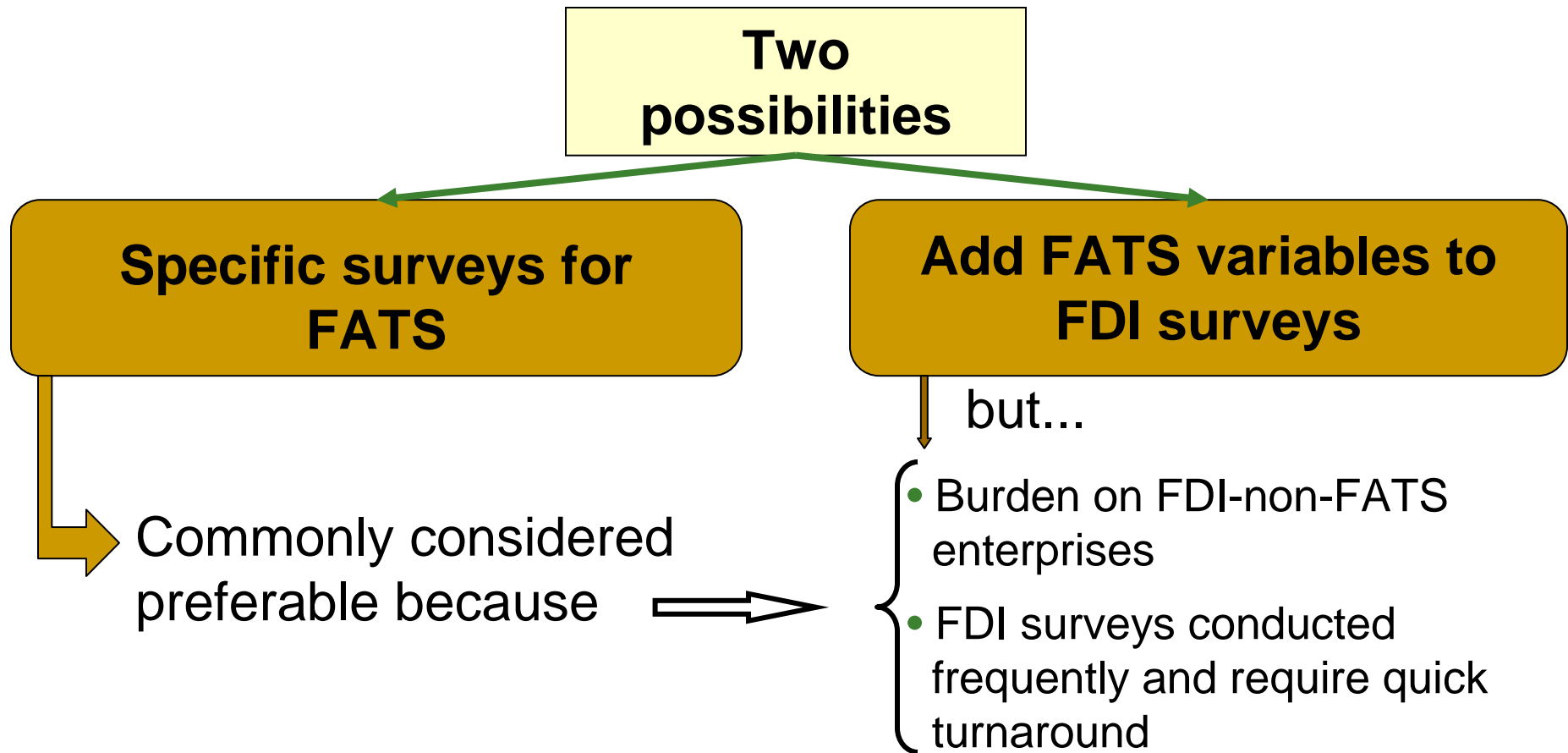
Control : Direct and Indirect



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

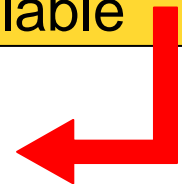
Period of
recording

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

Reference
year

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

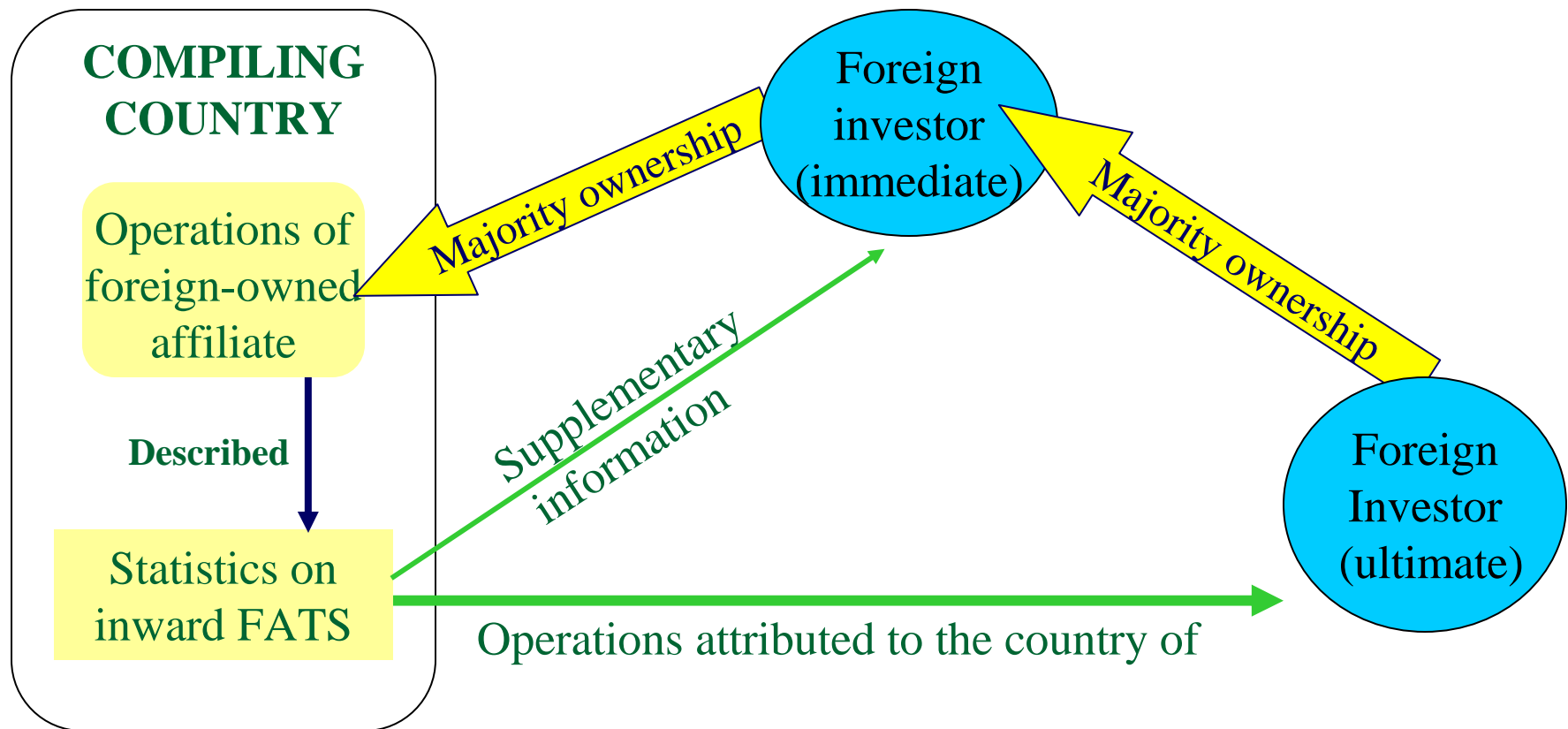
Explanatory note



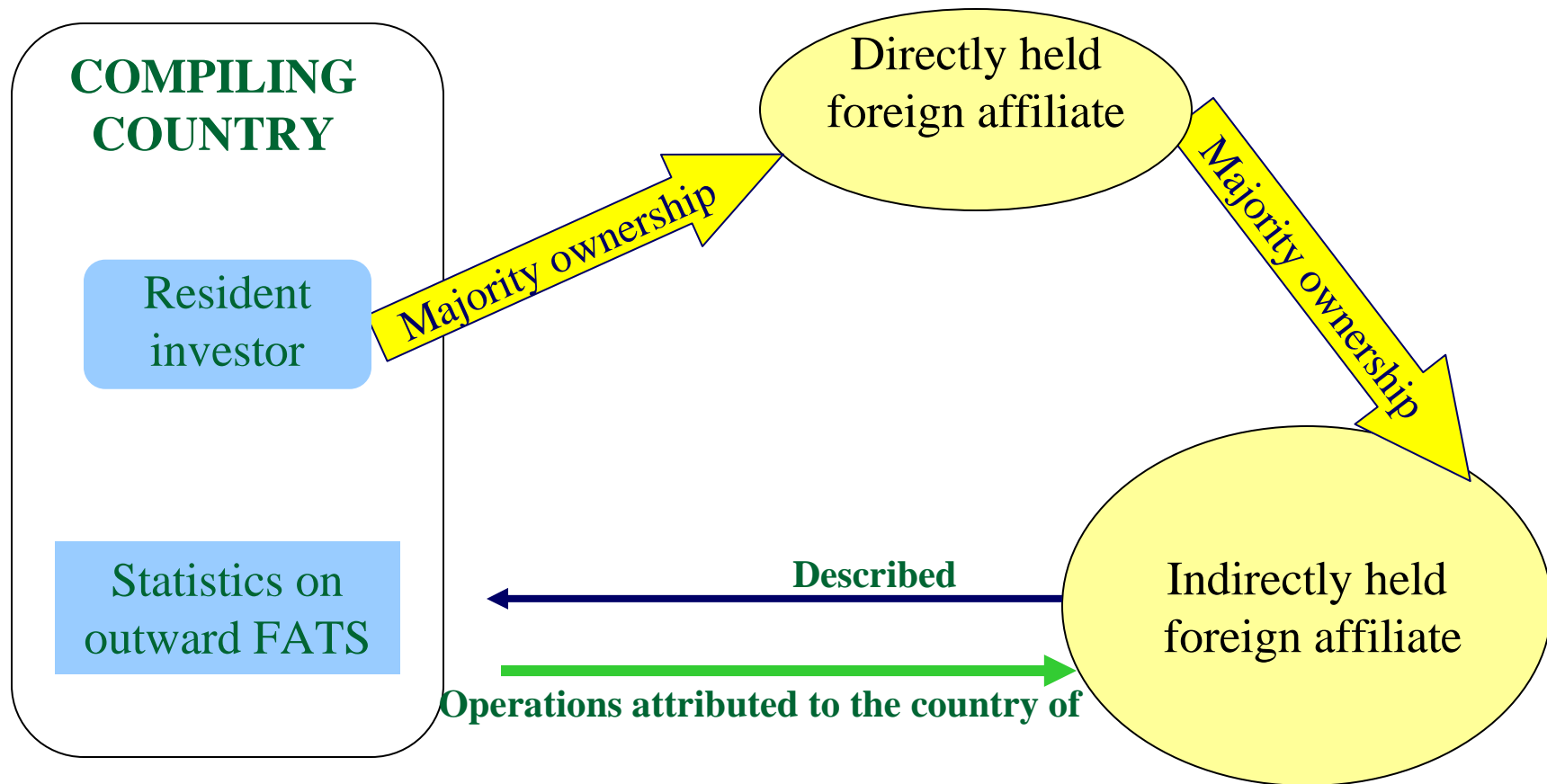
Attribution of FATS Variables

- 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

Food and beverage service activities

Section I

div. 55

div. 56

INFORMATION AND COMMUNICATION

Publishing activities

Publishing of books, periodicals and other publishing activities

Software publishing

Section J

div. 58

group 581

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

Section K

Financial service activities, except insurance and pension funding

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

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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 international transactions 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.
45. TOTAL SALES OR GROSS OPERATING REVENUES, EXCLUDING SALES TAXES — Equals item 35, and also sum of items 46 through 48	2243	1			000
46. Sales of Goods	2244	1			000
47. Investment income included in gross operating revenues. Include ALL interest and dividends generated by finance and insurance subsidiaries or units.	2245	1			000
48. Sales of Services, Total — Sum of items 49 and 50	2246	1			000
49. To U.S. persons or entities	2247	1			000
50. To foreign persons	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)	
a. Column (1) equals item 34.	(1)	Bil.	Mil. Thous.	Dols.					
b. Each column of line 47 equals the sum of items 48, 49 and 50.									
2054	\$			\$		\$		\$	
• BY TYPE	1			2	3	4	5	6	7
48. Sales of goods 2055									
49. Sales of services 2056									
50. Investment income 2057									

Services Delivered Through Affiliates (2009)

- Supplied to foreign markets by majority-owned foreign affiliates of U.S. firms
 - \$1,076 billion
 - 121% higher than exports of private services
- Supplied to the United States by majority-owned U.S. affiliates of foreign firms
 - \$669 billion
 - 93% higher than 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