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: Foreign Affiliates’ Trade in Services
- Now extended: Foreign Affiliates Statistics

- 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

Inward FATS

Resident enterprise

Inward FDI >50%

Non-Resident enterprise

Non-Resident enterprise

Outward FDI >50%

Resident enterprise

Outward FATS

Turnover

Employment

Value added

Number of enterprises

etc.
FATS vs. other statistics

- Inward FATS
  - Resident enterprise (controlled)
  - Structural Business Statistics

- Outward FATS
  - Non-Resident enterprise
  - Resident enterprise (controlling)

- Non-Resident enterprise

Inward FDI
Outward FDI
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

  

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

- FATS Recommendations Manual 2009 ed. (not legally binding)
  
  [Link](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

Inward FATS

Resident enterprise

Non-Resident enterprise (UCI)

Compiling economy

Outward FATS

Non-Resident enterprise

Resident enterprise (UCI)
UCI concept in FATS

- Resident enterprise
- Non-Resident enterprise (UCI)

Inward FATS

Compiling economy

Non-Resident enterprise

X

Non-Resident enterprise

Resident enterprise
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 ≠ reporting unit
FATS characteristics (variables) in the EU

- Number of enterprises
- Turnover
- Number of persons employed

- 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 & Outward FATS

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’
Thank you very much for your attention!

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