

**Workshop on
Trade in
Services and
Digital Economy
Statistics for
Mongolia**

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Session 15

**Measuring Inward and Outward FATS:
Concepts and international
recommendations**

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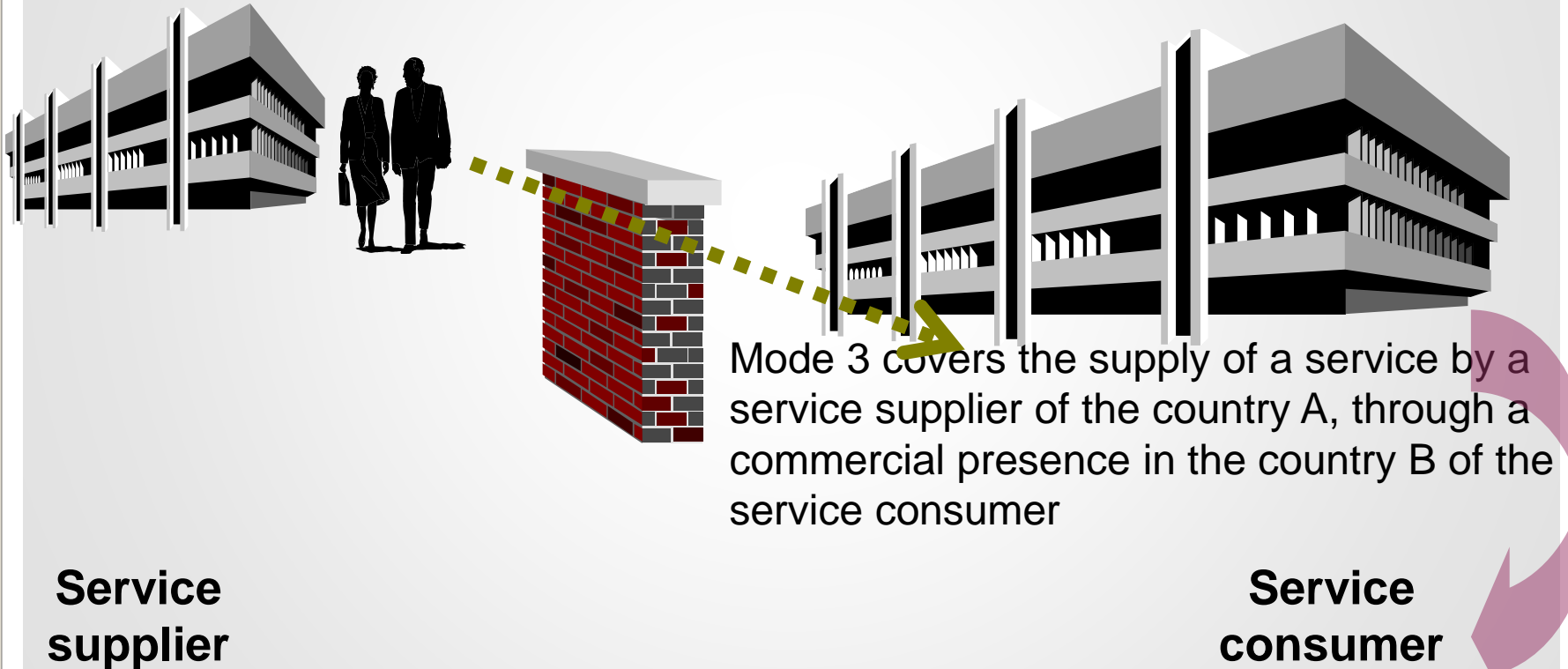
Introduction

- **Foreign Affiliates Statistics (FATS)** aim at describing the **overall operations of foreign-controlled affiliates** (affiliates in which a single foreign investor owns more than 50% of the voting power).
- **A major mode of supply for trade in services:** stemming from a need for a close and continuing contact between the supplier and the customer which can be achieved through a commercial presence.
- It is also a mode of supply for **trade in goods**.
- **Commercial presence (GATS mode 3) is reflected by FATS**, a set of variables measuring the activity of foreign affiliates.

GATS Mode 3: Commercial Presence

Country A

Country B



Content

1. Introduction
2. Use of FATS
3. What to collect
4. Country and activity classification for FATS
5. Best practices
6. Conclusions

1. Uses of FATS

Why should we measure Foreign Affiliates' activities ?

- **Analyse the role of MNEs and their affiliates in the international production of goods and services:** monitor the performances of the foreign affiliates and their economic impact in the host economy (labor market, technology transfer, innovation and R&D, international trade, economic competition).
- As part of ITS, FATS allow to measure the **GATS mode 3** (provision of services through commercial presence).
- FATS variables gain analytical interest when viewed in conjunction with **comparable information on total home or host economy**.

What do FATS measure ?

- **Range of indicators on the activity of foreign controlled affiliates**
 - Activity of foreign controlled affiliates **in** the reporting economy (*inward FATS*).
 - Activity of foreign controlled affiliates **of** the reporting economy (*outward FATS*).
 - With a particular focus on services.
- **FATS are at the crossroad of business statistics, balance of payments and IIP**
 - *BOP and IIP*: flows and stocks of FDI to **identify the foreign-owned subset of companies**. Indicators on the activity
 - *Business statistics*: for the **identification of the relevant economic variables**.

2. What to collect ?

FATS and FDI Populations

- Enterprises covered in FATS are a **subset of FDI enterprises** built on the majority owned criterion (controlled affiliates).
- **FDI relationship** corresponds to a lasting interest by a resident enterprise from one economy (the direct investor, or **DI**) in an enterprise which is resident in another economy (the direct investment enterprise, or **DIE**).
- **FDI relationship:**
 - More than 50% of the equity capital or voting power: **control**
 - Between 10% and 50%: generally regarded as **influence**
 - Less than 10%: **no influence**
- **10% for defining FDI, majority ownership for FATS.**

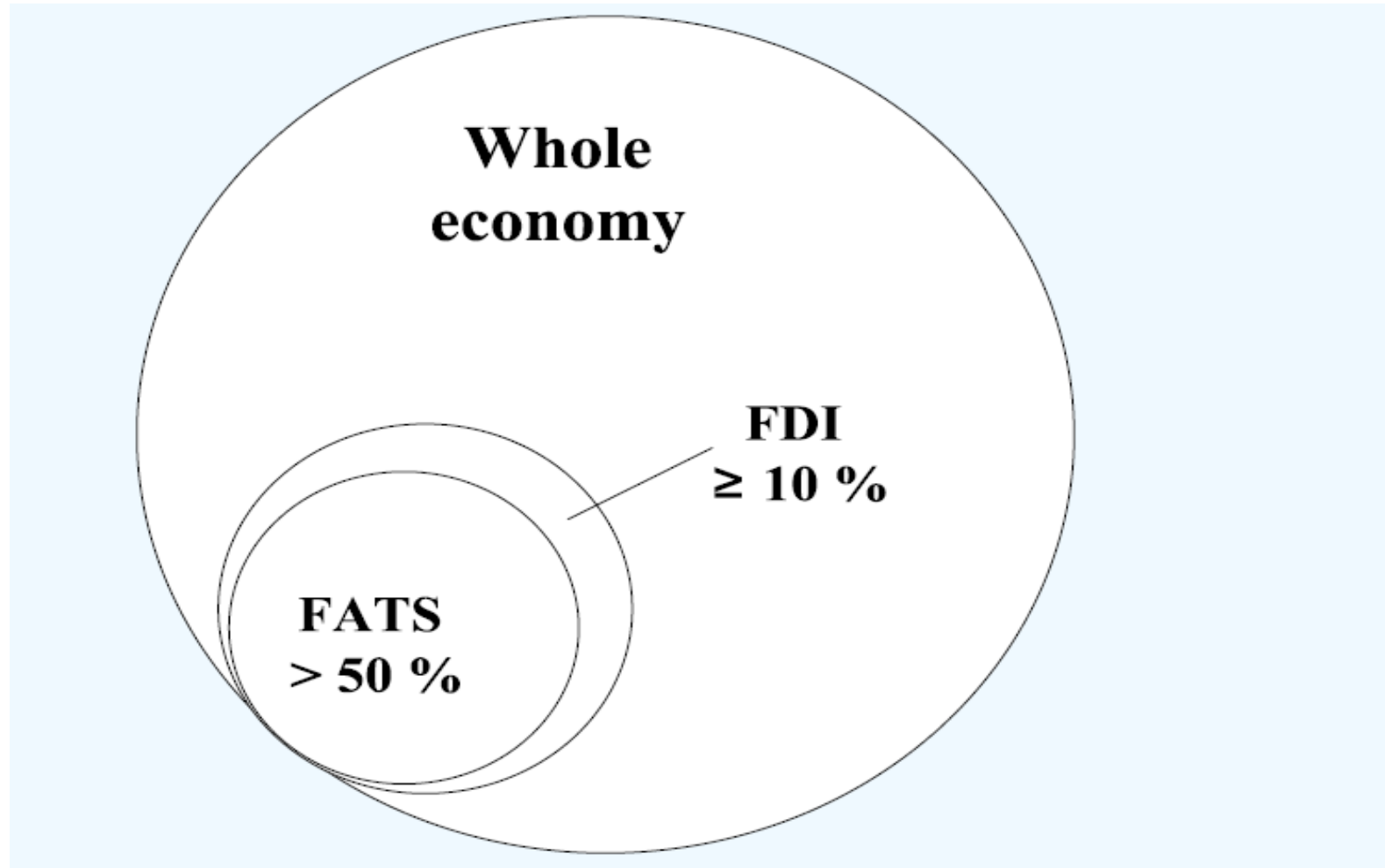
Direct and indirect control

- Control means the **ability to determine the general policy or the strategy of an enterprise** by choosing appropriate directors, if necessary.
- « An enterprise is deemed to be controlled by an institutional unit when the latter controls, whether **directly or indirectly**, more than half of the shareholders' voting power or more than half of the shares ».
- **Indirect control** means that an institutional unit has control through another affiliate.

Enterprises covered in FATS

- **A subset of the FDI population: majority owned (controlled) foreign affiliates**
 - A single foreign investor (or associate investor group) owns more than 50% of their ordinary share or voting power: as such it can take part to the activity of the affiliate and to the definition of its strategy.
 - In line with the SNA concept of foreign-controlled enterprises.
 - **FATS population includes subsidiaries and branches but excludes associates.**
- **FATS cover affiliates producing both goods and services**
 - A special focus on those affiliates producing services.
 - But affiliates producing goods may produce services as a secondary activity.

FDI and FATS enterprises



Inward and outward FATS

- **Inward FATS:** a measure of the activity of foreign controlled affiliates in the reporting economy.
- **Outward FATS:** a measure of the activity of foreign controlled affiliates of MNEs of the reporting economy.
- **Priority given to inward FATS:** easier to compile and more meaningful for the GATS.
 - **Inward FATS:** statistical unit (resident affiliate) = reporting unit (resident affiliate).
 - **Outward FATS:** statistical unit (non-resident affiliate) different from reporting unit (resident mother company).

Priority variables for FATS

- **Sales or output:** almost directly comparable with cross-border trade in services and as such the most important information on FATS to be collected.
- **Employment:** assess the impact of affiliates on labour market.
- **Value added:** output originated from the affiliate itself (total output less intermediate consumption).
- **Exports and imports of goods and services:** to be computed separately, with a distinction between related and unrelated parties.
- **Number of enterprises:** to be compared with the total number of firms in the compiling economy.
- **Country and Industry breakdown**

Additional variables

- Total of **financial and non-financial assets**
- **Net worth**: assets - liabilities
- **Compensation of employees**
- **Research and development**
- **Gross capital formation**

3. Country and activity classification for FATS

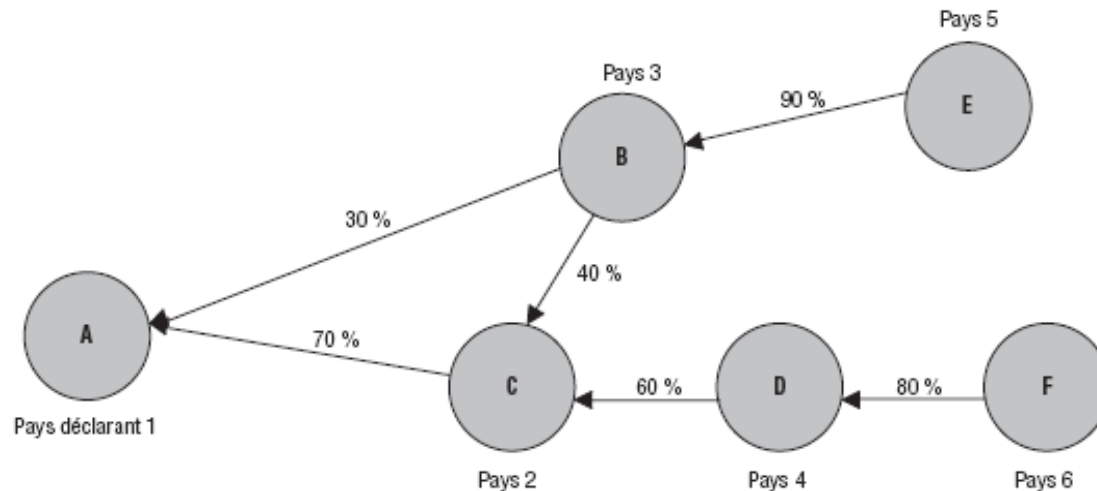
Country classification of FATS

- **The questions are:** in what country does the production of the affiliates take place? and what country is the owner of the producing affiliate?
- There are **two possibilities for FATS:**
 - Outward: Immediate host / ultimate host country.
 - Inward: immediate investor / Ultimate Controlling Institutional Unit (UCI).
- **MSITS recommends Ultimate host country for Outward FATS and UCI for Inward FATS** in contrast to FDI statistics which use the Immediate country of investment. For MSITS, Ultimate host country & UCI are more meaningful:
 - Corresponds to the benefits from controlling the direct investment affiliate.
 - However, Country of the immediate owner may be used when country of the UCI is not known and also to align with FDI concepts

Definition: foreign control and UCI

- **Foreign control:** the controlling institutional unit of a foreign affiliate is resident in a different country than the one where the institutional unit over which it has control is resident.
- **UCI:** the ultimate controlling institutional unit of a foreign affiliate is the institutional unit proceeding up a foreign affiliate's chain of control, which is not controlled by another institutional unit.
- The **decision about the UCI** should be taken proceeding the ownership chain of the units step by step, determining control at each step .

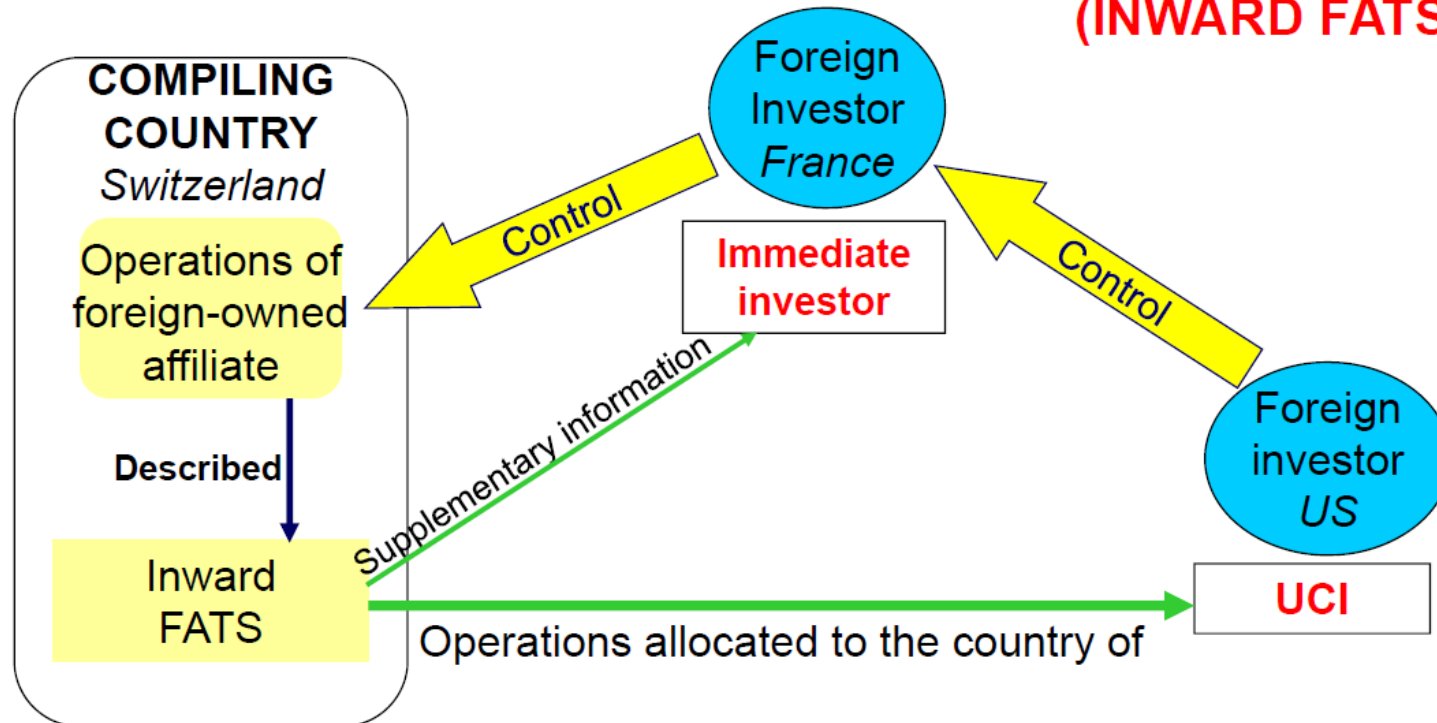
Looking for UCI



- A (country 1) is directly controlled (70%) by C (country 2)
- C is directly controlled (60%) by D (country 4)
- D is directly controlled by F which is not controlled by another company
- C is the mother company of A and F is its UCI

Geographical attribution of Inward FATS

Foreign-controlled affiliates in the compiling country
(INWARD FATS)



Source: WTO

The 100 per cent rule

- **FATS variables for a given affiliate should be attributed in their entirety to a single country of owner.**
- **No adjustment should be made** for the percentage of foreign ownership.
- **Example:** a domestic enterprise in which foreigners own 65% of the voting shares export US\$ 100 million. All these exports should be treated as the exports of this foreign-owned enterprise and not the foreign owners' share of US\$ 65 million.

Industry and product classification

- **FATS variables need to be classified on an activity basis**
 - Foreign affiliates are classified by their primary activity, according to ISIC categories for foreign affiliates (ICFA)
 - ICFA can be linked to EBOPS 2010
- **In the long term**
 - FATS variables such as sales, imports or exports should also be **broken down by product**
 - More appropriate to make **comparisons with data on services delivered through other modes of supply**
 - Product breakdown **needed for GATS negotiation purposes**

4. Data collection

A two steps process

FATS data collection is a two steps process:

- Identification of foreign controlled enterprises (inward) and of foreign affiliates (outward)
- FATS data collection

Identification of enterprises which are foreign-controlled

These are a **subset of direct investment enterprises** which are majority-owned.

- **A combination of several data sources**
 - *Statistical registers*: GBR, FDI register, enterprises group register
 - *Surveys*: business surveys, FDI surveys, business demography statistics
 - *Administrative sources*: VAT register, enterprises annual reports...
 - *Systematic analysis of press reports, internet*
- **Identification of the UCI needs to be included in one or more of these data sources:**

Two basic approaches for data collection

- **Two basic approaches**
 - **Use of surveys**
 - Survey of MNEs' resident affiliates for inward FATS, survey of resident parent companies for outward FATS
 - Alternative: FDI survey with an extra sheet for FATS or separate survey with foreign controlled subset of the FDI population
 - **Use of existing data**
 - **Identification** of the foreign controlled subset of FDI enterprises
 - Cross-cutting with Structural Business Statistics (**SBS**)
- **Mixed approach** (existing data for inward, survey for outward)
- **FDI statistics as a temporary alternative**
 - Inward FDI stock statistics with a breakdown by activity/ investor's country: **identification of units, UCI & UHC**
 - **Limitation:** gives an insight on penetration but not on activity

Inward FATS

- **Affiliates can be surveyed directly on their activity**
 - **The most important data to collect**, as GATS makes commitments with respect to the supply of services in the compiling economy.
 - **Data easy to collect** as generally already included in existing statistics on resident enterprises (business statistics and national accounts).
- **Target population to be surveyed**
 - All foreign-controlled enterprises and all branches, whether they themselves control affiliates abroad or not.

Inward FATS data collection

- As affiliates are resident enterprises, data describing their activity should be directly available from **structural business statistics surveys (SBS)**
 - Data are collected for national accounts GDP calculation.
 - Linking FDI survey with SBS data through common identifiers.
- **Priority variables** (sales, employment, value added, exports and imports, number of enterprises) with a breakdown by activity are **easily available**.
 - Use of SBS ensures the consistency with local enterprises data and makes comparisons easier.
- **The only additional data needed is the country of the UCI** for geographical allocation.

Outward FATS data collection

- **Data cannot be collected directly**
 - Foreign affiliates are located outside the compiling economy,
 - Resident parent companies need to be surveyed on their activity abroad.
- **Use of existing FDI survey**
 - Identification of all stakes above 50%
 - One extra sheet for FATS variables
 - Limits the burden (one survey)
- **New surveys as an alternative**
 - Targeted on those enterprises with foreign-controlled affiliates

Main issues

- **Asymmetries Inward vs. Outward FATS**
 - Inward FATS are 'easier' and thus more complete than OFATS
 - International comparisons and consultations very useful in order to improve Outward FATS
- **MNEs' structure may be complex**
 - Complicated structures and sophisticated legal forms
 - Rapidly changing corporate structures
 - Hence a real difficulty in UCI attribution
- **Possible solutions**
 - Direct contacts with businesses / press / internet
 - Collaboration between NSIs and Central Banks
 - Consultation between countries: inward vs. outward FATS
 - Use of specific registers (e.g. Eurogroup register)

5. Countries' experience

FATS compilation in the EU

- **A common legal framework**
 - **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.
 - **FATS Recommendations Manual** 2009 edition
- **Mandatory FATS variables**
 - **Outward FATS:** number of enterprises, turnover, number of persons employed
 - **Inward FATS:** number of enterprises, turnover, number of persons employed, value added, gross investment in tangible goods, personnel costs, production value, total purchases of goods and services, purchases for resale, total intra-mural R&D expenditure, total number of R&D personnel.
 - **Breakdown by activity and partner country**

FATS compilation in the EU

- **Limitations and challenges**
 - **Complexity**, lack of transparency and dynamics of large MNEs structures,
 - Problems of data **completeness**: population frame, sampling, thresholds, response rate, estimations and imputation,
 - **Consolidated reporting** (turnover, trade variables),
 - **Confidentiality**,
 - **Asymmetries** Inward vs Outward FATS: international cooperation and cross-checking very useful.

(from “Activities of MNEs- Eurostat’s approach” 30-01-2015 S Bielecki)

6. Conclusions

Importance of FATS

- **Growing importance of MNEs** in the world economy.
- **Need to evaluate the economic impact** of these MNEs.
- **FATS** are particularly important for analysing trade in **services**, as many of them need a close contact between the consumer and the producer.
- Despite extra **costs** to statistical agencies and respondents, the globalisation of the world economies has motivated a number of countries to develop such data.
- FATS compilation should **focus first on the inward side and priority variables**. **SBS** may constitute the easiest approach for data collection in most circumstances.

Reminder

- FATS should cover **controlled affiliates**, which should be indentified in the FDIR.
- FATS variables should be compiled for all foreign affiliates: those producing **goods and services**.
- Geographical attribution of inward FATS variables should be the **country of the UCI**; the country of the first foreign parent could be provided as a supplementary information to facilitate linkages with FDI.

Reminder

- Geographical attribution of outward FATS should be based on the **country of location of the affiliates** whose activity is described.
- FATS should be compiled first on an **activity** basis and, in the future, on a product basis (long term goal)
- **Priority variables**: sales (or turnover) , employment, value added, exports and imports of goods and services (separately, as far as possible), number of enterprises.

Thank You