

The United States was the main location of EU-controlled affiliates. International activities of EU-controlled foreign affiliates

This paper presents the latest trends in turnover and employment of EU-controlled affiliates located outside the European Union; it also links outward Foreign Affiliates Statistics (FATS) with data for outward Foreign Direct Investment (FDI) stocks, as both datasets are complementary.

In affiliates located outside the EU-27 turnover in 2005 was the highest in services, while the highest number of persons employed was in manufacturing. The United States was the main destination.

Outward Foreign Affiliates Statistics (FATS), which can be defined as statistics describing the activity of foreign affiliates abroad controlled from the compiling economy, are increasingly relevant in the formulation of European economic policies, as they provide information on the role European capital groups play in the world's economy, especially in terms of sales and

employment. Reporting of outward FATS data in the EU is still on a voluntary basis and, for the reference year 2005, which is the latest year for which figures are available, 13 countries¹ (Belgium, the Czech Republic, Germany, Greece, Italy, Latvia, Hungary, Austria, Portugal, Romania, Slovakia and Finland) compiled data for "Number of persons employed" and "Turnover", and Sweden only for "Number of persons employed". For this reason, it is not yet possible to calculate EU aggregates.

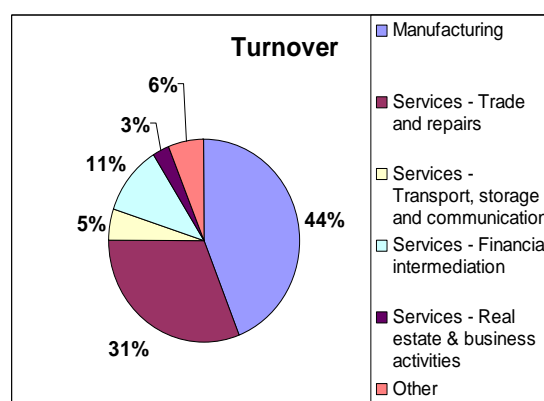
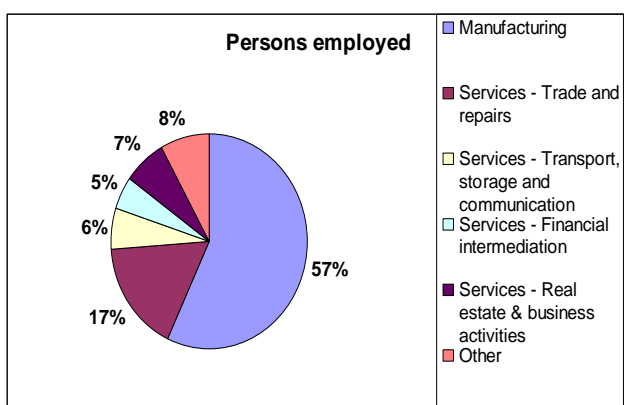
The following analysis is based on the data compiled by the reporting countries. As data for some big Member States like the United Kingdom, France, Spain and the Netherlands are missing the results might be biased.

¹ Referred to as "the reporting countries".

Services the most important for affiliates' turnover, manufacturing for employment

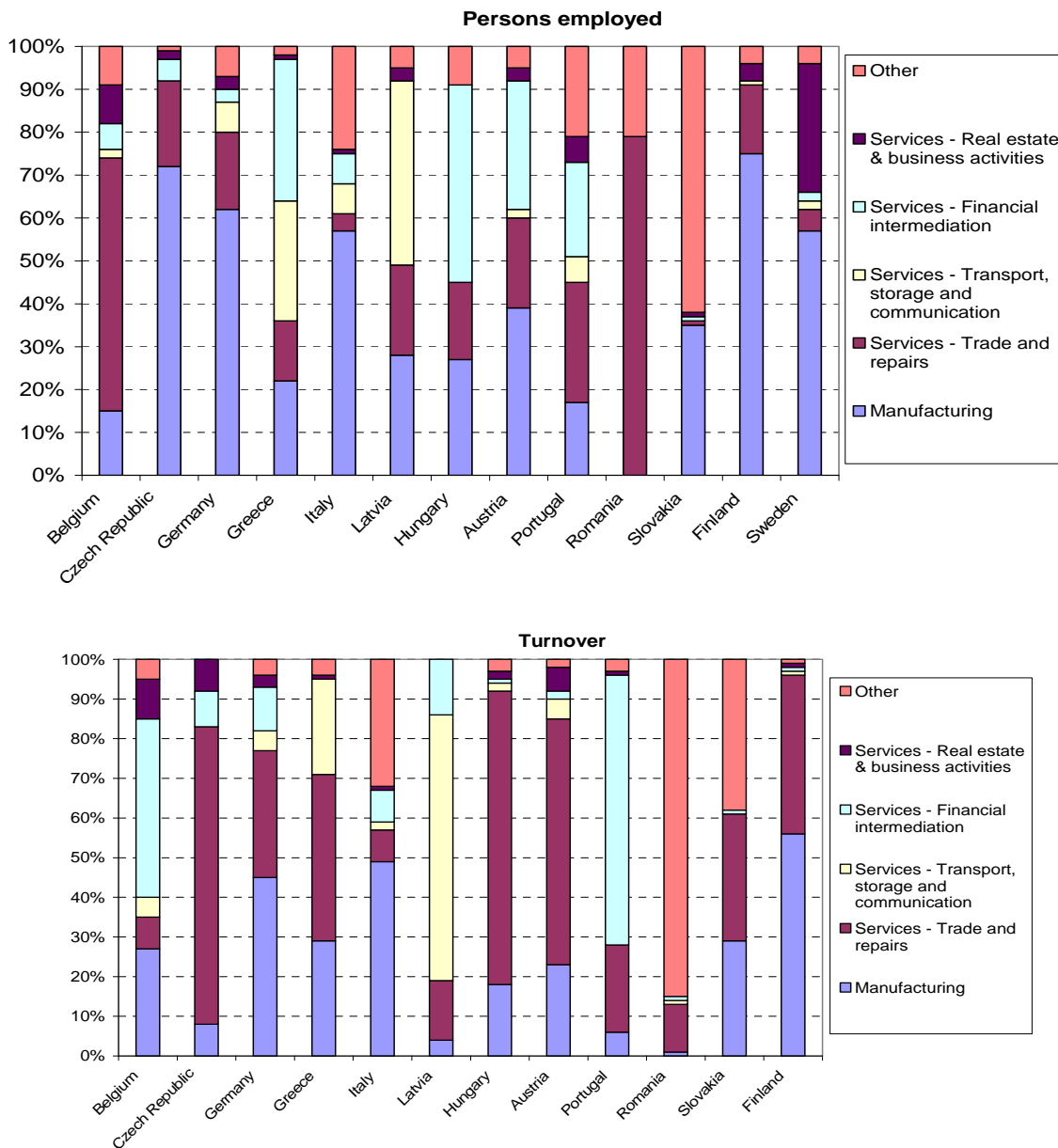
Graphs 1 and 2 illustrate the main fields of activity of extra-EU-27 foreign affiliates controlled by the reporting Member States.

Graph 1: Total number of persons employed and turnover of affiliates controlled by the reporting countries by economic activity, 2005



Source: Eurostat

Graph 2: Persons employed (EMP) and Turnover (TUR) by activity of foreign affiliates controlled by the reporting countries, 2005.



Source: Eurostat

In terms of turnover, services were the main field of activity for EU-controlled affiliates, with 50% of the total, followed by manufacturing with 44%. Only in Finland and Italy was the share of manufacturing in total turnover higher than for services. However, the greatest number of persons employed was in manufacturing: 57%, compared with 37% for services. This was caused by employment in manufacturing in affiliates controlled by Germany, Italy, Finland, Sweden, Czech Republic and Slovakia, whereas for the remaining countries employment in services was higher.

Trade and Repairs had the biggest share among activity categories in services in terms of both the number of persons employed and turnover (45% and

61% respectively). Its share, however, differed from one country to another, ranging from 11% in Greece to 82% in Finland for the number of persons employed and from 12% in Belgium to 92% in Finland for turnover. For employment, Trade & Repairs was followed by Real estate & business activities, with 19%, and, for turnover, by Financial Intermediation, with 23%.

For most countries, Trade and Repairs had the greatest share for both indicators, but the highest number of persons employed in Sweden, for instance, was in Real estate & business activities (76%), and the highest turnover for Belgium and Portugal was in Financial intermediation (65% and 68%).

German affiliates had the highest turnover and employment

The number of persons employed and turnover in foreign affiliates were higher inside than outside the European Union and in 2005 the share of both indicators for affiliates located outside EU-27 countries was 43%. Only for the number of persons employed in Belgian and Portuguese-controlled foreign affiliates outside the EU-27 was the figure higher (54% and 62%, respectively). The number of persons employed in foreign affiliates outside the EU was also over 40% for Germany, Slovakia and Sweden. In terms of turnover, only German affiliates accounted for 50% of the total, while for Finland the figure was 40% and for other countries turnover

outside the EU-27 was much lower than among EU-based affiliates.

Affiliates located outside the European Union and controlled by the reporting Member States registered turnover in 2005 of over EUR 900 billion and employed over 3.3 million people. German foreign affiliates had by far the biggest share among the reporting countries in terms of both turnover (79% of the total) and the number of persons employed (61%). Germany was followed by foreign affiliates from Italy (7.5%) and Finland (5.7%) in terms of turnover and Sweden (13.6%) and Italy (11%) in terms of the number of persons employed.

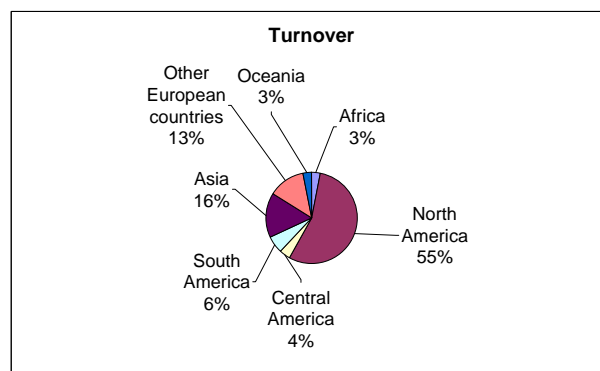
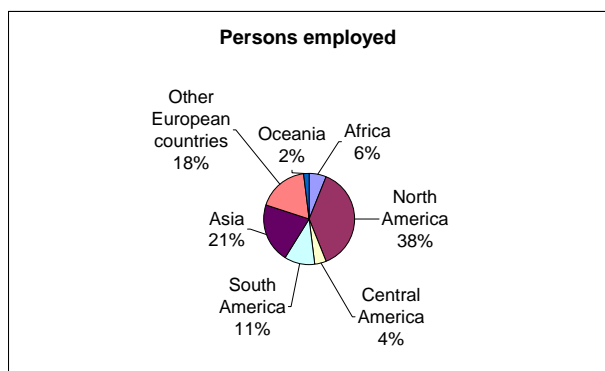
The United States was the main location of EU-controlled affiliates

The activity of EU affiliates outside the European Union was at its highest in North America in 2005, with 38% of the number of persons employed and 55% of the turnover (the US share in these figures was over 90%).

North America was followed by Asia (21% and 16%) and non-EU European countries (18% and 13%).

Graph 3 shows the geographical breakdown of the number of persons employed and the turnover.

Graph 3: Persons employed and turnover in foreign affiliates located outside EU-27 for the reporting countries, 2005



Source: Eurostat

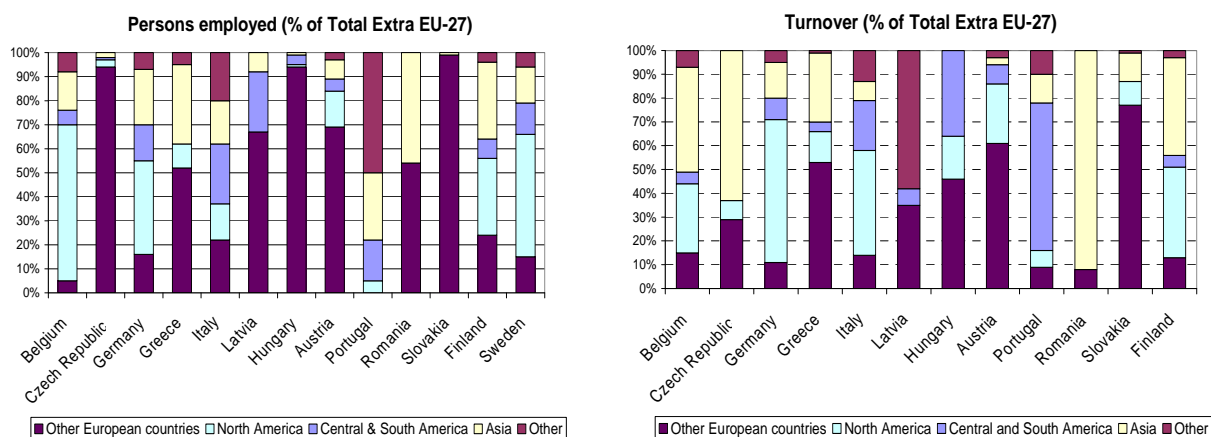
The United States was by far the main country of destination for EU-controlled affiliates, with 35% of the number of persons employed and 50% of turnover; it was followed by Brazil (8%) and China (7%) for number of persons employed, and Switzerland (6.5%) and Canada (4.5%) for turnover. For German-controlled companies, the US share was 36% of the number of persons employed, followed by Brazil (8.3%), China (7.5%), Mexico (4.3%) and Switzerland (4%), and 55% of the turnover, followed by Switzerland (5.6%), Canada (5.1%), Japan (4.4%) and Brazil (4%).

As regards the number of persons employed, the

USA was also the principal location for Belgian, Finnish and Swedish affiliates, whereas for Italian affiliates it was Brazil, for Hungarian – Croatia, and for Austrian and Slovak – Ukraine. In terms of turnover, Italy and Finland had the highest percentage for affiliates in the USA, Belgium in South Korea, Austria in Switzerland, Hungary in Turkey and Slovakia in Ukraine. Portuguese affiliates were prevalent in Brazil and Portuguese-speaking Africa.

Graph 4 shows the regional breakdown of affiliates for all reporting countries.

Graph 4: Regional breakdown of the persons employed and turnover in foreign affiliates located outside the EU-27 for the reporting countries, 2005



Source: Eurostat

Table 1 shows the main locations for EU affiliates in terms of the number of persons employed and turnover. Among these main locations the highest share of services in total activities was recorded in affiliates located in Croatia, Hong Kong, Switzerland and Norway, while the lowest was in China, Mexico, Brazil and Indonesia. The share in services for affiliates located

in the United States was 48% for number of employees and 52% for turnover. In general, emerging economies had a more important role in employment, especially in manufacturing, whilst in turnover terms the role of affiliates located in OECD countries and active in services was the most significant.

Table 1: Persons employed in thousands of persons (EMP) and Turnover in million EUR (TUR) in foreign affiliates located in the main countries of destination for All Activities and Total Services, for the reporting countries, 2005.

Country of destination	EMP (Total)	TUR (Total)	EMP (Services)	TUR (Services)	Share of services (%)		Turnover per person employed (EUR thousand)
					EMP	TUR	
United States	1 161	454 193	559	234 558	48	52	391
Brazil	264	35 922	38	7 057	14	20	136
China	239	29 073	31	8 466	13	29	122
Mexico	117	25 431	16	3 528	14	14	217
Russia	116	18 872	41	11 754	35	62	163
Switzerland	106	58 733	55	45 525	52	78	554
India	102	7 779	21	3 053	21	39	76
Canada	88	40 707	27	13 032	31	32	463
Norway	77	10 941	44	6 264	57	57	142
South Africa	73	15 913	16	4 146	22	26	218
Japan	66	33 981	27	18 716	41	55	515
Turkey	64	12 662	18	4 923	28	39	198
Australia	64	27 764	26	15 206	41	55	434
Croatia	57	6 250	48	5 024	84	80	110
Malaysia	44	5 777	7	1 641	16	28	131
Argentina	38	9 180	10	1 838	26	20	242
Indonesia	38	2 351	4	566	11	24	62
South Korea	33	22 122	7	4 321	21	20	670
Singapore	29	16 507	14	10 879	48	66	569
Hong Kong	28	16 584	18	14 856	64	90	592

Source: Eurostat

The ratio of turnover to persons employed was the highest for EU-controlled affiliates in South Korea, followed by Hong Kong, Singapore, Switzerland, Japan, Canada, Australia and the United States, and the lowest in Indonesia, India, Croatia, China and Malaysia. It was much higher for affiliates with their main activity in services than in manufacturing and, among services themselves, it was highest for Financial Intermediation, followed by Trade and Repairs, and lowest for Hotels and Restaurants.

Finnish, Portuguese and German affiliates had the highest ratios, and Slovak, Greek and Belgian affiliates the lowest.

German affiliates were by far the biggest employer abroad, employing over 2 million people in its foreign affiliates located outside the EU-27.

Swedish affiliates employed over 450 000 people and comparing with total employment within the compiling country, Sweden had the highest ratio of number of persons employed in foreign affiliates, which accounted for 9.5%² of total employment in the home economy.

The aggregate ratio for the 13 Member States for which data are available was 3.1%. A high percentage of the number of persons employed in foreign affiliates was also found for Germany and Finland (both 5.3%) and Belgium (4.3%). On the other hand, the ratios for Romania, the Czech Republic, Latvia, Hungary and Slovakia ranged from 0.01% to 0.3%.

² Ratio of total employment in foreign affiliates controlled from the country and located outside the EU-27 divided by the sum of total employment in the country and its foreign affiliates.

Links between FATS and FDI data

Foreign Direct Investment and outward FATS are closely related statistical domains. While FDI statistics provide data on the monetary values of the investment flows and stocks for financial measurement, FATS describe the economic activity of the recipient entities and economic consequences of foreign investment.

Nevertheless, their field of interest is the same – international activities of businesses via investment abroad. This is also demonstrated by compilation practice, as outward FDI stock and outward FATS data are often compiled with the help of the same survey.

Despite these similarities, there are also a number of significant differences between the two datasets:

1. Control FATS rule versus lasting interest FDI rule

The FATS population is to large extent a subset of the FDI population. FATS comprises all affiliates that are foreign-controlled (more than 50% of voting rights) while FDI statistics take account of all foreign investment making up 10% or more of the voting power. Whereas FDI considers only voting power, FATS also takes account of the ownership of shares. The acquisition of real estate or land in a foreign country is included in FDI data (where the 10% criterion is fulfilled), but it would not be covered by FATS.

2. Concept of control

The concept of control of FATS is broader than that of FDI, especially as regards control exerted by

a government by legal means and either effective or multiple minority ownership. Outward FATS statistics are reported by the country of the Ultimate Controlling Institutional Unit (UCI). Foreign affiliates can be taken into account, even when controlled by intermediate units located in other countries. Both FDI and FATS allow for indirect control.

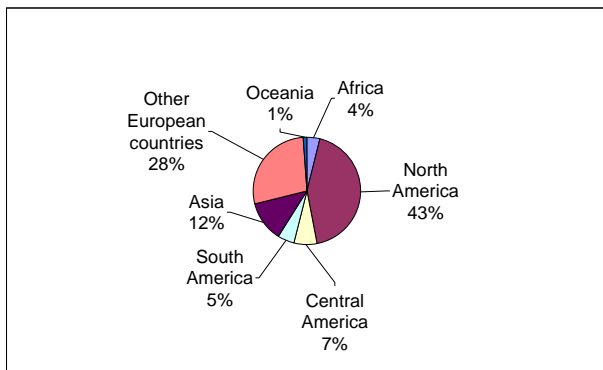
3. Other differences

Standard FDI data attribute outward individual FDI to the immediate counterpart country and are reported by the country of the immediate investor. In outward FATS, the total values of characteristics should be attributed to the country of the affiliate. There should be no splitting of the value according to ownership shares, i.e. 100% of the values should be reported by the country of the UCI even if it does not exercise full ownership.

These methodological differences explain the differences between values for FATS characteristics and outward FDI stocks. Considering data at the end of the reference year 2005, the biggest outward stocks in extra-EU-27 countries from Member States compiling FATS data were located in North America (43% of total), followed by other European (non-EU) countries (28%) and Asia (12%). FDI stocks in Central America were bigger than in South America due to the significant role of offshore financial centres in the Caribbean region.

Graph 5 shows the geographical breakdown per region

Graph 5: Foreign Direct Investment stocks outside the EU-27 for the 13 countries reporting FATS data, 2005



Source Eurostat

The United States (41% of the total value) was the main country of location, followed by Switzerland (17.5%), Brazil (3.1%), Norway (2.9%), China (2.7%) and Canada (2.6%). The USA was the most important investment location for the majority of major investing countries (Belgium, Germany, Italy, Finland, Sweden), whereas for Austria the main location was Switzerland.

For other countries, outward FDI was most significant in neighbouring countries (e.g. Albania for Greece, Croatia for Hungary, Ukraine for Slovakia) or offshore financial centres.

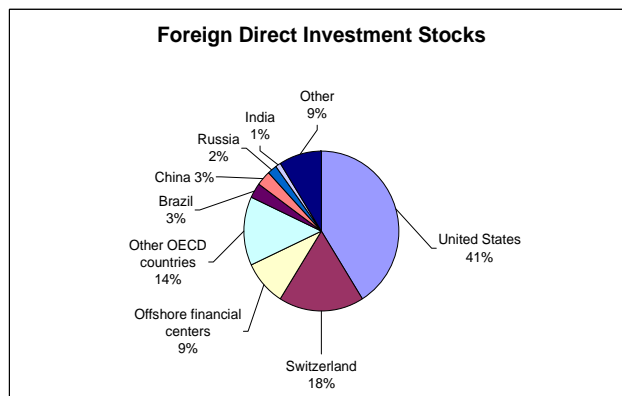
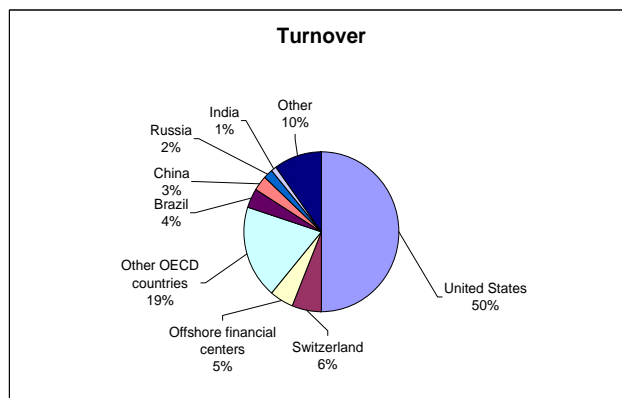
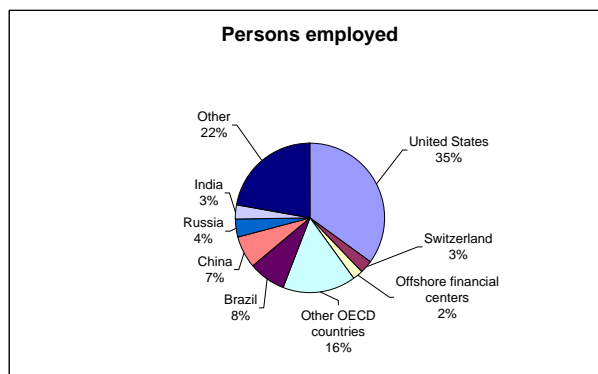
There were some differences between the most important locations between the FATS and FDI domains. The role of Switzerland and offshore financial centres,³ of which Hong Kong, Singapore, Liechtenstein, Jersey, Guernsey, Bermuda, Cayman Islands and Netherlands Antilles are the most important, was much more significant for FDI stocks than for outward FATS, as investments are often made there because of favourable tax regimes, and then reinvested in the countries where “real” production take place. On the other hand, the role of Asia and South America, which were very significant for EU affiliates employment, seemed to be smaller. Graph 6 shows these differences in the geographical breakdown.

Differences between the two domains could also be observed for the activity breakdown.

The share of services in FDI stocks was higher than for FATS characteristics, with 53% of the total, while the share of manufacturing was 31%.

Among the categories of services, Real estate and business activities (30% of Total services) and Financial intermediation (29%) had the biggest share, while for Trade and repairs the share was only 11%.

Graph 6: Main geographical locations in terms of persons employed and turnover of foreign affiliates outside the EU-27, and foreign direct investment stocks for the reporting countries, 2005. (Other OECD countries – Norway, Iceland, Turkey, Canada, Mexico, Japan, South Korea, Australia, New Zealand)



Source Eurostat

³ Offshore financial centres is an aggregate used in Eurostat and ECB data which includes 38 countries.

METHODOLOGICAL NOTES

Definitions and concepts

Foreign Affiliates Statistics (FATS) define the activities of foreign affiliates and consists of inward and outward FATS statistics. While the former measures the presence of foreign-controlled affiliates in the compiling country, the latter focuses on affiliates abroad controlled by entities that are based in the compiling country. A foreign affiliate is defined in the context of outward FATS as an enterprise not resident in the compiling country over which an institutional unit resident in the compiling country has control. FATS focuses on affiliates that are majority-owned, i.e. more than 50% of ordinary shares or voting power are controlled by a foreign entity. Control is determined at the end of the reference period. However, there can be special cases, such as multiple minority ownership and joint ventures, where the definition of control is more complex. Furthermore, control over an enterprise can be exercised directly or indirectly through one or more intermediate units. Indirect control should also be considered when providing data. If indirectly controlled foreign affiliates are not considered, it can lead to huge underestimation in the collection of the FATS data, since many enterprises might have indirect ownership links to foreign affiliates.

Current state of data collection by Eurostat

Outward FATS has been collected on a voluntary basis by several European Union Member States in accordance with the FATS Recommendations Manual and the Manual on Statistics of International Trade in Services, starting from the reference period 1995. Other detailed classifications, questionnaires and descriptions can be found in the Balance of Payments Vademecum. Eurostat collects and harmonises FATS data.

Although some Member States have also provided data for "Number of enterprises", "Value added at factor cost", "Exports of goods and services", "Imports of goods and services" and "Personnel costs", only values for the "Number of persons employed" and "Turnover" are currently disseminated due to data availability restrictions in terms of reference years and items for other indicators.

Turnover contains the total market sales (million EUR) of goods and services supplied to third parties.

The number of persons employed (thousands of persons) is the total number of persons who work in the observation unit, plus persons who work outside the unit who belong to it and are paid by it. If the number of persons employed is not available, the number of employees is used instead.

Most Member States include figures for all resident owners, irrespective of whether they are controlled by another foreign entity. Italy, Sweden, Hungary and Slovakia already compile data in accordance with the UCI principle; other countries plans to do so starting from the reference year 2007.

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 Regulation) creates the regulatory framework for the provision of foreign affiliates statistics (FATS). Under this Regulation, compilation of outward FATS data for "Turnover", "Number of persons employed" and "Number of enterprises" will be mandatory as from the reference year 2007, with a deadline of T+20 months, i.e. data for the reference year 2007 have to be transmitted to Eurostat by the end of August 2009. As some Member States have been granted derogations for data transmission, data for compilation of the EU aggregates will be available only from the reference year 2009 onwards.

Further information

Data: [Eurostat Website: http://ec.europa.eu/eurostat](http://ec.europa.eu/eurostat)

Data: [Eurostat Website/Economy and Finance](#)

Economy and finance

-  [Balance of payments - International transactions](#)
 -  [European Union Foreign Affiliates Statistics \(Outward FATS\)](#)
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