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Statistics in focus
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Foreign-controlled enterprises in the EU

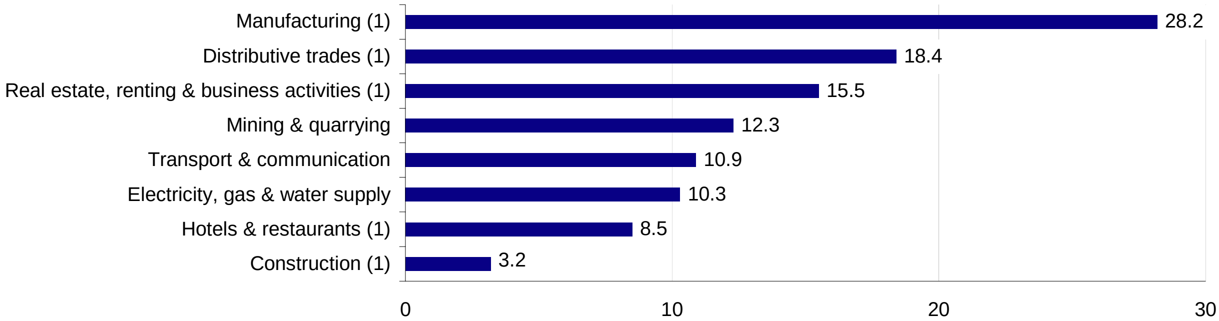
Foreign-controlled enterprises accounted for 18 % of the value added in the 17 Member States for which data are available. They were most important within the manufacturing sector, where they provided more than one quarter (28%) of sectoral value added. More than 60 % of their value added could be attributed to enterprises in other Member States (principally Germany, the United Kingdom, the Netherlands or France), while enterprises from the US accounted for 23 %.

This publication presents the latest data available on foreign-controlled enterprises (inward FATS) collected by Eurostat for the reference period of 2005. A large amount of the data presented refers to averages (or totals) based on data for 17 of the Member States, usually calculated using data for: Austria (2003); Bulgaria, the Czech Republic, Estonia, Italy, Latvia, the Netherlands, Slovenia (2004); Spain, France, Cyprus, Lithuania, Hungary, Portugal, Romania, Slovakia and Sweden (2005); all Member States participated on a voluntary basis. Regulation (EC) No. 716/2007 of the European Parliament and the Council of 20 June 2007 on Community statistics on the structure and activity of foreign affiliates (FATS-Regulation) ensures the availability, at an EU level, of annual data on foreign affiliates from reference year 2007 onwards.

In brief

- Foreign-controlled enterprises contributed 18 % of the value added generated in the non-financial business economy (NACE Sections C to I and K) among the 17 Member States with data available.
- The relative importance of foreign-controlled enterprises was most prominent in the manufacturing sector, where they provided more than one quarter (28 %) of sectoral value added and more than one fifth (21 %) of sectoral employment.
- Industrial activities accounted for more than half of the value added (51 %) created by foreign-controlled enterprises in the non-financial business economy.
- Foreign-controlled enterprises displayed considerably higher levels of labour productivity when compared with nationally-controlled enterprises, but lower levels of profitability.
- More than 60 % of the value added generated by foreign-controlled enterprises was attributed to enterprises whose controlling interest was resident in another EU Member State (principally Germany, the United Kingdom, the Netherlands or France).
- Almost a quarter (23 %) of the value added generated by foreign-controlled enterprises could be attributed to enterprises whose controlling interest was in the United States (the highest share among non-Community countries).

Figure 1: Share of sectoral value added generated by foreign-controlled enterprises, average of all reporting countries (%)



(1) Estimates.

EUROPEAN COMMISSION

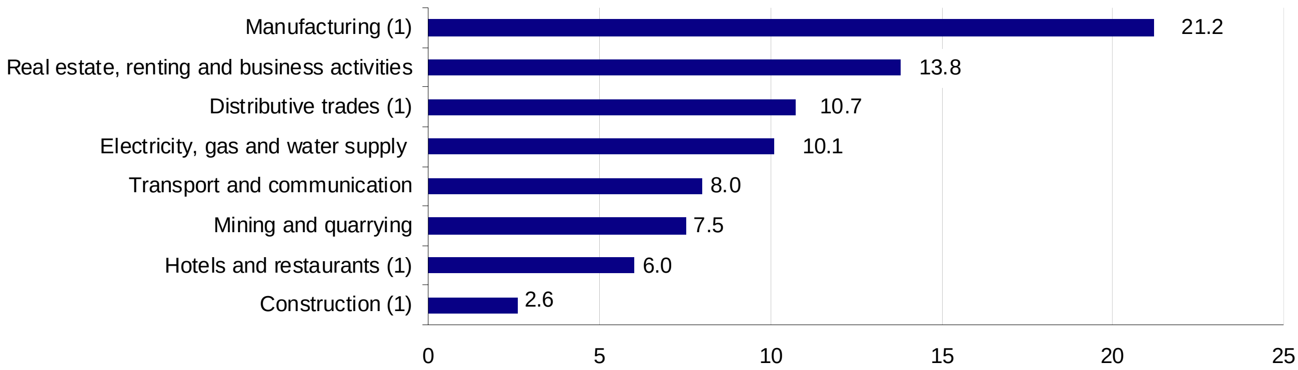
How important are foreign-controlled enterprises in the Member States?

Foreign-controlled enterprises contributed 18.2 % of the value added generated in the non-financial business economies of the 17 Member States for which data are available. Their contribution to employment was lower at 13.0 %, suggesting that the labour productivity of foreign-controlled enterprises was higher than that of nationally-controlled enterprises. This may be a reflection of the average size of foreign-controlled enterprises, which is considerably larger than the average for nationally-controlled enterprises. Size can potentially play an important role in determining productivity due to minimum efficient scales of production, especially in some industrial activities, where relatively high proportions of foreign-controlled enterprises are found. The pattern of a higher contribution to value added than employment was repeated across activities.

The relative weight of foreign-controlled enterprises was highest within manufacturing, where more than a quarter (28.2 %) of the value added and slightly more than a fifth (21.2 %) of employment could be attributed to enterprises whose controlling interest resided in another country (Figures 1 and 2). Distributive trades and real estate, renting and business activities recorded the second and third highest proportions, with at least 11 % of sectoral value added and employment accounted for by foreign-controlled enterprises. Mining and quarrying, transport and communications, and electricity, gas and water supply reported that at least 10 % of their sectoral value added was generated by foreign-controlled enterprises, while the employment contribution of foreign-controlled enterprises in these activities only rose above 10 % for electricity, gas and water supply. The relative importance of foreign-controlled enterprises was lowest for hotels and restaurants and construction (less than 9 % of sectoral value added and no more than 6 % of sectoral employment).

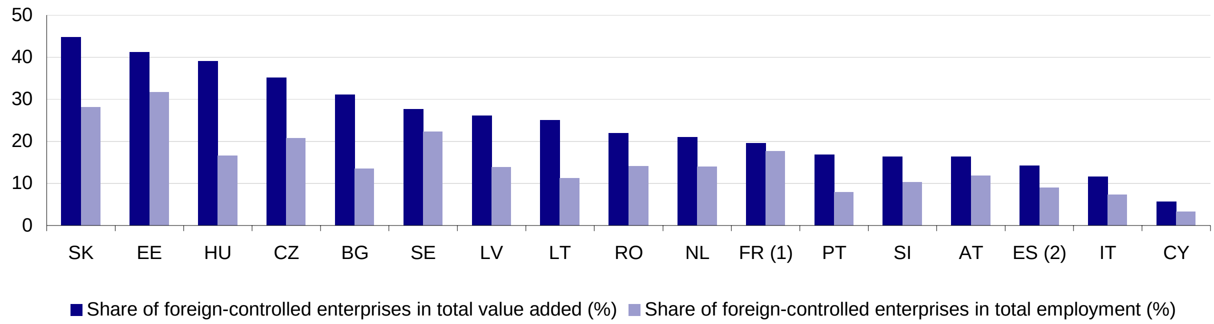
Foreign-controlled enterprises contributed upwards of 30 % of non-financial business economy value added in Slovakia, Estonia, Hungary, the Czech Republic and Bulgaria (Figure 3), while providing employment to more than 20 % of the workforce in Estonia, Slovakia, Sweden and the Czech Republic. The impact of foreign-controlled enterprises on the economies of Cyprus, Italy and Spain was relatively low (below 15% of value added).

Figure 2: Share of sectoral employment generated by foreign-controlled enterprises, average of all reporting countries (%)



(1) Estimates.

Figure 3: Share of value added and employment generated by foreign-controlled enterprises, non-financial business economy (%) (1)



(1) Number of employees instead of number of persons employed.
(2) Excludes construction.

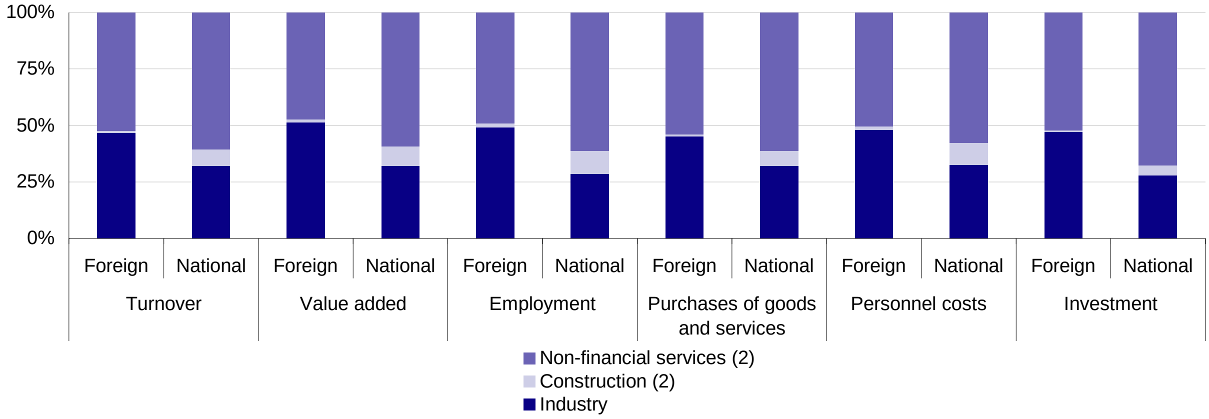
In which activities is foreign-control concentrated?

Figure 4 confirms that around 50 % of the economic activity of foreign-controlled enterprises (within the non-financial business economy) was concentrated in the industrial economy. This pattern was repeated across a range of economic indicators, in contrast to nationally-controlled enterprises, where non-financial services accounted for the largest shares, while the relative weight of the construction sector was also more pronounced among nationally-controlled enterprises.

Foreign-controlled industrial enterprises contributed around 60 % of total industrial value added in Slovakia, and also accounted for a majority (around 53 %) of the value added generated by Hungarian industry (see Figure 5). In Estonia, foreign-controlled enterprises accounted for upwards of a fifth (20.9 %) of sectoral value added within the construction sector; this was the highest figure among the Member States. The highest contributions of foreign-controlled enterprises to value added within the non-financial services sector were recorded in Estonia (41.1 %), Bulgaria (33.4 %) and Latvia (29.3 %).

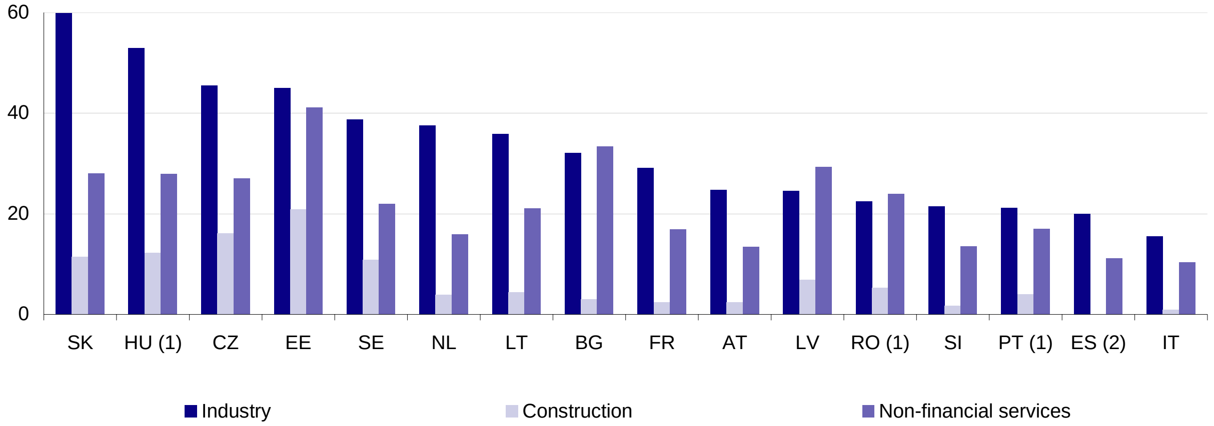
Bulgaria, Latvia and Romania were the only Member States where foreign-controlled enterprises contributed a higher share of non-financial services value added than their corresponding share of industrial value added. It should be noted that the services sectors of these three economies are relatively small.

Figure 4: Relative importance of industry, construction and non-financial services, among foreign-controlled and nationally-controlled enterprises, average of all reporting countries (% of non-financial business economy) (1)



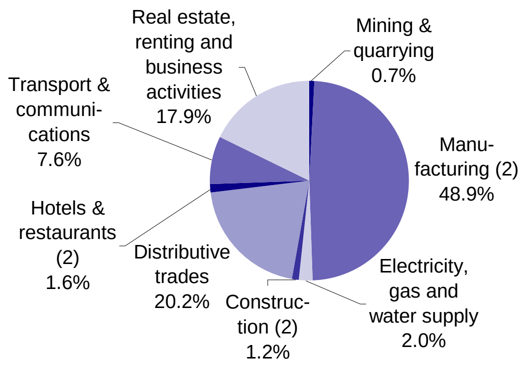
(1) Spain: excludes construction; France: number of employees instead of number of persons employed.
(2) Estimates.

Figure 5: Share of sectoral value added generated by foreign-controlled enterprises (%)



(1) Estimates.
(2) Construction not available.

Figure 6: Value added generated by foreign-controlled enterprises in the non-financial business economy by activity, average of all reporting countries (%) (1)



(1) Spain: excludes construction.
(2) Estimates.

A more detailed activity breakdown shows that 48.9 % of the value added generated by foreign-controlled enterprises was derived from the manufacturing sector. Distributive trades contributed around a fifth (20.2 %) of the total value added generated by foreign-controlled enterprises, followed by real estate, renting and business activities (17.9 %). In contrast, the activities of mining and quarrying (0.7 %), construction (1.2 %), hotels and restaurants (1.6 %) and electricity, gas and water supply (2.0 %) reported relatively low shares.

Table 1 shows in which activities (NACE subsections in manufacturing, NACE sections for mining and quarrying, electricity, gas and water supply, and construction, and NACE divisions for non-financial services) the contribution of foreign-controlled enterprises to sectoral value added was highest. Across manufacturing activities, foreign-controlled enterprises were often most important within chemicals, chemical products and man-made fibres; transport equipment; coke, refined petroleum products and nuclear fuel; or electrical and optical equipment. Among the non-financial services the relative weight of foreign-controlled enterprises was often high in the activities of renting; water transport; or post and telecommunications.

Table 1: Highest proportion of sectoral value added generated by foreign-controlled enterprises (%) (1)

	Highest	Second highest	Third highest
Bulgaria	Coke, refined petroleum products and nuclear fuel (DF)	Post and telecommunications (64)	Other non-metallic mineral products (DI)
Czech Republic	Transport equipment (DM)	Rubber and plastic products (DH)	Electrical and optical equipment (DL)
Estonia	Water transport (61)	Electrical and optical equipment (DL)	Chemicals, chemical products and man-made fibres (DG)
Spain (2)	Transport equipment (DM)	Chemicals, chemical products and man-made fibres (DG)	Rubber and plastic products (DH)
France	Water transport (61)	Chemicals, chemical products and man-made fibres (DG)	Machinery and equipment n.e.c. (DK)
Italy	Chemicals, chemical products and man-made fibres (DG)	Renting (71)	Coke, refined petroleum products and nuclear fuel (DF)
Cyprus	Computer and related activities (72)	Water transport (61)	Wholesale trade (51)
Latvia	Other non-metallic mineral products (DI)	Computer and related activities (72)	Renting (71)
Lithuania	Coke, refined petroleum products and nuclear fuel (DF)	Post and telecommunications (64)	Transport equipment (DM)
Hungary	Transport equipment (DM)	Electrical and optical equipment (DL)	Rubber and plastic products (DH)
Netherlands	Chemicals, chemical products and man-made fibres (DG)	Coke, refined petroleum products and nuclear fuel (DF)	Transport equipment (DM)
Austria	Chemicals, chemical products and man-made fibres (DG)	Research and development (73)	Electrical and optical equipment (DL)
Portugal	Electrical and optical equipment (DL)	Transport equipment (DM)	Chemicals, chemical products and man-made fibres (DG)
Romania	Renting (71)	Post and telecommunications (64)	Leather and leather products (DC)
Slovenia	Chemicals, chemical products and man-made fibres (DG)	Rubber and plastic products (DH)	Other non-metallic mineral products (DI)
Slovakia	Coke, refined petroleum products and nuclear fuel (DF)	Transport equipment (DM)	Basic metals and fabricated metal products (DJ)
Sweden	Chemicals, chemical products and man-made fibres (DG)	Coke, refined petroleum products and nuclear fuel (DF)	Other non-metallic mineral products (DI)

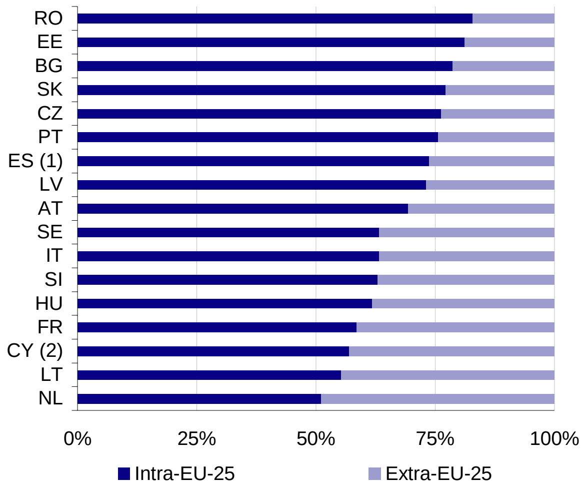
(1) Based on NACE subsections in manufacturing (Section D), NACE sections for mining and quarrying, electricity, gas and water supply, and construction (Sections C, E and F) and NACE divisions for non-financial services (Sections G-I and K).
(2) Excludes construction.

Which are the main countries of origin for foreign-controlled enterprises?

A range of factors may influence the decision whether or not to set up a foreign affiliate, including geographical proximity, market opportunities, a common culture or language, or historical ties. Some of these factors may explain the high proportion of controlling interest residing with EU-25 Member States, as an average of 63.2 % of the value added generated by foreign-controlled enterprises in the non-financial business economy was derived from enterprises whose ultimate control resided in another Member State; shares rose to over 75 % in Romania, Estonia, Bulgaria, Slovakia, the Czech Republic and Portugal, falling to 51.1 % in the Netherlands (Figure 7).

Of the 18.1 % of value added in the non-financial business economy that was generated by foreign-controlled enterprises on average, the largest single contribution came from enterprises whose controlling interest resided in the United States (4.1 %). The next four most important partners were all EU Member States: Germany, the United Kingdom, the Netherlands and France (Figure 8).

Figure 7: Share of value added, foreign controlled enterprises, non-financial business economy (%)



(1) Excludes construction.
(2) 2004.

Figure 8: Share of total value added generated by nationally-controlled and foreign-controlled enterprises, breakdown by country origin, average of all reporting countries (%)

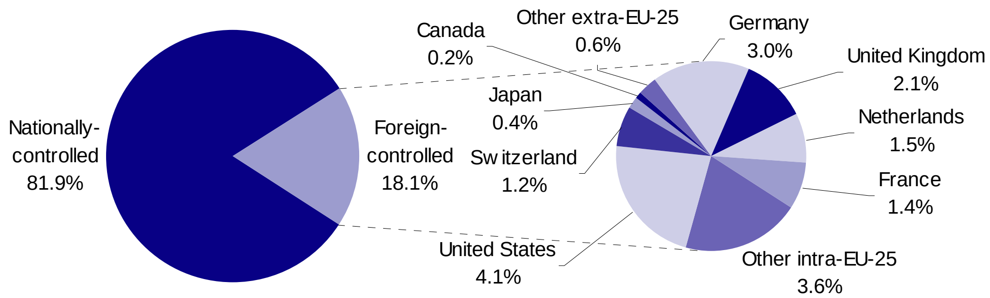


Table 2: Share of total value added generated by foreign-controlled enterprises in the non-financial business economy: three main partners (%)

	Main partner	Second partner	Third partner
Bulgaria	Austria (31.7)	Greece (11.3)	Germany (9.4)
Czech Republic	Germany (30.9)	Netherlands (15.5)	United States (13.6)
Estonia	Finland (28.2)	Sweden (27.5)	United Kingdom (7.1)
Spain	France (20.4)	United States (16.4)	Germany (15.4)
France	United States (26.5)	Germany (14.6)	United Kingdom (11.6)
Italy	United States (25.8)	United Kingdom (16.6)	France (14.7)
Cyprus	Greece (22.5)	United States (17.1)	Germany (11.6)
Latvia	Sweden (16.7)	Germany (12.6)	Finland (10.7)
Lithuania	Russian Federation (27.1)	Sweden (16.0)	Denmark (9.4)
Hungary	Germany (28.0)	United States (22.1)	France (8.5)
Netherlands	United States (32.0)	United Kingdom (16.8)	Germany (10.9)
Austria	Germany (44.5)	Switzerland (12.9)	United States (12.2)
Portugal	Spain (16.8)	Germany (15.7)	Netherlands (14.6)
Romania	Netherlands (23.5)	France (17.3)	Germany (12.3)
Slovenia	Switzerland (c)	Austria (18.7)	Germany (12.7)
Slovakia	Germany (26.6)	United States (15.8)	France (8.3)
Sweden	United States (21.8)	United Kingdom (15.2)	Finland (11.4)

c: confidential.

What characteristics do foreign-controlled enterprises display?

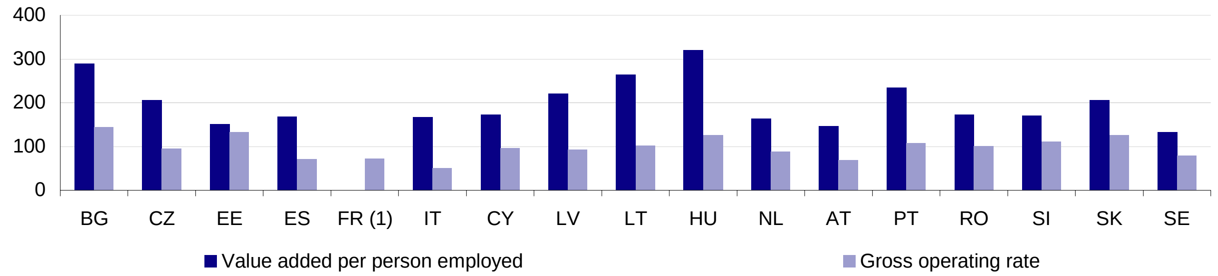
This section compares foreign-controlled enterprises with nationally-controlled enterprises, using the latter as a benchmark. Foreign-controlled enterprises recorded higher apparent labour productivity (value added per person employed) than their nationally-controlled competitors across all countries for which data are available. As noted above, this may partly be a reflection of the average size of foreign-controlled enterprises, which is considerably larger than the average for nationally-controlled enterprises.

Foreign-controlled enterprises generated an average of EUR 51 800 of value added per person employed across the non-financial business economy, which was EUR 16 800 per person employed more than for nationally-controlled enterprises. Apparent labour productivity among foreign-controlled enterprises was 3.2 times as high as for nationally-controlled enterprises in Hungary, a ratio that fell to 1.3 times as high in Sweden (Figure 9).

The gross operating rate (gross operating surplus as a share of turnover) is one measure of profitability – and a comparison of this indicator with labour productivity shows that foreign-controlled enterprises were on average more productive than profitable in comparison with nationally-controlled enterprises. Nevertheless, in 8 out of 17 Member States there were higher gross operating rates in foreign-controlled enterprises. The largest difference in favour of foreign-controlled enterprises was in Bulgaria (1.4 times higher), whereas in Italy, foreign-controlled enterprises reported a profit rate that was almost half that of nationally-controlled enterprises.

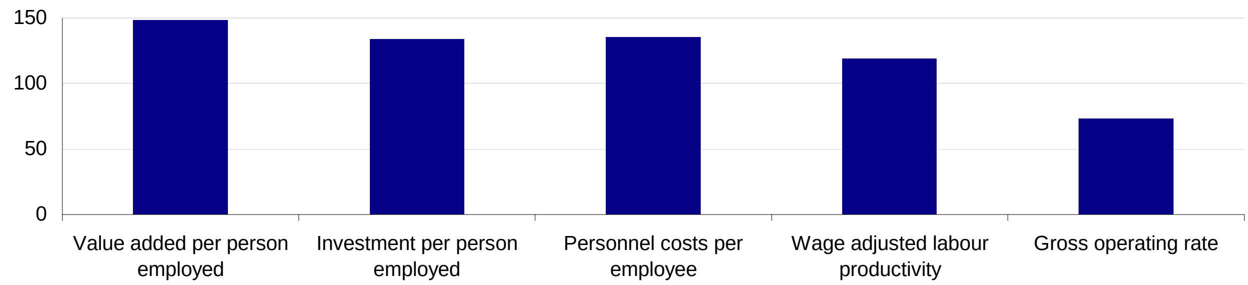
The relatively low level of profitability of foreign-controlled enterprises (when compared with nationally-controlled enterprises) was in contrast to a range of other indicators, as foreign-controlled enterprises posted higher levels of investment per person employed, personnel costs per employee, and wage adjusted labour productivity. This may be due partly to the higher share of unpaid family workers or working proprietors in nationally-controlled enterprises, some 10.6 % compared with 1.4% for foreign-controlled enterprises. In addition, average personnel costs for foreign-controlled enterprises were EUR 9 500 per employee above those for nationally-controlled enterprises; note that high personnel costs reduce the gross operating rate. These differences could also reflect a problem of transfer pricing, as foreign-controlled affiliates are often part of a multinational enterprise group.

Figure 9: Value added per person employed and gross operating rate for foreign-controlled enterprises, non-financial business economy (nationally-controlled enterprises=100)



(1) Value added per person employed not available.

Figure 10: Economic indicators for foreign-controlled enterprises, non-financial business economy, average of all reporting countries (nationally-controlled enterprises=100) (1)



(1) Bulgaria, Czech Republic, Cyprus and Hungary: number of persons employed instead of number of employees; France: number of employees instead of number of persons employed; personnel costs per employee excludes Bulgaria, Czech Republic, Cyprus and Hungary; wage adjusted labour productivity excludes Bulgaria, Czech Republic, France, Cyprus and Hungary.

METHODOLOGICAL NOTES

THE AIM OF STATISTICS ON FOREIGN-CONTROLLED ENTERPRISES

The objective of statistics on the structure and activity of foreign-controlled enterprises (inward FATS) is to provide a basis for assessing the impact of foreign-controlled enterprises on the European economy. The data also facilitates monitoring the effectiveness of the internal market and the integration of economies within the context of globalisation.

LEGAL BASIS

Data on inward FATS has been collected on a voluntary basis since reference year 1996. Currently up to 22 countries participate in this data collection exercise. Regulation (EC) No. 716/2007 of the European Parliament and the Council of 20 June 2007 on Community statistics on the structure and activity of foreign affiliates (FATS-Regulation) ensures the availability, at an EU level, of annual data on foreign affiliates from reference year 2007 onwards.

For more information and links to publications and data, see the special topic 'Foreign-controlled enterprises' on the European business dedicated section of the Eurostat website (under the theme industry, trade and services), at: http://ec.europa.eu/eurostat/europeanbusiness

DEFINITIONS FOR FATS

Inward foreign affiliates statistics (inward FATS) describe the overall activity of foreign affiliates resident in the reporting country. **A foreign affiliate**, under the terms of inward FATS, is an enterprise that is resident in the reporting country, for which an institutional unit not resident in the reporting country has control. **Control** is the ability to determine the general policy of an enterprise by choosing appropriate directors, if necessary. Enterprise A is deemed to be controlled by an institutional unit B when B controls – directly or indirectly – more than half of the shareholders' voting power or more than half of the shares. However, control is often difficult to determine and, in practice, the share of ownership is often used as a proxy for control. Inward FATS therefore focus on the affiliates that are majority-owned by a single investor or by a group of associated investors acting together and owning more than 50 % of the ordinary shares or voting power.

Control is attributed to the **Ultimate Controlling Institutional unit (UCI).** The UCI is the institutional unit, proceeding up a foreign affiliate's chain of control, which is not controlled by another institutional unit. Some reporting countries used the concept of first foreign parent (the first enterprise outside the Member State with more than 50 % ownership of shares) or Ultimate Beneficial Ownership (which uses the chain of ownership) as a proxy when the UCI was not available. This might lead to a distortion of results.

INDICATOR DEFINITIONS

Value added (at factor cost): can be calculated from turnover, plus capitalised production, plus other operating income, plus or minus the changes in stocks, minus the purchases of goods and services, minus other taxes on products which are linked to turnover but not deductible, minus the duties and taxes linked to production. Alternatively it can be calculated from gross operating surplus by adding personnel costs.

Number of persons employed: is defined as the total number of persons who work in the observation unit (inclusive of working proprietors, partners working regularly in the unit and unpaid family workers), as well as persons who work outside the unit who belong to it and are paid by it (for example, sales representatives, delivery personnel, repair and maintenance teams).

Turnover: comprises the total invoiced by the observation unit during the reference period, and this corresponds to market sales of goods or services supplied to third parties.

Personnel costs: are defined as the total remuneration, in cash or in kind, payable by an employer to an employee (regular and temporary employees as well as home-workers) in return for work done by the latter during the reference period. Personnel costs also include taxes and employees' social security contributions retained by the unit as well as the employer's compulsory and voluntary social contributions.

Purchases of goods and services: include the value of all goods and services purchased during the reference period for resale or consumption in the production process, excluding capital goods the consumption of which is registered as consumption of fixed capital. The goods and services concerned may be either resold with or without further transformation, completely used up in the production process or, finally, be stocked.

Gross investments in tangible goods: include all new and existing tangible capital goods, whether bought from third parties or produced for own use (in other words, capitalised production of tangible capital goods), having a useful life of more than one year including non-produced tangible goods such as land.

Apparent labour productivity: is defined as value added divided by the number of persons employed**.**

Average personnel costs: are defined as personnel costs divided by the number of paid employees**.**

Wage adjusted labour productivity ratio: is defined as the ratio of value added divided by personnel costs (the latter having been divided by the share of employees in the number of persons employed); the result is expressed as a percentage. The ratio can also be calculated by dividing apparent labour productivity by average personnel costs and expressing the result as a percentage.

Gross operating rate: is defined as the gross operating surplus (value added minus personnel costs) divided by turnover; the result is expressed as a percentage.

COVERAGE

In some cases, data collection is based on sample surveys. The statistical unit is the enterprise and branches under foreign control.

The data covers a majority of EU Member States which participated on a voluntary basis in the pilot project. Participation and coverage have improved year on year. All the Member States with available data for the years 2003 to 2005 have been included in this publication. However, as not all EU countries participated in the data collection exercise, and as estimates for missing countries are not available, no true European Union (EU-27) aggregates are calculated. Rather, the averages that have been produced are based on the data available for each country and reference period.

For France the data for number of persons employed has been substituted by the number of employees. For Bulgaria, the Czech Republic, Cyprus and Hungary no number of employees is available.

For Spain there is no data for the construction activity.

ECONOMIC ACTIVITIES - NACE

NACE Rev. 1.1 is used for the classification of inward FATS by economic activity. Data for the following NACE Sections are presented in this publication:

Section C: mining and quarrying
Section D: manufacturing
Section E: electricity, gas and water supply
Section F: construction
Section G: distributive trades
Section H: hotels and restaurants
Section I: transport and communications
Section K: real estate, renting and business activities
The industry aggregate covers NACE Sections C to E.
The non-financial services aggregate covers NACE Sections G to I and K.
The non-financial business economy aggregate covers NACE Sections C to I and K.

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Further information

Data: EUROSTAT Website/Home page/Industry trade and services/Data

Industry, trade and services

- Industry, trade and services - horizontal view
  - Short-term Business Statistics - Monthly and Quarterly (Industry, Construction, Retail Trade and Other Services)
  - Structural Business Statistics (Industry, Construction, Trade and Services)
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    - Business demography
    - Factors of Business Success
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      - Foreign control of enterprises - Reference year 2003 and onwards
        - Foreign control of enterprises - breakdown by economic activity and a selection of controlling countries
        - Foreign control of enterprises - breakdown by controlling countries

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