

Compiling Foreign Affiliates Statistics (FATS)

Introduction

This article goes into some detail on how Foreign Affiliates Trade Statistics are compiled. These statistics are compiled on a harmonized basis across the EU28.

Why FATS statistics are important

Enterprise groups are increasingly operating in an environment where national borders are less important and where activities are organised on a global scale. Ireland, in particular, has become an important destination for foreign companies and their affiliates. Irish companies have also successfully expanded their operations to establish a physical presence abroad.

Statistics on the structure and activity of foreign affiliates provide information that can be used to assess the impact of foreign-controlled enterprises on the Irish economy. It is also a way of measuring the scale and type of operations by Irish controlled affiliates abroad. The data are useful in order to monitor the integration of the Irish economy with economies both within the EU (internal market) and outside the EU.

FATS data measure the extent to which there is a foreign-owned commercial presence in the territory of a country. Establishing a foreign-based affiliate, however, is only one of the modes of delivery of economic activities abroad. Enterprises may also engage in direct trade with other economies or take a minority stake in enterprises in other countries.

Legal basis for the compilation of FATS

Regulation (EC) No 716/2007 of the European Parliament and the Council (EC) on the structure and activity of foreign affiliates was adopted in 2007. The main objective of this Regulation is to establish statistical quality standards and a common framework for the systematic production of comparable statistics on foreign affiliates in the EU.

From an Irish legal perspective, Statutory Instrument No. 596 of 2017 requires the reporting units to provide the CSO with the data to meet the legal requirements contained within Regulation (EC) No 716/2007.

Main Concepts and Definitions in the Regulation

1. Institutional unit

An institutional unit is an elementary economic decision-making centre characterised by uniformity of behaviour and decision-making autonomy in the exercise of its principal function. A unit is regarded as constituting an institutional unit if it has decision-making autonomy in respect of its principal function and keeps a complete set of accounts.

2. Foreign Affiliate

A foreign affiliate is an enterprise resident in the compiling country over which an institutional unit not resident in the compiling country has control (Inward FATS). It can also be an enterprise not resident in the compiling country over which an institutional unit resident in the compiling country has control (Outward FATS).

3. Control

The concept of control is used for the breakdown of the FATS variables. Control means the ability to determine the general policy of an enterprise by choosing appropriate directors, if necessary. In this context, enterprise A is deemed to be controlled by an institutional unit B when B 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 may have control through another affiliate which has control over enterprise A.

Therefore, control implies the ability to determine the strategy of an enterprise, to guide its activities and to appoint a majority of directors. In most cases, this ability can be exercised by a single investor holding a majority (more than 50 %) of the voting power or of the shares, directly or indirectly.

4. Ultimate controlling institution (UCI)

The ultimate controlling institution (UCI) of a foreign affiliate is an institutional unit, proceeding up a foreign affiliate's chain of control, which is not controlled by another institutional unit. FATS data are compiled according to the UCI concept. The crucial characteristic of a UCI is that it should effectively control and manage the group, i.e. take global strategic decisions.

Therefore, in the case of Ireland, Outward FATS describes the activities of affiliates abroad where the UCI is an Irish resident institutional unit. Inward FATS describes the activities of affiliates in Ireland where the UCI is a foreign resident institutional unit.

5. Residency

The place of residency of an UCI is the country of registration of the UCI in the case of legal entities and the country of residence in the case of natural persons acting as UCI. Residency is often but not always the nationality of the UCI.

Inward Foreign Affiliate Statistics (IFATS) in Ireland

1. Target population

The target population for inward FATS comprises all enterprises and branches located in Ireland that are under foreign control. It is a subset of the target population for the three structural business surveys conducted by the CSO:

[Census of Industrial Production](#)

[Annual Services Inquiry](#)

[Building and Construction Inquiry](#)

2. Data source

In order to compile the inward FATS data, a question was added to each of the three structural business surveys¹ requesting information on the ultimate location of ownership for the reporting enterprises. The question captured the country of residence of the ultimate beneficial owner eg Ireland, Germany, UK etc. The concept of ultimate beneficial owner is almost identical to the concept of the UCI.

3. Compiling aggregated results

The Inward FATS statistics are compiled by aggregating key variables such as turnover and gross value added (GVA) by the country of the ultimate beneficial owner. This methodology is particularly appropriate for Industry as the CIP is a census of all enterprises with 3 or more persons engaged which means there is no requirement to use grossing factors to estimate the final results. However, the results for Construction, Distribution and Services are sourced from sample surveys (ie ASI and

BCI). For every non-respondent or non-surveyed enterprise a survey return is created using tax information. The primary financial value the survey uses is profit/loss data with estimates for labour costs added to arrive at a value for GVA. This is derived from the administrative data. Other financial variables normally received from the survey form are estimated using actual survey returns as the data is not available from the administrative data

In order to improve the quality of the statistics the CSO have created a register of all foreign-owned enterprises in the Irish economy.

Outward Foreign Affiliate Statistics (OFATS) in Ireland

1. Target population

The target population for outward FATS comprises all foreign-based affiliates that are controlled by an institutional unit resident in the compiling country. The units that actually complete the CSO outward FATS survey, however, are resident institutional units ie Irish multinationals. This provides a difficulty for the outward FATS survey as it requires the CSO to survey domestic-based Irish multinationals and request information about their foreign-based affiliates. This information may not be easily accessible for the domestic-based multinationals.

2. Data source

The CSO carry out a survey to capture the outward FATS information.

[Outward Foreign Affiliates Survey](#)

On the survey form respondents are required to complete a list of foreign affiliates that are under the control of the Irish multinational.

The Outward FATS form 2016:

[Outward Foreign Affiliates Survey Form 2016](#)

The required variables for each foreign affiliate are as follows:

- Name of foreign affiliate
- Country in which foreign affiliate is located
- Description of the activity of the foreign affiliate (which is coded to NACE Rev. 2 activity codes)
- Shares in registered capital of foreign affiliate (only a shareholding of 51% or greater in a foreign affiliate is taken for compilation purposes).
- Turnover
- Number of persons engaged

3. Problem of consolidation on the Outward FATS survey

A problem that is encountered when carrying out the outward FATS survey is that some multinationals report data on their foreign affiliates on a consolidated basis. For example, all affiliates in the UK might be consolidated into one section on the form and reported as a single

affiliate. In reality, the reported data represents more than one affiliate. This leads to the outcome that the data on the number of foreign affiliates controlled by Irish multinationals is underestimated. The problem of consolidation does not affect data on the number of persons engaged and turnover to the same extent as the consolidation generally occurs on a country basis within a particular business activity which is how CSO aggregates the data in any case.

CSO do not publish the data on the number of foreign affiliates due to this underestimation. If this data becomes more reliable in the future, the CSO will publish the information at that point.

4. Identifying Irish multinationals to survey

A key aspect of the Outward FATS survey is the need to accumulate as much information as possible on all Irish-resident multinationals. The survey population is those UCI's that are located in Ireland and have affiliates located abroad. This is not a straightforward exercise as the list of Irish multinationals needs to be updated annually in order to capture enterprises expanding abroad.

The various sources used by the CSO to date are as follows:

- Private data source - Bureau Van Dyke
- CSO Balance of Payments register of enterprises
- Revenue Commissioners data on income earned abroad
- Euro Groups Register (EGR)

It is important that a list of Irish multinationals which is as comprehensive as possible is prepared prior to the survey. Any enterprises that are overlooked in drawing up this list of Irish-resident institutional units with affiliates based abroad will not be included in the final compiled results. The Irish multinationals surveyed since 2010 are thought to be very close to a full target population and the survey can be regarded as a census of Irish UCIs with affiliates abroad. The annual results are published on Statbank, the main data dissemination service on the CSO website.

[Outward Foreign Affiliate Data](#)

5. Response rates

The response rates from institutional units surveyed for the outward FATS survey has been steady at between 70% and 80%. A significant effort is made to ensure a high response rate, particularly among the large Irish multinationals. This is important because if a survey form is not received from an enterprise there is the possibility that CSO might miss affiliates abroad and these affiliates would not be included in the final compiled results. Due to the high response rate among the largest Irish multinationals, it is felt that the issue of non-response does not overly affect the final results.

6. Euro Groups Register (EGR) – a way to improve Outward FATS statistics across Europe

The Euro Groups Register (EGR) is an EU-wide statistical register on multinational enterprise groups and their constituent units. The objective of the EGR is to cover all multinational enterprise groups operating in the EU. The EGR operates as a network of statistical business register units (including the CSO Business Register) coordinated by Eurostat. The contributing institutions use the information available to them to check and to complete the data obtained by Eurostat from commercial and statistical sources.

One benefit of the EGR is to coordinate the country code of the UCI to which the enterprises belong. This would reduce duplication across the EU in terms of the statistics on foreign affiliates. Also, as

the EGR moves towards full coverage of enterprise groups in the EU, it will become more important as a source of the frame for selection/sampling in the area of Outward FATS.

Confidentiality

One of the most important aspects of producing any set of statistics is to maintain the confidentiality of the respondents. The confidentiality rules applied to Inward and Outward FATS are the same rules that apply across the Structural Business Statistics (SBS) area. If a figure meets one of the criteria listed below, then that figure is deemed directly confidential and will not be published. The confidentiality rules are as follows:

- Too few enterprises i.e. less than 3 enterprises in a data cell
- One enterprise dominates ie one enterprise accounts for 80% or greater of a data cell
- Two enterprises dominate ie two enterprises combined account for 90% or greater of a data cell

A data cell can also be indirectly confidential. A data cell is made confidential if by publishing that data cell another confidential cell could be indirectly deduced.

Due to the very detailed data requirements in the FATS statistics, there is a high rate of incidence of confidential cells that may not be published. The data published throughout this report meet the above confidentiality rules.

Conclusion

This article should be used in conjunction with the published data to gain a full understanding of how these statistics are compiled.

FATS statistics are an important source of information in tracking the rate of globalisation in Ireland and across the EU. As can be seen, this area of statistics is still evolving and a number of paths to improve the quality of data have been identified, such as the use of the CSO Business Register for Inward FATS and the Euro Groups Register (EGR) for Outward FATS.