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FATS : Overview of Work in Progress in France

Prepared by the Banque de France

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1. What are FATS ?

FATS (*Foreign Affiliate Trade Statistics*) represent a set of statistics made necessary by the conjunction of two major economic events, i.e. : a phase of sustained multilateral growth of foreign direct investment which started in the eighties and the extension of international trade agreements to different sectors of services (GATTS) in parallel to the setting-up of the WTO. Indeed, the first agreements were essential to the development - both in quantity and size - of subsidiaries abroad, whereas the signature of the GATTS requires indicators for the follow-up of international opening-up, and even statistical indicators in the framework of the settlement of possible trade disputes. Indeed, as far as services are concerned, the “international supply” method through the settlement of subsidiaries abroad is particularly important. Therefore, the estimate of international opening-up of various countries had to take this specific international supply mode into account, notably through a turnover valuation of foreign subsidiaries in these sectors in a given country.

As far as France is concerned, these statistics have been provided and produced by the Banque de France Balance of Payments’ Directorate since 1995, following a common questionnaire from Eurostat and the OECD.

2 . Results already achieved

It should be recalled that these statistics are divided into two parts : the *inward* part (FATS related to direct investment in the country under consideration) and the *outward* part (related to direct investment abroad from the country under consideration). Up to now, in France, they have been covering the following indicators : sales (i.e. turnover), added value, employment (i.e. employees) and international trade in goods and services.

Though formerly they used to be limited to resident subsidiaries controlled by a foreign entity (i.e. legal person), they have been *progressively extended to the head-offices of these subsidiaries, whether they be resident or not*, following discussions carried out within the OECD “globalisation” group. Actually, and among other things, the aim is to enable users to compare comparable things: companies under the control of multinational firms, whether their head-office be situated abroad (*inward* FATS part, resident subsidiaries under foreign control) or in the country under consideration (resident subsidiaries of multinational domestic groups¹, these subsidiaries being therefore designated as head-offices²). Therefore, within the FATS designation, somewhat wider-ranging statistics are now being published which could be named as MFA (Multinational Firms Activity).

Therefore, the implementation of these statistics made it necessary to carry out a survey on subsidiaries located abroad (i.e. *outward*) and controlled by a French resident company, so as to obtain first their turnover. To this purpose, a FATS part was added to the survey on the *outward* stock and

¹ For the sake of simplicity, a company with at least one subsidiary abroad is considered as part of a multinational group. This might be slightly excessive as the size of this group in the domestic country and/or the number of subsidiaries abroad or even the number of countries covered could be considered worth taking into account. The purpose of this note is not to find a definition and, anyway, it would not affect our standpoint.

² As a matter of fact (see below), as we keep limited to direct controls, all subsidiaries of domestic multinational groups are not taken into account, but only those which directly control a non-resident company.

reinvested earnings abroad. As far as the *inward* part is concerned, the FATS system required a co-operation between the Business Directorate of the Banque de France, currently responsible for a database (FIBEN) gathering the accounts of a large number of companies, and the national Institute of statistics (i.e. *Insee*), in order to compare the value of variables related to FATS and that of the set of companies in the sector under consideration and therefore to assess the share of foreign subsidiaries in a few economic aggregates.

3 . Work in progress

a. Construction of an individual longitudinal database

The first development is the creation of a statistical individual longitudinal database. Indeed, the publication of yearly series of FATS made it necessary to increase the temporal consistency of published sectors aggregates and sub-aggregates, so as to interpret their evolutions. Obviously, one should see beyond published FATS aggregates, as a few questions arise, such as for instance :

- Did the share of foreign subsidiaries in sales, production (added value) or national employment rise or fall ?
- To which extent are noted evolutions due to foreign subsidiaries already under control, to new takeovers or sheer company creations ?

The implementation of an individual longitudinal database, namely recording the statute of each economic entity and their accounts year after year, makes it possible to answer this type of questions. Indeed, it is necessary to examine a set of companies — and not just aggregates — to make out the share of creations and disappearances in aggregates, to control the impact of these sector changes, to allocate a “reasonable” amount to missing values for entities which do not take part to the survey or for which data are missing for a given year, or even to monitor the effects on the reported amount of restructuring and legal mergers within groups³.

This work is in progress and will enhance FATS through a retrospective analysis. Some provisional data can already be noted : within a year, i.e. between 1998 and 1999, the added value of foreign subsidiaries in France apparently rose by 22 % in value terms, but the inclusion of recently taken over companies in this set of companies contributes by 29 % to this trend which only represents an increase of 5 % for companies which remained controlled abroad during both years. As far as employment is concerned, for the same data the increase represents 3 % for the total, 14 % for recently taken over companies and 2 % for companies which remained under control.

b. Towards a systematic integration of indirect controls

The second development is the integration of indirect controls. The definition of the control of a Company named A clearly includes⁴ among controlled companies those where Company C controls the majority of A's voting rights through a third company — Company B. These are indirect controls. The definition principles concerning companies under foreign control seem clear, at least in most cases. However, the implementation of these principles on the basis of the direct foreign investment stock databases of the international investment position is not so clear. Indeed, indirect controls which should be taken into account for the valuation of the IIP concern resident companies with capital transactions abroad (i.e. loans or equity capital), which, within numerous multinational firms, is only the case of a limited number of companies. However, the production of statistics on staff, added value or turnover in the resident country, or even on external trade in goods and services, requires an extension of the range of companies taken into account to *all* resident companies *directly or indirectly* controlled by a company abroad. It concerns the *inward* part, the *outward* part being symmetric. Therefore, this is a situation in which one should be working on a more restricted scope than that of direct foreign investment, given the fact that it is based on a majority criterion therefore excluding as a

³ For instance, when the set of export declarations is centralised by the management subsidiary of a given group, after being carried out the year before by the various production subsidiaries of this group.

general rule⁵ controlling interests ranging from 10 to 50%, and also on a larger scope since it does take account of companies which are controlled abroad, in compliance with the principles in force, but which are not mentioned in the direct foreign investment stock database.

This led to carry out works aiming at taking account in the FATS database of companies of whichever their level of control by foreign interest. Besides, this option has been recommended by a high-level working group at the CNIS (i.e. the national coordination authority for statistical research and analysis of users' needs) ⁶ gathering academics, statisticians and authorities, working group through which the contacts with Insee were increased. At the same time, for a purpose of statistical continuity and to ease international comparisons, another FATS database including only companies *directly* controlled abroad is managed. It seems essential to know whether statistics are provided on an exclusively direct basis or take account of indirect financial links to make international comparisons⁷. Therefore, the Banque de France aims at publishing two types of FATS : *primary* FATS based on direct control, and the said "*secondary*" FATS which take into account indirect control. The production of this second set of statistics is based on the cross-check of the sources aforementioned and an additional source resulting from a specific survey carried out by the Insee, namely the LiFi survey on Financial links between companies, which defines the scope of French and foreign groups and has been carried out since 1979. This task has not been completed yet, but for example the first results, taking account of indirect controls⁸ make it possible to determine that 15% of employees of French resident companies of all sectors taken altogether work in a company under foreign control compared to 7% for sole direct controls.

- Obviously, though it seems conceivable to take into account indirect controls between resident companies, it becomes more difficult when it has to be extended out of the resident territory. Indeed, in this case, data available on the entity with the ultimate control is of a lesser quality as it is based on the knowledge of the control chain which goes beyond the national boundary. This can cause errors concerning not only the country where foreign control is allocated, but also the allocation of foreign control itself, if the chain stops in France after crossing the border (e.g. : a French group with a holding in Switzerland controlled by a family firm located in France ; or a US group located in France, subsequently acquired by a French company, the French part of this former US group will then generally be controlled by American residents, themselves controlled *in fine* by the French company which carried out the acquisition). This is one of the reasons why, for the *outward* part, published FATS are not based on the notion of indirect control, but remain "primary" FATS. It is also due to the fact that certain amounts between controlled companies cannot be aggregated, as evidenced by the capital amount for instance.

4. Conclusions

- On the whole, works started on FATS should make it possible to feed new Balance of Payments' studies, which should be more consistent with this new dimension of the globalisation process, through taking into account the existence of multinationals, their country of origin, the consistency of their international transactions, disseminated in the various items of the Balance of Payments. Thus, a new valuation of the increasing mutual dependence between the French and the US economies has been proved through the twofold increase in 4 years' time of the turnover of French

⁴ See the 5th manual of the IMF or the reference document of the OECD.

⁵ Namely when there is no additional objective information making it possible in some particular cases to determine the controlling interest despite a holding rate set below 50 %. The simplest case is when the non-resident shareholder directly holds over 50 % of voting rights, while holding less than 50 % of equity capital.

⁶ « Foreign Direct Investment in France », J.-L. Mucchielli, D. Nivat, V. Thollon-Pommerol, CNIS, 64A issue, 18 pages, English summary of the CNIS report, 64th issue, February 2001, 143 pages

⁷ See the lecture by Mr Karsenty, Head of the Services Exchange Statistics section of the WTO, to be published in « Les investissements étrangers de la France dans la globalisation, enjeux et mesure », Banque de France.

⁸ And subject to the use of some additional sources, in particular administrative sources.

subsidiaries located in the United States, which rose from 20 % to 26 % of total sales made by non-resident subsidiaries of French groups⁹.

- These works also enable us to prepare ourselves for the management of a companies register given the development prospect of our collection system, from a nearly exhaustive reporting system to a survey-based system. Works on FATS, and notably recent developments, make it possible both to gain partly the know-how in the management of a company database and in the management of multinational groups which are likely targets in the framework of a survey system.

⁹ See “L’activité des filiales françaises à l’étranger : les FATS *outward*”, F. Boccara, to be published in the proceedings of the conference entitled “Les investissements étrangers de la France dans la globalisation, enjeux et mesure”, March 20, 2002, Banque de France.