

# Turnover and employment of EU affiliates abroad

2002/2003 outward FATS data for nine Member States

## Statistics in focus

ECONOMY AND FINANCE

18/2006

Balance of payments

Authors

Ramses MALATY  
Ludger ODENTHAL

## Contents

EU foreign affiliates generate an increasing number of jobs and turnover .....	2
Services remains the most important sector for EU outward FATS.....	2
Trade and repairs remains the most important service industry.....	3
The importance of the real estate sector decreases over time.....	3
North America is the most important destination with respect to turnover, the New Member States in terms of employment.....	4
Growing importance of North America and Asia on destination for European owned foreign affiliates .....	4
Turnover of foreign affiliates more important in the EU, while employment has a larger share outside the EU .....	5
The share of European affiliates in Asia increases but remains small .....	5

This article provides an overview of the most recent trends in outward Foreign Affiliate Statistics<sup>1</sup> (FATS) emanating from the EU. A particular focus is on the role of services in outward FATS, given the growing interest in globalisation trends in the services' sector. Outward FATS from the EU towards Asia is also dealt with, as countries from the region become important economic partners for the EU.

The variables covered are turnover and employment. For the reference year 2003, seven Member States (Austria, Belgium, Czech Republic<sup>2</sup>, Finland, Germany, Greece and Portugal) provided data for turnover and employment. France and Sweden provided data for the year 2002<sup>3</sup>. France provided only turnover data and Sweden employment data<sup>4</sup>. For the moment, each Member State allows different data coverage methodologies<sup>5</sup>, which causes the current data availability to be patchy and not sufficient to calculate EU-aggregates. The lack of available data is aggravated by the fact that, at least for some Member States, a significant part of the data cannot be published due to confidentiality concerns.

The analysis in this article shows that despite the overall growth in turnover (from EUR 794 bn in 1998 to 1.797 bn in 2003) and employment (from 3.2 million to 5.6 million employees, respectively) of affiliates abroad for all Member States, there are substantial differences by activity sectors and geographical regions. Overall the services sector has remained the most important sector for EU outward FATS, especially as regards turnover (in 2003, it covered 55 % of the total turnover and 40 % of total employment). Within the services sector *Trade and repairs* has remained the most important subcategory. For employment, its share was 43 % and for turnover 60 % of the total services sector. For the geographical breakdown, the share of affiliates outside the EU15 territory has slightly increased due to especially the growth in the USA and Asia. Turnover and employment seemed to be more important outside the EU15-zone (approximately 60 % of affiliates were located in extra EU15), while individually the extra-EU15 shares of employment were larger than turnover in most Member States. Despite above average growth rates, the importance of Asia was not as large as expected beforehand. In most of the cases, the ratio of European affiliates in Asia compared to all other countries was less than 10 %. However, this preliminary observation could change if the data coverage would become more comprehensive (e.g. including also for all countries indirect ownership links).

<sup>1</sup> cf. the definition of FATS in the methodological notes on page 7.

<sup>2</sup> The term "Member States" here and later on refers to the time of reporting the figures to Eurostat. Thus, while in 2003 Czech Republic was not a Member State, it was by the time when figures were reported.

<sup>3</sup> Swedish data for 2003 was received but - due to problems in data treatment - could not be made available in time for this publication.

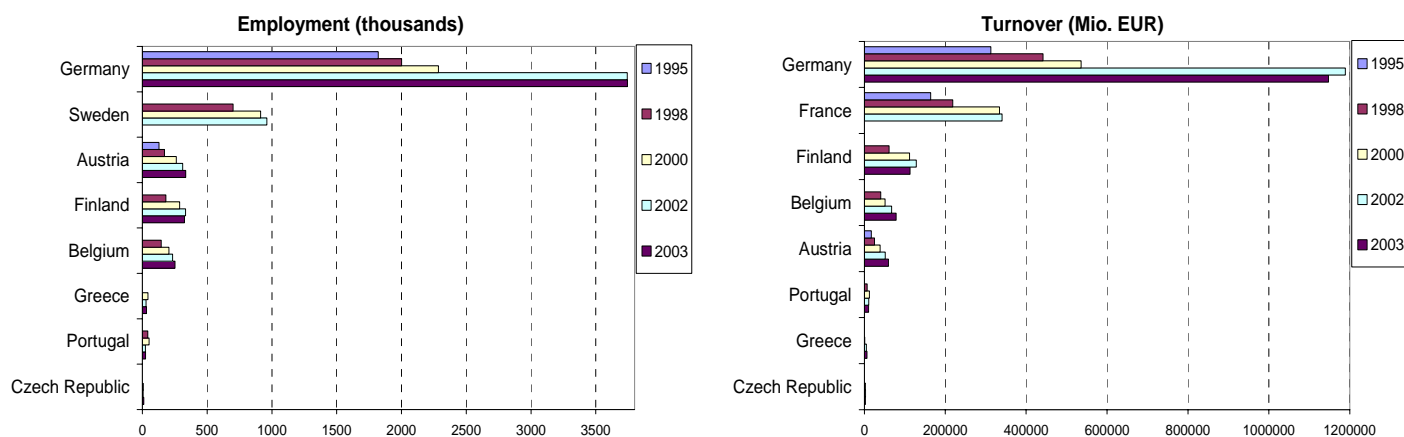
<sup>4</sup> This means that the EU-aggregates for the year 2003 as presented in the graphs 3 to 6 include 2002 data on employment for Sweden and 2002 data on turnover for France, as it was in both cases the latest year available.

<sup>5</sup> e.g. Germany, Czech Republic and Finland are the only Member States that include indirectly controlled firms, but they also have different methodologies.



## EU foreign affiliates generate an increasing number of jobs and turnover

Graph 1. Total number of employees and turnover of foreign affiliates abroad in 1995-2003

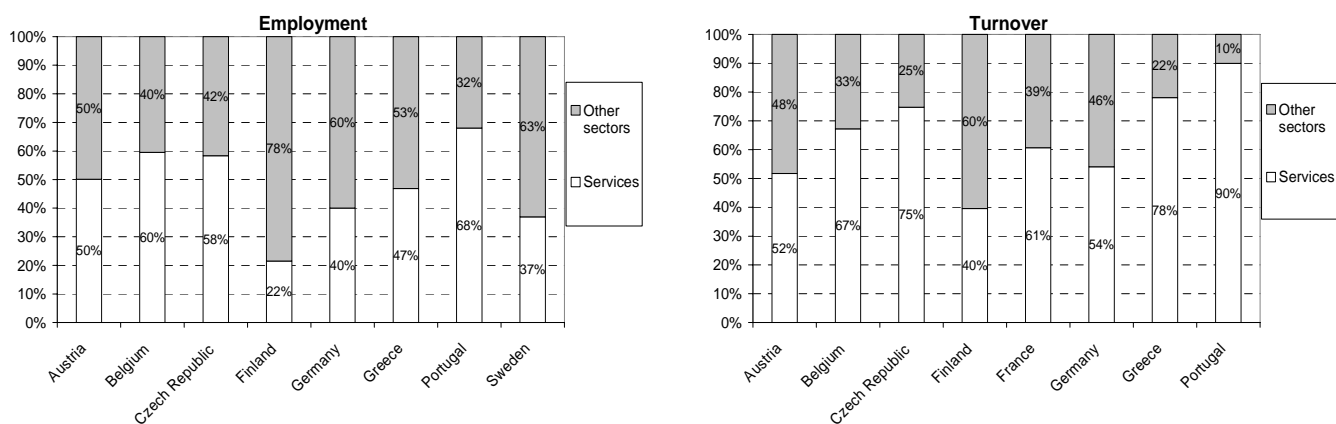


The total number of foreign affiliate employees abroad in 2003 by enterprises headquartered in the eight Member States in question was 5.6 million. These values have nearly doubled as compared to the 3.2 million in 1998 (excluding Greece and Czech Republic, who started providing data later). The total turnover of foreign affiliates in 2003 for the eight countries was 1,797 billion euros compared with 794 billion euros in 1998 (excluding Greece and Czech Republic). In general, the growth in the turnover figures is larger than in the employment figures. The largest part of this increase is due to Germany's figure

after 2002, when the country started including the indirect ownership in the outward FATS data. All Member States except the Czech Republic show an increase in turnover and have thus contributed to the overall rise in EU foreign affiliates' activity. This finding is confirmed by the numbers for employees in foreign affiliates. These figures are stable only for the outward affiliates of Portuguese and Greek firms. Germany and France feature the largest turnover figures while in terms of the number of employees Germany and Sweden stand out.

## Services remains the most important sector for EU outward FATS

Graph 2. Distribution of employment and turnover by activity sector of affiliates abroad in 2003



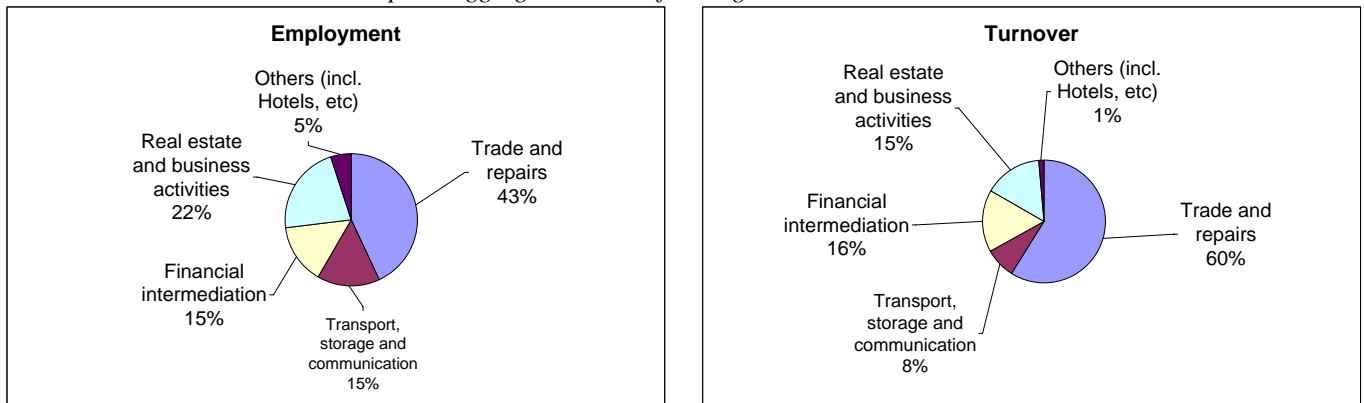
As for the sectoral breakdown, outward FATS emanating from the EU encompasses a wide range of industries. As Graph 2 illustrates, however, in most Member States the services<sup>6</sup> sector accounts for the largest share. Other sectors, of somewhat lesser importance include *Agriculture and fishing, Mining and quarrying, Manufacturing, Electricity, gas and water, Construction and Education*. Within this group *Manufacturing* is the most important sector. As for services, despite the sector's dominance for most Member States, there are significant differences on an individual country level. The proportions of services

sector range from 22% (Finland) to 68% (Portugal) for employment figures and from 40% to 90% respectively for turnover figures. All Member States except Finland have the proportion of services larger than one third for employment and larger than half for turnover figures. Interestingly, the share of the services sector is higher in the turnover than in the employment figures for all countries. However, during the last five years in most Member States the share of the services sector in total turnover has remained the same. On the other hand, the share of the services sector for employment has slightly increased most notably in Austria, Belgium and Germany.

<sup>6</sup> The services sector includes: Trade and repairs, Hotels and restaurants, Transport, storage and communication, Financial intermediation, Real Estate, renting and business act and Other services.

## Trade and repairs remains the most important service industry

Graph 3. Aggregated totals of the eight Member States in 2003



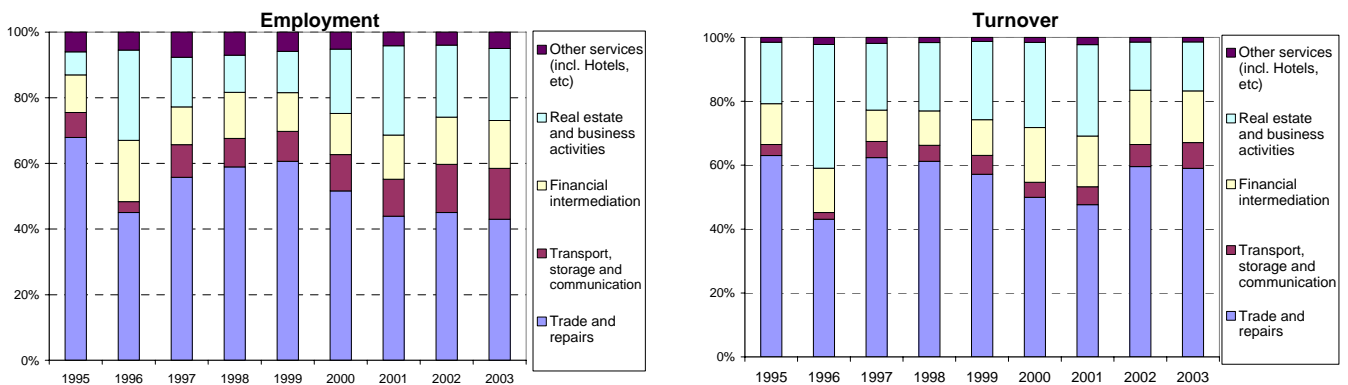
Graph 3 shows the breakdown of the services sector into the most important activity categories for employment as well as for turnover (as an aggregate of all countries for which such data was available in 2003). The aggregated figures show that *Trade and repairs* is the largest subcategory for services accounting for 43 % of the total services in employment and nearly two-thirds of turnover.

Other important industries are *Real estate*, *Financial intermediation* and *Transport, storage and*

*communication*. It is difficult to identify any further common features of the services sector and the role it plays in the outward FATS of the individual Member States since the figures vary considerably from country to country. For example, *Trade and repairs* covers 91% for the total services in Finland, while in Greece the proportion is just 11%.

## The importance of the real estate sector decreases over time

Graph 4. Time series of the breakdown of services sector in 1995-2003

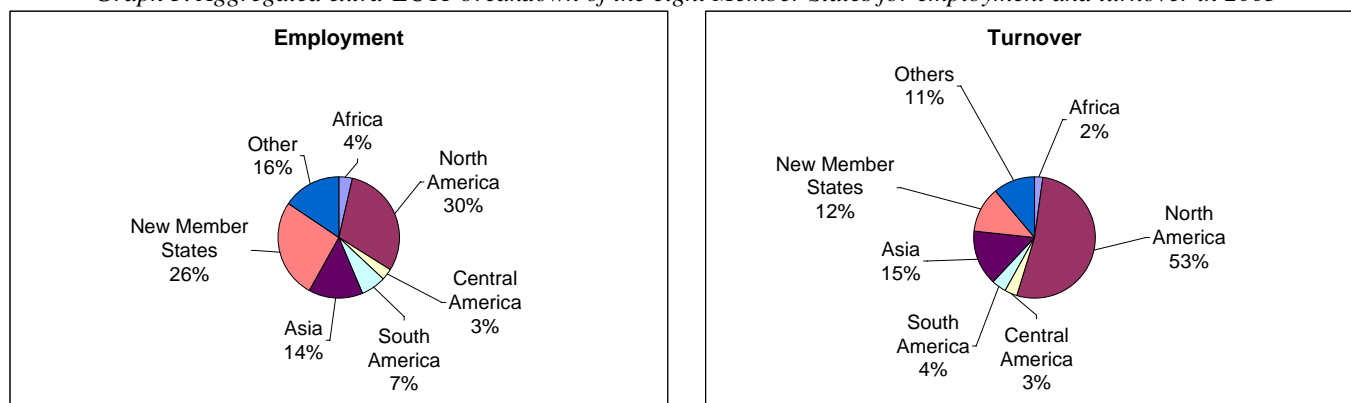


As for the development over time (Graph 4) *Real estate*, which is the second most important service industry for outward FATS, has decreased in importance especially in terms of turnover during the last two years. *Trade and repairs*, on the other hand, has maintained its leading position during the entire period between 1995 and 2003.

More precisely, while employment figures for *Trade and repairs* slightly decreased over time, the share in turnover has remained approximately at the same level, that is nearly 60 %.

## North America is the most important destination with respect to turnover and employment

Graph 5. Aggregated extra-EU15 breakdown of the eight Member States for employment and turnover in 2003

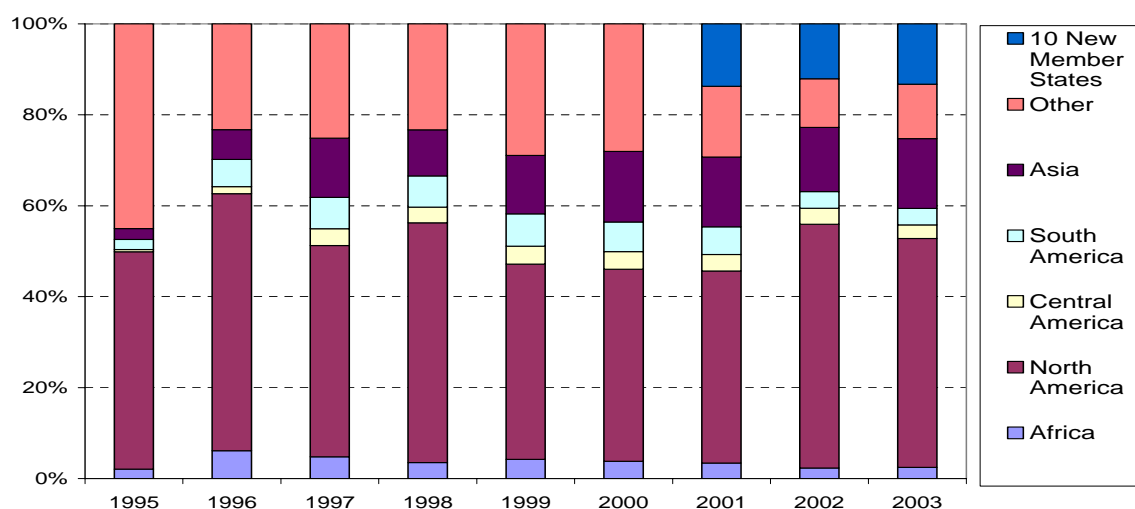


As previously mentioned, the majority of turnover and employment generated by foreign affiliates controlled by businesses headquartered in the eight Member States for which data was available occurred outside the EU15 territory. Graph 5 presents the geographical breakdown of the aggregated employment and turnover shares outside EU15 for these Member States. Both figures confirm findings that the most important recipient region outside the EU is North America and particularly United

States (accounting for more than 90 % of the North America figures). However, the size of the share of North America differs considerably in terms of turnover (53 %) and employment (30 %). Another interesting finding is the importance of the 10 New Member States in the employment figures. This region has the second largest share (26%), while in the turnover figures the share is just 12%. Another important region for affiliates outside EU15 is Asia accounting for approximately 15% in both figures.

## Growing importance of North America and Asia as destinations for European owned foreign affiliates

Graph 6. Regional breakdown of extra-EU15 outward FATS in 1995-2003 for turnover



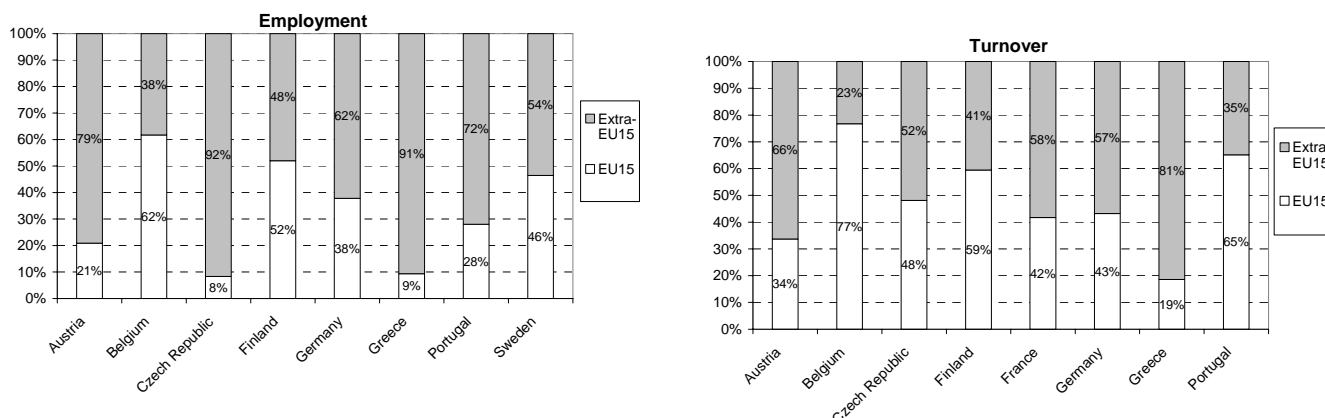
Graph 6 presents the time series of the breakdown of the foreign affiliates outside the EU by turnover<sup>7</sup>. For the employment figures there were not sufficient data for longer time series observation. For turnover, North America's share has fluctuated over time, but it remained clearly in front as the most important region, and

increased its share by over 50 % after a couple of weaker years at the turn of the century. This is fuelled in particular by German outward FATS in North America, and especially in the United States. Asia's share has increased compared to the reference year 1998. It should be noted that the group "10 New Member States" has only been singled out from the group "Others" from 2001 onwards.

<sup>7</sup> For the reference year 2002, Finland is excluded due to confidentiality issues.

## EXTRA-EU is of greater importance for EU foreign affiliates in terms of employment than in terms of turnover

Graph 7. Distribution of affiliates abroad by their area of establishment (%) in 2003



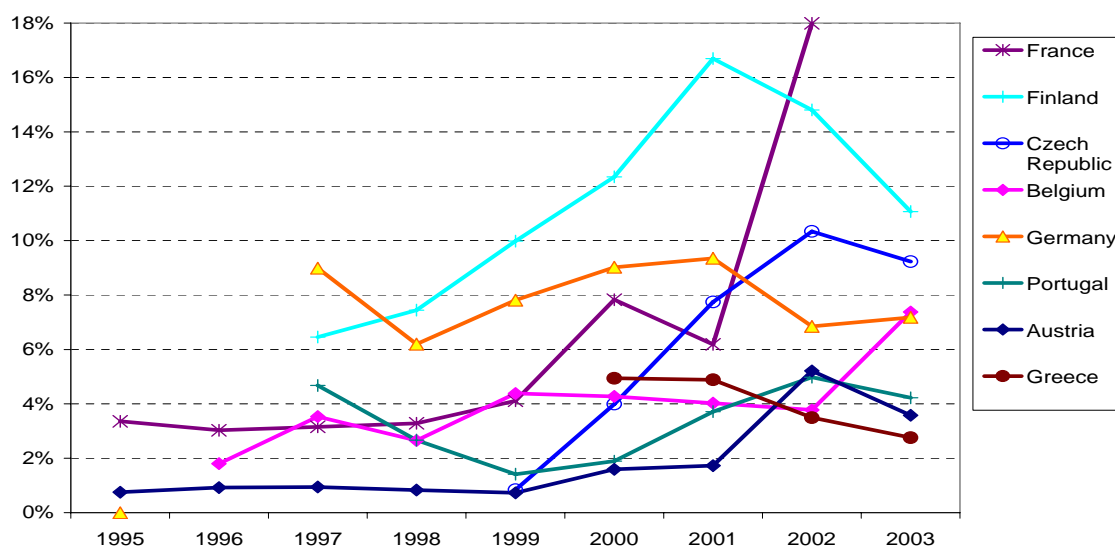
However, beyond the general aggregate picture of the geographical breakdown, there is no clear, one-size-fits-all pattern. Despite a general predominance of the extra EU-15 region, Graph 7 clearly shows the different geographical structures of the reporting countries and their affiliates abroad. The proportions of employment in EU15 range from 8% (the Czech Republic) to 62% (Belgium). For turnover, the shares vary from 19% (Greece) to 77% (Belgium). Nonetheless, one common feature appears to be that the share of extra-EU employment in total employment is larger than that of extra-EU turnover to total turnover for all Member States. More precisely there are only two countries (Belgium and Finland) for employment and three (Belgium, Finland and Portugal) for turnover, where in contrast to the overall picture, the activity of foreign affiliates focused more on the EU-15 area than extra-EU15 countries.

The diversity of the geographical spread of outward FATS by individual Member State is reflected further by the fact that within the extra-EU15 area, each Member State shows a rather unique country breakdown. For example, Portugal has relevant foreign affiliate activity in Latin America and (Lusophone) Africa. In the case of Austria and the Czech Republic, the 10 New Member States account for the largest shares, while for Finland, Germany, France (turnover) and Sweden (employment) the most important of foreign affiliates' employment and turnover outside the EU15 occurred in North America.

As for the changes over time, compared to the year 1998, most of the Member States (except Portugal) saw a slight increase in the extra-EU15 share of total turnover. For employment, most of the proportions have remained at the same level or have slightly increased. In particular, Finland (35% in 1998 compared to 53% in 2003) and Sweden (47% in 1997 vs. 54% in 2002) showed substantial growth outside the EU.

## The share of European affiliates in Asia increases but remains small

Graph 8. Time series of the turnover ratios (Asian affiliates compared to all other countries)



Finally, what role does Asia play as a host of outward FATS from the EU? The region's importance as a trade and investment partner for the EU is known to have increased substantially in recent years. For example, the foreign direct investment flows to Asia between 1995 and 2003 have more than tripled. Asia has grown in importance as a base for European businesses and their affiliates. However, in terms of absolute levels it is still of minor importance when compared to the significance the region has for US-based transnational companies and their affiliates. Graph 8 presents the time series of the turnover ratios of the Asian affiliates compared to all other affiliates in the world. In terms of turnover the figures illustrate that Asia's importance as a destination for outward affiliates from the EU is, generally speaking, growing. More specifically, although in most cases the figures oscillate over time there are a

few cases that show a clear linear upward trend. France shows clearly the largest growth (from 3% in 1998 to 18% in 2002). It should be noted that the level of the ratios for most countries is surprisingly low. Only in the case of Finland (11%) and France (18%) do the ratios exceed the 10 % level.

To put the EU Member States figures in a broader context, according to the USA data for outward FATS, the level of relative importance of Asia is around 30% in total USA sales of foreign affiliates and thereby much higher than for their European counterparts. In this context it should be stressed that, the United States have had a much longer and more detailed history of data collection for outward FATS starting already in the early 1980s. In the EU, many Member States have yet to start with the compilation of outward FATS statistics.

Table 1. Turnover and number of jobs of European affiliates abroad broken down by country of establishment in 2003

Compiling country Geographical partner	Portugal		Finland		Belgium		Austria		Czech Republic		Germany		Greece		France		Sweden		
	T	E	T	E	T	E	T	E	T	E	T	E	T	E	T	E	T	E	
<b>World</b>	10 561	25	112 930	325	78 384	252	59 636	335	2 491	12	1 147 547	3744	6 405	32	340 738	:	:	:	961
Switzerland	14	0	822	2	910	2	5 681	4	18	0	C	C	0	0	5 281	:	:	:	7
Norway	10	0	3 660	14	109	0	36	0	0	0	4 700	13	0	0	5 023	:	:	:	45
Bulgaria	0	0	0	0	208	1	838	6	11	0	771	15	264	7	37	:	:	:	0
Croatia	C	C	0	0	9	0	1 356	12	2	0	2 514	20	5	0	2 29	:	:	:	0
Romania	0	0	C	C	46	1	1 007	15	12	0	1 784	43	354	5	1 299	:	:	:	2
Russia	0	0	810	8	148	0	1 883	8	11	2	5 932	38	0	0	428	:	:	:	5
Turkey	0	0	C	0	1 079	3	23	0	0	0	5 890	36	11	0	2 015	:	:	:	1
<b>Africa</b>	543	9	258	2	895	15	96	1	0	0	14 134	79	2	0	7 742	:	:	:	18
North Africa	62	1	C	C	230	3	C	C	0	0	3 079	20	2	0	2 541	:	:	:	1
Other African countries	481	8	C	C	664	11	86	1	0	0	11 056	59	0	0	5 201	:	:	:	17
<b>America</b>	2 504	3	20 283	55	6 329	19	6 437	14	56	0	400 525	1 001	56	2	112 531	:	:	:	272
North America	275	1	17 776	47	5 097	13	5 453	11	55	0	357 185	740	34	2	99 171	:	:	:	224
Canada	9	0	1 547	6	502	1	385	1	4	0	28 347	56	0	0	7 234	:	:	:	15
United States of America	266	0	16 216	40	4 594	11	5 068	9	51	0	328 838	685	34	2	91 937	:	:	:	208
Central America	1 891	0	519	2	192	0	709	1	0	0	21 823	80	21	0	39 300	:	:	:	21
South America	338	2	1 988	6	1 040	5	274	2	1	0	21 517	181	0	0	9 430	:	:	:	27
Argentina	169	0	C	0	192	0	C	C	0	0	2 256	13	0	0	296	:	:	:	5
Brazil	155	2	1 785	5	494	3	193	2	1	0	16 105	144	0	0	8 249	:	:	:	15
Chile	C	C	96	1	82	0	C	C	0	0	822	6	0	0	298	:	:	:	1
<b>Asia</b>	428	5	11 252	32	5 384	25	2 060	6	211	2	76 892	356	172	6	51 955	:	:	:	61
Near and Middle East	0	0	85	0	257	0	32	0	0	0	2 335	9	96	6	840	:	:	:	1
China	0	0	5 853	18	279	2	710	2	7	1	9 597	92	0	0	1 213	:	:	:	17
Hong Kong	C	C	166	1	285	0	1 028	1	123	0	9 312	21	76	0	2 355	:	:	:	4
Indonesia	C	C	98	1	77	3	11	0	0	0	1 766	27	0	0	194	:	:	:	4
India	0	0	555	3	111	1	82	1	73	0	3 182	50	0	0	295	:	:	:	18
Japan	0	0	469	1	540	1	75	0	0	0	23 659	45	0	0	C	:	:	:	3
South Korea	0	0	C	1	3 151	11	45	0	0	0	6 440	15	0	0	743	:	:	:	2
Malaysia	C	C	136	1	44	0	C	C	0	0	3 677	33	0	0	246	:	:	:	2
Philippines	C	C	C	C	7	0	C	C	0	0	819	8	0	0	C	:	:	:	1
Singapore	C	C	777	2	189	1	54	0	0	0	11 501	24	0	0	2 216	:	:	:	1
Thailand	C	C	362	2	375	0	C	C	0	0	2 467	13	0	0	128	:	:	:	3
Taiwan	C	C	C	C	61	0	C	C	0	0	1 419	6	0	0	263	:	:	:	1
<b>Oceania and Polar regions</b>	25	0	845	4	657	6	641	2	0	0	15 047	37	0	0	2 277	:	:	:	13
<b>EU-15</b>	6 882	7	67 178	169	60 139	155	20 109	70	1 198	0	495 958	1 415	1 192	3	142 274	:	:	:	446
<b>Extra EU-15</b>	3 678	18	45 752	156	18 245	96	39 527	265	1 293	11	651 589	2 329	5 213	29	198 464	:	:	:	515
<b>Euro-zone</b>	6 037	7	37 789	86	48 377	126	17 494	63	1 128	0	365 300	1 064	847	2	108 984	:	:	:	337
<b>Extra-Euro-zone</b>	4 524	18	75 140	238	30 007	125	42 142	272	1 363	11	782 247	2 680	5 558	30	231 754	:	:	:	623
<b>Acceding Countries *</b>	C	C	7 419	36	2 441	16	18 753	185	966	7	8 553 2	584	3 838	2	9 554	:	:	:	72

E: Employment (thousands)

T: Turnover (Mio. EUR)

C denotes confidentiality

\* For this reference year Acceding Countries refers to the ten countries, which became Member States of the EU in 2004.

Note: Aggregates may not add due to rounding to the nearest whole number

Source: Eurostat

Source: Bureau of Economic Analysis database

## ➤ Essential information – Methodological notes

### Definitions and concepts

Foreign Affiliates Statistics (FATS) defines 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 the 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. The companies controlling foreign affiliates are generally referred to as transnational corporations (TNCs) with a commercial presence in at least two different countries. 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. The ownership 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. The indirect control should be considered when providing the data. If the indirectly controlled foreign affiliates are not considered, this can lead to huge under-estimation in the collection of the FATS data, since many enterprises might have indirect ownership links to foreign affiliates. To avoid double-counting, all Member States should apply an harmonised approach to indirect control.

A number of indicators can be compiled for the foreign affiliates as defined above: their turnover as well as the number of employees are the most frequently cited. Turnover contains the total market sales (millions of EUR) of goods and services supplied to third parties. Number of persons employed (thousands of persons) is the total number of persons who work in the observation unit, as well as 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. The latter indicator is measured as an annual average. In addition, the number of these affiliates in a particular host country, the value-added at factor costs, the fixed investment, personnel costs as well as indicators measuring the imports and exports of the affiliates can be compiled.

What is the purpose of compiling FATS statistics and those on outward FATS, in particular? FATS can offer key information on the

globalisation process, with a particular focus on the internationalisation of businesses. This issue is of considerable interest to policy makers, researchers and the general public. It can be useful for multiple purposes. It helps in understanding the globalisation of business. It also proves useful for many specific policy areas, such as in trade negotiations under the General Agreement on Trade in Services (GATS), where commercial presence through affiliates in foreign markets is a key subject.

### Current state of data collection by Eurostat

Outward FATS are collected on a voluntary basis by several European Union Member States and according to the provisions of the OECD Handbook on economic globalisation indicators and the Manual on Statistics of International Trade in Services. Other detailed classifications as well as the questionnaires and other descriptions can be found in the BoP Vademecum. Eurostat collects and harmonises FATS data. A database for outward FATS has been available on the Eurostat homepage since 28 July 2005. The Eurostat database is called New Cronos and it offers free-of-charge access for all users since 1 October 2004.

Eurostat is currently pursuing the adoption of a regulation that would establish a common framework for a systematic production of community statistics on the structure and activity of foreign affiliates. This would improve considerably the coverage and comparability of FATS data within the EU. It should be stressed that the methodology might differ in the different participating countries and that several Member States could not provide all the requested data. Moreover, due to the cross-classification of activity and the list of geographical partners many cells are confidential and hence not available. Only non-confidential data are published.

As this article has shown the availability of outward FATS data for EU is still very patchy and still has a long way to go to live up to users' needs. A first step in the direction towards a more comprehensive data compilation of inward and outward FATS data for the EU has been taken with the presentation of a draft EU-regulation by the European Commission in 2005. This regulation foresees the mandatory data compilation for inward and outward FATS. It is currently being discussed by the European Council and the European Parliament. Once adopted, it is envisaged to start data compilation from the reference year 2006.

## Further information:

Data: [EUROSTAT Website/Home page/Economy and finance/Data](#)

### Economy and finance

-  Main economic indicators
-  National accounts (including GDP)
-  Government statistics
-  Financial accounts
-  Exchange rates and interest rates
-  Monetary and other financial statistics
-  Prices
-  **Balance of payments - International transactions**
  -  **Balance of payments statistics**
  -  **International trade in services, geographical breakdown**
  -  **European Union direct investments**
  -  **Balance of payments of the EU institutions**
  -  **European Union Foreign Affiliates Statistics (Outward FATS)**

---

### Journalists can contact the media support service:

Bech Building Office A4/125  
L - 2920 Luxembourg  
Tel. (352) 4301 33408  
Fax (352) 4301 35349  
E-mail: [eurostat-mediasupport@ec.europa.eu](mailto:eurostat-mediasupport@ec.europa.eu)

### European Statistical Data Support:

Eurostat set up with the members of the 'European statistical system' a network of support centres, which will exist in nearly all Member States as well as in some EFTA countries.

Their mission is to provide help and guidance to Internet users of European statistical data.

Contact details for this support network can be found on our Internet site: <http://ec.europa.eu.int/eurostat/>

---

A list of worldwide sales outlets is available at the:

### Office for Official Publications of the European Communities.

2, rue Mercier  
L - 2985 Luxembourg  
URL: <http://publications.europa.eu>  
E-mail: [info-info-opoce@ec.europa.eu](mailto:info-info-opoce@ec.europa.eu)

---

Important inputs to this SIF were prepared by Gita VERGINA.