

# **Foreign Affiliate Trade Statistics of Spanish Companies abroad (OUTWARD FATS)**

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## **Methodology**

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# Foreign Affiliate Trade Statistics of Spanish Companies abroad (OUTWARD FATS)

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## 1. Objectives and need for the operation

The main aim we aim to achieve with this statistical operation is providing specific, reliable and appropriate information on the main characteristics which determine the structure and activity of affiliates of Spanish companies which operate abroad, both in the industrial, construction and non-financial services sectors.

To assess the impact and the role played by companies under Spanish control in the global economy, it is essential to have quality periodic statistics which provide information on the structure and activity of affiliates of Spanish companies abroad.

Although during the gradual integration process of the different domestic economies resulting from the process of economic globalisation, multinational corporations perform and will continue to perform a fundamental role in the future, small and medium-sized companies will also be, to a certain extent, affected by foreign control, and it is therefore necessary to glean in-depth knowledge on this phenomenon, and study it, in order to delimit, precisely, the importance thereof, in each subpopulation of companies. Conversely, when preparing economic policies aimed at topics such as competitiveness, jobs, corporate policies or research, it is appropriate to have statistical information on foreign affiliate companies with the purpose of assessing the effects directly or indirectly exerted on jobs, wages or productivity in certain countries and sectors.

In this sense, and for the purpose of responding adequately to the growing demand for statistical data on the phenomenon of affiliate companies, European Union scope Regulation (EC) no. 716/2007 of the European Parliament and Council, of 20 June 2007, was passed, regarding community statistics on the structure and activity of foreign affiliates (FATS). This regulation sets out a common framework of action to perform statistical research within the scope of EU countries on affiliate companies, and also sets the main characteristics to bear in mind from the point of view of variables to analyse and geographical breakdown or by activity branch requested, as regards the necessary measures to guarantee the quality of the data obtained.

The FATS regulation has two different annexes, which deal with the study of the affiliates, from complementary perspectives: Inward FATS and Outward FATS. Each of these has different aims, scope of application, variables and reference periods. Inward FATS is focused on the study of the affiliates of foreign companies within each country, and Outward FATS studies the affiliates of national companies abroad.

The Statistics of Affiliates of Spanish companies abroad (OUTWARD FATS) has been designed with the aim of responding, within the scope of the industrial, construction and non-financial services sectors, to the demand requested in the Outward annex of the FATS regulation, that is, the investigation of affiliates of Spanish companies abroad.

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## 2 Methodological framework: Source of administrative information

The INE, aware for some time of the importance of having indicators on affiliates of Spanish companies abroad, has performed during the years prior to the entering into force of the aforementioned European regulation, various pilot studies or surveys on affiliates abroad, which have helped to specify concepts, perfect processes, assess methodologies and highlight possible limitations associated with an investigation of these characteristics.

During the process of methodological implementation of this statistic, other alternatives to data collection have also been assessed by means of specific surveys aimed at reducing wherever possible the administrative burden and response from informant units. The complexity and details of the information requested in this kind of survey and the consequent load increase entailed for companies involved in its preparation, has made it advisable to also investigate methodological formulae based on the use of administrative registers which enable obtaining the necessary information to prepare the results required in European regulations without this increasing the response load of informant units. We have to stress that the reduction in statistical load is a strategic aim of the INE and that, within this line of action, one of the theoretical principles to consider when setting up and carrying out new statistical projects, is encouraging the use of administrative data and giving them priority in relation to collection in the field, as long as we have for this a reliable and suitable administrative source from which we can adequately meet the aims of the investigation.

Consequently, with this consideration and in parallel to pilot studies, the INE explored the possibility of obtaining the necessary information to obtain the results of this statistic from the Registry of Foreign Investments from the Ministry of Economy and Competitivity (MINECO).

This register is formed from the declarations forms that the General Directorate for Trade and Investments and more specifically, the Subdirector General for International Trade of Services and Investments, compiles on foreign investment of Spanish companies and Spanish investment in foreign companies both regarding movements and position (stock).

Specifically, in the case of stock of Spanish investment in foreign companies, Spanish resident investors who make investments in foreign companies whose net patrimony is greater than 1,502,530.27 euros (or its equivalent in the currency in which the balance sheet is expressed) and in which the participation of the investor in the capital or total rights to vote is equal or greater than 10%, have to present an annual report regarding the development of investment abroad during the first nine months of each natural year (form D-8). This report will also be presented for investments in foreign companies whose activity is holding participations in capital from other companies regardless of the amount invested. The owners of branches abroad will also present an annual report regardless of the amount invested.

The report contains information obtained on companies participated in by the investor, in addition to companies participated in turn by these. Finally, we attain the third level of the affiliate participation chain although for the latter we collate less information details.

The Registry of Foreign Investments covers transactions on position in direct foreign investment in Spain and direct Spanish investment abroad, annually, and which

appear in the national statistical plan (NSP), and also quarterly and twice yearly disseminated transactions on direct foreign investment in Spain and direct Spanish investment abroad, also present in the NSP.

In addition, statistics on Spanish investments in foreign negotiable shares and foreign investment in Spanish negotiable shares, both movements and stock position, are also obtained from the foreign investments registry.

During meetings held between managers of both institutions (MINECO and INE) possible methodological alternatives, procedures to implement and legal aspects derived from temporary transfer of corresponding files were also discussed.

The subsequent analysis of the information provided by this registry and the comparative studies performed with the pilot surveys stress the quality and wealth of the information as well as the essential role this could play as a source of primary data to comply with OUTWARD FATS aims.

Finally, following the assessment of the different advantages and limitations associated with each one of the procedures we opted to use this administrative source as the most effective method to achieve the aims of this investigation.

Nonetheless, we have to specify that while the data derived from the aforementioned Registry of Investments have to be considered as the primary fundamental basis to generate information, their data have been complemented with information from the European Registry of Groups. (\*) regarding obtaining definitive results from research.

It should be considered that the coverage of affiliates derived from the Registry of Investments is not complete as regards the population of affiliates as, in accordance with current regulations, companies are not obliged to declare in the corresponding administrative forms investments made in companies whose patrimony is less than 1,502,530.27 euros. Nor do they collate the results of affiliates as of the third level of the participation chain. Consequently, it has been necessary to perform an additional estimate process which considered the activity of these affiliates and as of which, by means of the appropriate adjustment process, the definitive results of the statistic can be derived.

To conclude, the design established for the OUTWARD FATS statistic with primary information generated from data from the Registry of Foreign Investments of the Ministry of Economy and Competitiveness enables accounting for the reduction in statistical load of companies complying with European regulatory requirements and the dissemination on a national level of the principal results on Spanish affiliates abroad.

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### **3. Research scope**

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#### **POPULATION SCOPE**

The population under study for this statistic is comprised of companies resident outside Spain which are affiliates of Spanish parent companies and whose main activity is included in sections B to E (industry), F (construction) and G to S, except O

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(\*)Statistical source prepared by Eurostat with information on the groups of companies from private databases and units responsible for registries of companies in the statistics institutes of different member states as well as EFTA member states.

(non-financial market services) of the National Classification of Economic Activities (CNAE-09).

We understand affiliate to be a company outside Spain controlled by a Spanish company. In accordance with the Manual of Recommendations regarding "Foreign Affiliates Statistics (FATS)", compiled by the Statistical Office of the European Union (Eurostat), in partnership with the different Member States, control is understood to be the ability to determine the general policy of a company, by means of the designation, as necessary, of the appropriate directors. In this sense, company A is considered to be controlled by institutional unit B, when B directly or indirectly controls more than half of the shareholders' vote, or more than half of the shares, of company A. At times, control may be exercised via effective minority control, without holding more than half of the shares or votes, if for example, the percentage, while lower than 50%, is higher than that of any other owner. Control may also be exercised by a Government, by means of a decree or regulation that grants it the ability to determine the policy of the company or the election of directors. Indirect control refers to when this is exercised, not directly, but by means of another affiliate over which the unit has control. That is, if company A controls another company B, and the latter, in turn, controls a third company C, we may deduce that company A indirectly controls company C.

The list of activities (sections) of the CNAE09 which constitute the population scope of the units studied by this statistic is the following:

- B Extractive industries
- C Manufacturing industry
- D Supply of electricity, gas, steam and air conditioning
- E Water supply, sewage, waste management and remediation activities
- F Construction
- G Wholesale and retail trade; repair of motor vehicles and motorcycles
- H Transport and storage
- I Accommodation
- J Information and communications
- L Real estate activities
- M Professional, scientific and technical activities
- N Administrative and support services activities
- P Education
- Q Health and social services activities
- R Arts, recreation and entertainment activities
- S Other services

As for the population of informant units, in accordance with the methodology set out by Eurostat and covered in the manual of recommendations, member states should apply the owner's criteria (UCI.- Ultimate controlling Institutional unit).

The ultimate owner of an affiliate is the institutional unit or company that, proceeding hierarchically upwards along the chain of control of said affiliate, exercises control

over itself, not being controlled, in turn, by any other unit. Therefore, each country should provide the results of the affiliates abroad, whose parent company or ultimate owner is resident in their territory.

Therefore, in our case, only results of affiliates abroad of parent companies ultimately owned by Spaniards are included in this statistic.

This approach aims to homogenise results on a European level, thereby avoiding gaps or duplicate information between the different member states.

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## GEOGRAPHICAL SCOPE

From the geographical point of view, the statistic refers to resident affiliates outside Spain both inside and outside the European Union.

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## TIME FRAME

The statistic is annual and the economic data obtained are also annual and refer to the corresponding reference year.

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## 4. Statistical units

The basic analysis unit is the company or branch under Spanish control.

A company is considered to be all legal entities that constitute an organisational unit that produces goods and services, and that enjoys a certain autonomy in decision-making, mainly at the time of using the available current resources.

We understand branch to be the local unit with own legal identity controlled by a Spanish unit.

We consider statistical units from the survey of affiliate companies or branches of Spanish companies, located outside Spain and whose principal economic activity is included, in accordance with the CNAE-09, in some of the sectors investigated (industry, construction, trade and remaining non-financial market services)

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## 5. Classification and study variables

The following lists the classification variables used in the breakdown of the data offered in this survey.

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### Economic activity

The economic activity carried out by a company is defined as the creation of added value through the production of goods and services.

Statistical units often perform several activities which may be classified into different classes of the National Classification of Economic Activities. In general, the activities performed by an economic unit may be one of three types: main, secondary and auxiliary activities. The main activity is differentiated from the secondary, as it is this

activity which generates the greatest added value. In turn, auxiliary activities are those which generate services not sold on the market and which only serve the unit on which they depend (administration department, transport or storage services).

Affiliate companies are classified based on their principal activity, that is, the one which provides the most added value. Nevertheless, faced with sometimes difficult task for companies of calculating or estimating this variable, if such information is not available, the main activity shall be considered that which generates the greatest production value, or failing this, that which requires the greatest number of employees.

From the perspective of the dissemination of results, two different breakdown levels are established for the activity of the affiliate companies:

- Classification of the affiliate companies according to the aggregate activity sector.

Four major sectors are considered:

Industry

Construction

Trade

Market

Given the importance and the specific characteristics of the trade sector, it has been considered convenient, for the purposes of the dissemination of the results of this survey, to grant this sector its own entity, and to consider it, from an analytical viewpoint, as a sector that is differentiated from the rest of the non-financial market services, which remain, in turn, encompassed within the generic concept of services.

- Classification of the affiliate companies, according to the broken down branch of activity.

The different branches of activity considered within each sector are the following:

#### *Industry*

Extractive industries (CNAE 05-09)

Manufacturing industry (CNAE 10-33)

Supply of electricity, gas, steam and air conditioning (CNAE 35)

Supply of water, sewage activities, management of waste and decontamination (CNAE 36-39)

#### *Construction*

Construction of buildings (CNAE 41)

Civil engineering (CNAE 42)

Specialised construction activities (CNAE 43)

#### *Trade*

Sale and repair of motor vehicles and motorcycles and retail trade (CNAE 46,47)

Retail trade, except motor vehicles and motorcycles (CNAE 47)

### Market

Transport and storing (CNAE 49-53)

Accommodation (CNAE 55, 56)

Information and Communication (CNAE 58-63)

Real estate activities (CNAE 68)

Professional, scientific and technical activities (CNAE 69-75)

Administrative and support service activities (CNAE 77-82)

Other services activities (CNAE 85-88,90-96)

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### COMPANY SIZE

The dimension or size of the companies is one of the most significant variables at the time of studying their behaviour, and analysing the results of a given research. The dimension of a company may be established in terms of different variables (turnover, production value, employment, etc.). For this statistic we have opted to consider the average number of employees as the reference variable to determine the size of the companies.

For the purposes of the dissemination of the results, two different breakdown levels are established for the company size variable:

- Classification of the affiliate companies, according to aggregate size:

Microcompany	0 - 9 employees
Small	10 - 49 employees
Medium-sized	50 - 249 employees
Large	250 or more employees

- Classification of the affiliate companies, according to the broken down size bracket:

Fewer than 10 employed persons
10 to 19 employed persons
20 to 49 employed persons
50 to 99 employed persons
100 to 249 employed persons
250 to 499 employed persons
500 to 999 employed persons
1000 or more employed persons

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### GEOGRAPHICAL COUNTRY OR AREA OF THE FOREIGN AFFILIATE

The results tables also provide information on the principal variables by geographical

area of residence of the affiliate abroad. In certain cases, and depending on their importance, the information offered is presented broken down by the affiliate's country of residence.

For the purposes of the dissemination of the results, two different breakdown levels are established for the geographical area of the company variable:

- Classification of the affiliate companies, according to aggregate geographical area:

- EUROZONE

- Rest of the European Union

- The rest of Europe

- America

- The rest of the world

- Classification of affiliate companies according to the affiliate's country of residence:

- Total Europe

- Total European Union

- Total Eurozone

- Germany

- Austria

- Belgium

- France

- Italy

- Netherlands

- Portugal

- Rest of Eurozone

- Poland

- The United Kingdom

- The Czech Republic

- Romania

- Rest of the European Union

- Switzerland

- The rest of Europe

- Total America

- Argentina

- Brazil

- Chile

Colombia  
United States  
Mexico  
Peru  
Venezuela  
Rest of America  
Total Asia  
China  
Rest of Asia  
Total Africa and Oceania

Regarding the study variables, information is collected on the number of affiliate companies in addition to turnover and employees.

With the purpose of helping to better understand and interpret the results presented in the tables, the definitions of the main variables are included below:

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#### NUMBER OF AFFILIATES/AFFILIATES

We account for the number of units considered affiliate companies or branches of Spanish companies abroad, whose main economic activity is included, in accordance with CNAE-09, in some of the sectors investigated (industry, construction, trade and remaining non-financial market services).

Only those units which have generated a turnover or jobs during the reference period are considered. Inactive units, be they temporary or definitive, are not accounted for. They only include active units for at least one portion of the reference period.

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#### TURNOVER

Turnover comprises all amounts invoiced by the observation unit during the reference period, which corresponds to the commercial sales of goods and services supplied to third parties.

The assessment of turnover considers all the taxes on goods and services invoiced by the unit with the exception of VAT invoiced by the unit to its customers or other similar deductible taxes collected in stages but fully levied on the end user. It also includes other costs (transport, packaging, etc.) paid by the client, even if they are specified separately in the purchase invoice. However, possible reductions, sales and price discounts, as well as the value of returned packages, must be deducted from the total amount.

Not included in turnover are subsidies, other operating expenditure, nor financial, extraordinary revenue or others which affect the result for the year.

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## EMPLOYEES

Employed persons are understood to be the group of permanent and temporary employed persons who, during the reference year of the data, were carrying out paid or unpaid work for the company, and belonging to and being paid by said company.

We include people with sick leave, remunerated holidays, occasional unpaid sick leave, people on strike, etc. in addition to part time workers considered as such according to the laws of the country at issue and which appear on the company's payroll, in addition to seasonal workers, apprentices or people who work at home, but who are included on the company's payroll.

They also include owners who work regularly in the unit, in addition to family assistants who also work regularly in the unit.

Excluded however, is labour made available by the company by other companies agencies and remunerated by the latter; persons who are carrying out maintenance or repair work in some of the company premises or establishments and being paid by other companies; as well as persons on sabbatical, unlimited leave or retired.

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## 6. Data processing

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### OBTAINING OF INFORMATION

The results of the Foreign Affiliates Trade Statistic affiliates (OUTWARD FATS) are prepared based on administrative information from the Registry of Foreign Investments and, more specifically, the transaction Direct Spanish Investment abroad (Position)

This transaction performed by MINECO compiles information on investments in their affiliates, "holdings" and foreign companies whose net equity is greater than 1,502,530.27 euros and in which the participation of the Spanish investor is equal or greater than 10%. The form for questionnaire D-8, included within the forms for declarations of foreign investments, covers both turnover and number of employees, in addition to the variables principal activity and country of residence of companies up until the second level of the participation chain.

From basic information provided by this source we perform processing and filtering of data with the aim of adapting this information to the population scope of OUTWARD FATS, both regarding the population under study and the informant population. The population under OUTWARDS FATS study is a subset of the IED as only those companies or branches in which the Spanish investor has a majority participation (that is, affiliates) form part of this. Conversely, to adapt to recommendations included in the recommendations manual regarding the informant population, those affiliates whose ultimate owner is not Spanish, have to be excluded.

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### ESTIMATE OF RESULTS

With the purpose of completing the coverage of OUTWARD FATS and guaranteeing more adaptability to the reality of its results, and given that the basic information does not fully cover the population scope set out in European regulations as a consequence of the threshold set by net wealth and absence of available information as of level 3 of

the chain for participation in affiliates, we perform an additional adjustment procedure which improves IED initial data and enables generating some overall results more adapted to the entire population under study.

For this we performed a post-stratification of the total population taking as a reference the variables size and country of residence of the affiliate. To perform this adjustment procedure, we have opted to use the European Groups Register (EGR) as an additional information source.

This is a statistical source prepared on a European level with the collaboration of member states, directly related to OUTWARD FATS in which its usefulness when attaining the highest degree of convergence possible between statistical sources is also assessed. To create this, Eurostat compiles information on the group of companies from private databases and units responsible for corporate records in statistical institutes from the different member states in addition to EFTA member states. Following a process of consolidation and validation, the registry contains the overall structure of companies present in Europe including their affiliates in the rest of the world.

The EGR is updated each year and it is foreseen that its coverage and quality will increase as its development and implementation move forward.

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## **7. Dissemination and results tables**

The results of the statistic on affiliates of Spanish companies abroad (OUTWARD FATS) are disseminated broken down according to different classification variables relating to geographical location of the affiliates abroad, their principal activity and their size (in terms of number of employees). The breakdowns used for each one of these variables are listed in section 5 of this methodology.

The study variables are the number of affiliates, employed personnel and turnover, whose definitions are also collated in section 5 of this methodology.

The table of results on which information is offered is the following:

Table 1.- Principal variables by country

Table 2.- Main variables by branch of activity

Table 3.- Main variables by size bracket (employed persons)

Table 4.- Principal variables by geographic area and activity sector

Table 5.- Principal variables by geographic area and size

Table 6.- Principal variables by activity sector and size