



Foreign Affiliates in the Services Sector Statistics

Inward F.A.T.S.

(Foreign Affiliates Statistics)

Index

Inward F.A.T.S: Statistics on affiliates of foreign companies in the services sector in Spain

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Inward F.A.T.S: Statistics on affiliates of foreign companies in Spain. Services Sector

1. Background

The main objective of the F.A.T.S. statistical operation is to provide regular and quality indicators regarding the structure and activity of foreign affiliates, both affiliates of foreign companies resident in Spain (Inward F.A.T.S.), and affiliates of Spanish companies abroad (Outward F.A.T.S.). These operations are meant to fulfil Regulation (EC) No. 716/2007 of the European Parliament and Council, of 20 June 2007, regarding community statistics on the structure and activity of foreign affiliates.

The objective of said Regulation is to have quality, periodical statistics available on the structure and activity of foreign affiliates in the global economy, which will also facilitate the monitoring of the efficacy of the domestic market and the progressive integration of the economies in the context of globalisation. Likewise, in the case of the Services Sector, it will allow for measuring mode 3 (trade presence) of International Services Trade, which is produced when the service is provided in the country by an affiliate, branch or representation office of a company under foreign ownership and control.

The Regulation contains two differentiated annexes, Inward F.A.T.S. and Outward F.A.T.S., each of which has different objectives, scope of application, variables and reference periods.

In the case of the Inward F.A.T.S. statistics, the development of this Annex of the Regulation has been closely linked to the Regulation of SBS as per the variables, coverage and terms and, therefore, the operations to obtain the information are linked to the already existing operations relating to said Regulation.

The Inward F.A.T.S. operation for sections G, H, I and K has been carried out in the Subdirectorato-General for Services Statistics in recent years as a pilot study within the framework of the Annual Services Survey, which is the statistical operation that fulfils the SBS Regulation in the Services area.

The Statistics on affiliates of foreign companies in the Services Sector study the population comprised of the foreign affiliate companies whose main activity is described in sections G (Trade), H (Accommodation), I (Transport and Communications) and K (Real Estate, Rentals and Services provided to companies) of the National Classification of Economic Activities (NACE-93).

2. Objectives and need for the operation

The statistics on foreign affiliates allow for obtaining comparable, complete and reliable statistics on foreign affiliates. These indicators will be of great importance for the development of economic policy, productivity and employment, as they will serve to measure the direct and indirect effects of foreign control on employment, wages and productivity.

The INE, aware of the importance of obtaining indicators on the affiliates of foreign companies resident in Spain, has carried out the pilot Inward F.A.T.S. studies. In particular, for the sections G, H, I and K belonging to the Services Sector, since the year 1996, this study has been carried out within the framework of the Annual Services Survey, using both the sample and the questionnaire of said survey.

Beginning in 2005, improvements were introduced, creating a sample design for the Inward F.A.T.S. survey itself, although both the sample and the questionnaire remain integrated within those of the Annual Services Survey.

The Regulation regarding statistics of foreign affiliates, approved in June 2007, entered into force in the year 2007, and this will be the first compulsory reference year for said statistics.

3. Technical characteristics

Scope

The scope is defined in terms of the population studied, time and space.

Population scope

The study target population is comprised of the companies resident in Spain that are affiliates or branches under foreign control, whose main activity is described in sections G, H, I, J and K of NACE-93.

In the Recommendations Manual of F.A.T.S., compiled by Eurostat along with the Member States, "control" is defined as the ability to determine the general policy of a company through the designation, as necessary, of the appropriate directors. 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.

"Indirect control" refers to when this is exercised through another affiliate over which the unit has control. That is, if A controls B, and B controls C, then A indirectly controls C.

At times, the control may be exercised via effective minority control, without possessing more than half of the shares of the votes, if for example, the percentage, though lower than 50%, is higher than that of any other owner.

The control may also be exercised by a Government through a decree or regulation that grants it the ability to determine the policy of the company or the election of directors.

Geographical scope

All statistical units under foreign control, located within the territory of the Spanish State, constitute the object of study.

Time scope

The first compulsory reference year, according to the Regulation, is the year 2007, and the survey is to be conducted annually.

Statistical unit

The basis statistical unit of analysis is the company or branch under foreign control.

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

A branch is considered to be the local unit, without its own legal identity, which depends on a company under foreign control.

Classification variables

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.

Each of the statistical units studied frequently carries out several activities that should be classified in separate classes of the National Classification of Economic Activities. In general, activities developed by an economic unit may be of three types: main, secondary and auxiliary activities. The main activity is differentiated from the secondary as it is the activity which generates the greatest added value; in turn, auxiliary activities are those which generate services that are not sold on the market and which only serve the unit on which they depend (administration department, transport or storage services).

Faced with the difficulty implied in the companies calculating added value when they carry out several activities, the company is offered the possibility of considering as its main activity that which generates the greatest business volume, or in its absence, that which employs the largest number of persons. This information is subsequently contrasted to determine the main activity of the company.

COMPANY SIZE

The size of the companies is one of the most important variables at the time of determining its behaviour. This dimension may be established in terms of the magnitude of the turnover or the production value, or by considering the number of persons who comprise the company personnel. This survey has chosen to consider this latter option to determine the size of the companies, although it also considers turnover, on exhaustively surveying all companies with an important turnover, regardless of the number of wage earners they employ.

GEOGRAPHICAL VARIABLES

The geographical variable used is the country in which the final owner company of the foreign affiliate resident in Spain is located.

The final owner of a foreign affiliate is considered to be the institutional unit located at the highest point of the chain of command of said affiliate and which is not controlled by any other institutional unit.

Target study variables

The Regulation on foreign affiliates statistics includes a series of compulsory variables in the case of the Inward F.A.T.S. statistics, which are:

- Number of companies
- Turnover
- Production value
- Added value at factor cost
- Total purchases of goods and services
- Purchases of goods and services for resale
- Personnel costs
- Gross investment in material goods
- Number of employed persons
- Total internal expenditure on R&D (only compulsory for sections C to E)
- Total persons employed in R&D (only compulsory for sections C to E)

Likewise, this includes a series of variables that are not compulsory, but which will be studied as pilot studies, which are:

- Exports of goods
- Exports of services
- Imports of goods
- Imports of services
- Exports of intra-group goods
- Exports of intra-group services
- Imports of intra-group goods
- Imports of intra-group services

- Total internal expenditure on R&D (for sections G, H, I, K, M, N and O)
- Total persons employed in R&D (for sections G, H, I, K, M, N and O)

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Also included as pilot projects are:

- The study of sections M, N and O
- The breakdown by company size

The main variables are defined as follows:

NUMBER OF COMPANIES

This is the result of counting the number of companies recorded in the register of companies, corrected for errors, in particular, framework errors.

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.

Turnover includes the fees and taxes on the goods and services invoiced by the unit, with the exception of the value added tax (VAT) invoiced by the unit to its clients, and other similar deductible taxes directly linked to turnover. It also includes the remaining expenses (transport, packaging, etc.) paid to the client, even if these expenses appear separately in the invoice. Reductions, sales and price discounts, as well as the value of returned packages, must be deducted.

The income classified in the business accounting as: other operating costs, financial income and extraordinary income, are excluded from turnover. Operating subsidies from the public authorities or from European Union institutions are also excluded.

PRODUCTION VALUE

The production value measures the amount actually produced by the unit, based on sales and including the variations in stock and the resale of goods and services.

The production value is defined as turnover, plus or minus the variations of the stocks of finished and semi-finished products and on the goods and services purchased for resale, minus the purchases of goods and services for resale, plus the capitalised production, plus the other operating income (excluding subsidies). The income and expenditure classified as financial or extraordinary in the company accounting are excluded from the production value. Included in the purchases of goods and services for resale are the purchases of services to provide them to third parties under the same conditions.

ADDED VALUE AT FACTOR COST

The value added to factor costs is the gross income from operating activities after adjusting for the effect of the operating subsidies and indirect taxes.

This value may be calculated from turnover, plus the capitalised production, plus other operating income, plus or minus the variations in stocks, minus the purchases of goods and services, minus other taxes on the products linked to turnover but not deductible, minus the fees and taxes linked to production. Alternatively, it may be calculated from the gross operating surplus, plus personnel costs.

Income and expenditure classified as financial or extraordinary in the company accounting are excluded from added value.

The value added to factor costs is calculated as "gross" as value adjustments (such as amortisation) are not extracted.

TOTAL SALES OF GOODS AND SERVICES

The total purchases of goods and services include the value of all of the goods and services purchased during the accounting period for resale and consumption in the production process, and exclude capital goods whose consumption is registered as fixed capital consumption. The goods and services in question may be resold with or without ulterior transformation, be used completely in the production process or be stored.

Included in these purchases are the materials that are directly incorporated into the goods produced (raw materials, intermediate products, components), plus the small tools and non-capitalised capital goods. Also included is the value of the complementary materials (lubricants, water, packages, maintenance and repair materials, office material), as well as energy products. This variable also includes the purchases of materials made for the production of capital goods by the unit.

The services paid during the reference period are also included, regardless of whether they are industrial or not. Within this figure are the payments of all types of work carried out by third parties for the unit, including repairs and current maintenance, installation work and technical studies. This excludes the amounts paid for the installation of capital goods and the value of the capitalised goods.

This includes the payments made for non-industrial services, such as legal and accounting fees, patents and licences (when not capitalised), insurance payments, costs of shareholders' and government body meetings, contributions to business and professional associations, expenditure on post, telephone, electronic mail, telegraph and fax, goods and personnel transport services, advertising costs, commissions (when they are not included in the wages and salaries), rentals, banking expenses (excluding interest payments) and all of the remaining commercial services provided by third parties. This includes the services that the unit transforms and capitalises as capitalised production.

The expenditure classified as financial or extraordinary expenditure in the company

accounting is excluded from the total purchases of goods and services.

The total purchases of goods and services are valued at their purchase price, excluding deductible VAT and other deductible taxes that are directly linked to turnover.

The remaining taxes and fees on products are therefore not deducted from the valuation of the purchases of goods and services. The treatment of taxes on production is not pertinent in the valuation of these purchases.

SALE OF GOODS AND SERVICES FOR RESALE

Purchases for resale are purchases of goods from third parties for their resale with any transformation.

They also include the purchases of services by services companies "that invoice", that is, those whose turnover is integrated not only of the agency fees charged in a service transaction (as is the case of real estate agents), but also of the actual value of the service transaction, for example, transport purchases made by travel agencies. The value of the goods and services sold to third parties on commission is excluded, given that the agent who receives the commission neither purchases nor sells the goods.

When reference is made here to services for resale, this is understood to be the production of services activities, the rights to the use of certain predetermined services and the physical supports for services. The purchases of goods and services for their resale under the same conditions in which they were received are valued at the purchase price, with the exception of deductible VAT and the remaining deductible taxes that are directly linked to turnover. Therefore, all of the remaining taxes and fees on products are not deducted from the valuation of the purchases of goods and services.

The treatment of taxes on production is not pertinent in the valuation of these purchases.

PERSONNEL COSTS

Personnel costs are defined as the total remuneration, in cash and in kind, that an employer must pay an employee (permanent and temporary employees, as well as domestic workers), in exchange for the work carried out by the latter during the reference period. Personnel costs also included the taxes and social security contributions of the employees withheld by the unit, in addition to the obligatory and voluntary social security contributions of the employer.

Personnel costs are comprised of:

- wages and salaries,
- employer social security costs.

All remuneration paid during the reference period is included, regardless of whether it is paid by working day, production or piecework, or whether it is paid periodically or not. This includes all tips, productivity and performance bonuses, payments, extraordinary payments (and the like), compensation for dismissal, accommodation, transport, living expenses and family subsidies, commissions, attendance bonuses, overtime, night work, etc., as well as taxes, social security contributions and the remaining amounts indebted by the employees and withheld by the employers.

This also includes employer social security costs. These include employer social security contributions aimed at covering retirement, illness, maternity, disability, unemployment, work-related accidents and illnesses, family subsidies and other contingencies. These costs are included, regardless of whether they are statutory, object of a collective agreement, contractual or voluntary in nature.

Payments of workers through agencies are not included in personnel costs.

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GROSS INVESTMENT IN MATERIAL GOODS

Investment in material goods during the reference period. This includes new and pre-existing capital goods, both purchased from third parties and produced for self-consumption (that is, capitalised production of material capital goods), with a useful life of over one year, including material goods not produced, such as land. The limit of useful life a good that can be capitalised may increase, depending on the accounting practices of the company, when these practices require an expected useful life longer than the one-year limit indicated.

All investments are valued prior (that is, gross) to the value adjustments and before deducting the income obtained with the assignments. The goods purchased are valued at the purchase price, that is, including transport and installation costs, fees, taxes and other property transfer costs. Self-produced material goods are valued at the production cost. The goods acquired via restructuring (such as mergers, acquisitions, break-ups, divisions) are excluded. Purchases of small tools that are not capitalised are included as current expenses.

Also included are all additions, alterations, improvements and renewals that prolong useful life or increase the production capacity of the capital goods.

Current maintenance costs are excluded, as are the value and current expenditure on capital goods used in applying rental and financial leasing contracts. Investment in intangible and financial assets is excluded.

NUMBER OF EMPLOYED PERSONS

The number of employees is defined as those persons who work for an employer with a work contract and who receive remuneration in the form of salary, wages, commission, tip, piecework or in kind.

The employer-employee relationship exists when there is an agreement, which may be formal or informal, between a company and a person, which is usually voluntary, and by which the person works for the company in exchange for remuneration in case

or in kind.

A worker is considered to be a day-labourer or wage earner of a unit if s/he receives wages or a salary from said unit, regardless of where s/he carries out the work (inside or outside of the production unit). A worker from a temporary agency is considered to be an employee of the temporary agency and not of the unit (client) where s/he works.

In particular, employees are considered to be:

- owners paid for their work,
- students with a formal commitment by which they contribute to the production process of the unit in exchange for remuneration and/or educational services,
- employees hired with a contract, specifically aimed at encouraging the hiring of unemployed persons,
- domestic workers, if there is an explicit agreement in the sense that they are paid depending on the work that they do, and they are included on the payroll.

Included in the number of employed persons are part-time workers, seasonal workers, persons who are on strike or who are enjoying a short-term leave, but excluded are those who are on long-term leave.

The number of employed persons does not include volunteer workers.

The number of employed persons is calculated the same way as the "Number of wage-earners", that is, as the number of job posts, and this is measured as an annual average.

TOTAL INTERNAL EXPENDITURE ON R&D

Research and experimental development comprises the creative work carried out systematically to increase knowledge, including that of man, culture and society, and the use of this knowledge to conceive new applications.

The internal expenditure on research and development (R&D) is all that made by the unit, regardless of the source of the funds.

R&D must be differentiated from the expenditure on a broad range of related activities. For this reason, the following must be excluded from R&D expenditure:

- expenditure on education and training,
- expenditure on other scientific and technological activities (for example, informational services, tests and normalisation, viability studies, etc.),
- expenditure on other industrial activities (for example, industrial innovations n.e.p.),
- expenditure on purely financial activities (including other administration and indirect support activities).

Internal expenses are valued at the production cost and include all operating costs, including labour costs and capital expenditure.

TOTAL PERSONS EMPLOYED IN R&D

Research and experimental development comprises the creative work carried out systematically to increase knowledge, including that of man, culture and society, and the use of this knowledge to conceive new applications.

It must include all persons employed directly in research and development (R&D), as well as those who provide direct services, such as executives, administrators and R&D office personnel.

Persons who provide an indirect services, such as canteen and security personnel, must be excluded, even if their wages and salaries are included as general expenses in the measurement of expenditure.

R&D personnel must be differentiated from the personnel from a broad range of related activities. Therefore, the following must be excluded from R&D personnel:

- personnel employed in education and training,
- personnel employed in other scientific and technological activities (for example, informational services,
- tests and normalisation, viability studies, etc.),
- personnel employed in other industrial activities (for example, industrial innovations n.e.p.)
- personnel employed in administration and other indirect support activities.

Indicators

For the purpose of facilitating a rapid visual analysis of the particular characteristics of each sector researched and, within these, provide evidence on the differences or similarities existing between the companies that comprise them, we carry out some indicators in the form of ratios from the previously expressed variables.

These indicators are presented in two groups: economic ratios and employment ratios, they are offered for each activity sector and occupation stratum.

ECONOMIC INDICATORS

- *Productivity*: is the quotient between added value at factor cost and the average number of employees over the year. It appears expressed in euros and represents the contribution of each employee (remunerated or not) to the income generation of the company; it is indirectly a measure of the relative weight of the work factor in each activity.
- *Average salary*: the quotient between the salaries and wages paid to the wage earners and the average number of wage earners over the year, expressed in euros. This facilitates the comparative analysis of the average remuneration paid to employees for each activity.
- *Added value rate*: is defined as the percentage that represents gross added value at factor cost with respect to production value and shows income generation capacity per product or service unit. Nearly all activities in the services sector are characterised by high added-value rates.
- *Rates of personnel costs*: proportion that personnel costs represent with respect to added value. These may be considered a measure of the participation of remunerated work in the distribution of income generated in the sector. Their complement is the Gross Operating Surplus Rate.

EMPLOYMENT RATIOS

- *Employment stability rate*: proportion of the number of persons with a fixed contract at 30 September, out of the total number of remunerated persons on this date. This is a measure of the stability existing in employment in each sector. On being calculated at a specific date, this ratio may be swayed in activities with a high seasonal component.
- *Female participation rate*: percentage of the number of women employed as compared with the total number of employed persons, both at 30 September.

Sample design

Used as **statistical units** are the affiliate companies or foreign branches that carry out, as their main economic activity, the provision of any of the services included in the population scope. A company is also the informant unit, because, since it is perfectly defined and located, and since it has the accounting and employment data available, the response is provided and homogeneous information is obtained. 13

Used as the **survey framework** is a directory that constitutes a subpopulation of the CCD and contains data on the companies resident in our country that belong to a supranational group of companies.

The Central Companies Directory (CCD) contains information on the main economic activity and on the number of employees in the companies, which allows for their stratification according to these concepts. Also featured in this directory are data on the identification and location of the statistical units, which are necessary for collecting the information correctly.

Stratified sampling is used as the sampling method, and the stratification is carried out by branch of activity and company size.

Once the sample sizes are calculated, a systematic selection with random start is performed in each stratum. The strata comprised of the largest companies are selected in their entirety.

Stratification

Branches of activity considered

Regarding sections G, H, I and K, the branches of activity considered are:

- 50 (Sale, maintenance and repair of vehicles; retail sale of fuel for vehicles)
- 51 (Wholesale trade)
- 52 (Retail trade)
- 55 (Hotels and Restaurants)
- 60 (Land transport)
- 61 (Sea transport)
- 62 (Air transport)
- 63 (Activities related to transport and travel agencies)
- 64 (Post and telecommunications)
- 70 (Real estate agencies)
- 71 (Rental Activities)
- 72 (Computer science)
- 73 (Research and development)

- 74 (Other business activities)

Sizes

Dimension is established, depending on the number of employees. The following size brackets are considered (size of the company):

- 00 (up to 2 employees)
- 12 (3 to 9 employees)
- 14 (10 to 19 employees)
- 15 (20 to 49 employees)
- 16 (50 or more employees)

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Information collection

The information collection is carried out through the Annual Services Survey, to obtain the economic variables. Likewise, the questionnaire includes questions related to the ownership of the company, which complements the information contained in the framework.

Dissemination of results

Results are published from reference year 2005 on. Information is offered regarding foreign affiliates, under the heading "foreign control", and regarding the remaining companies resident in Spain, under the heading "national control".

In addition to distinguishing by type of control, we also offer results by activity, by company size, and for companies under foreign control, also by geographical area of residence of the final owner.

1. Results by type of control and main activity

The main results are presented by type of control, national or foreign, on an NACE-93 division level

The activities considered are:

- 50. Sale and repair of motor vehicles
- 51. Wholesale trade
- 52. Retail trade
- 55. Accommodation
- 60, 61 and 62. Transport
- 63. Activities related to transport; travel agencies
- 64. Post and telecommunications
- 70. Real estate activities

- 71. Rentals
- 72. Computer activities
- 73, 74. Other business activities

1.1 Main magnitudes, according to NACE-93 divisions and type of control

The results of the main magnitudes are presented, distinguishing by type of control, national or foreign, on an NACE-93 division level.

The main magnitudes are:

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- Number of companies
- Turnover
- Production value
- Added value at factor cost
- Total purchases of goods and services
- Purchases of goods and services for resale
- Personnel costs
- Gross investment in material goods
- Number of employed persons

1.2 Main indicators, by NACE-93 divisions and type of control

The results of the main indicators are presented on an NACE-93 division level, and distinguishing by type of control, national or foreign.

The main indicators obtained are:

- Productivity
- Average salary
- Added value rate
- Rates of personnel costs
- Employment stability rate
- Female participation rate

2. Results, by type of control and size

The results are presented on an NACE-93 division level, distinguishing by type of control, national or foreign, and company size, according to the number of employees:

- Small: fewer than 50 employees.
- Medium: 50 to 249 employees.
- Large: 250 or more employees.

2.1 Main magnitudes, by company size, NACE-93 division and type of control

- The main magnitudes published are:
 - Number of companies
 - Turnover
 - Production value
 - Added value at factor cost
 - Total purchases of goods and services
 - Purchases of goods and services for resale
 - Personnel costs
 - Gross investment in material goods
 - Number of employed persons

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2.2 Main indicators by company size, NACE-93 division and type of control

The main indicators obtained are:

- Productivity
- Average salary
- Added value rate
- Rates of personnel costs
- Employment stability rate
- Female participation rate

3. Results, by geographical breakdown, for companies under foreign control

Results are presented according to the geographical area of the location of the institutional unit that is the final owner of the foreign affiliate resident in Spain.

The geographical breakdown presented is:

- 1. Euro Zone
- 2. Rest of the European Union
- 3. Rest of Europe
- 4. United States of America
- 5. Rest of America
- 6. Japan
- 7. Rest of Asia
- 8. Africa and Oceania

3.1 Main magnitudes, according to geographical area of residence of the final owner

The main magnitudes published are:

- Number of companies
- Turnover
- number of employed persons

3.2 Ranking of investor countries by NACE-93 division and turnover generated by their affiliates

A ranking is presented of the first three investor countries in Spain for each NACE-93 division.