U.S. DIRECT INVESTMENT ABROAD

1994 Benchmark Survey, Final Results

U.S. DEPARTMENT OF COMMERCE
Economics and Statistics Administration
Bureau of Economic Analysis

Preface

This volume presents the final results of the 1994 Benchmark Survey of U.S. Direct Investment Abroad conducted by the Bureau of Economic Analysis (BEA), U.S. Department of Commerce. Benchmark surveys are the Bureau's most comprehensive surveys—both in terms of companies covered and information gathered. The 1994 survey covered the universe of U.S. direct investment abroad, which consists of all foreign business enterprises owned 10 percent or more, directly or indirectly, by a U.S. person. The last benchmark survey covered 1989.

The survey collected detailed data on the financial structure and operations of U.S. parent companies and their foreign affiliates in 1994. The data include balance sheets, income statements, sales of goods and services, employment and compensation of employees, U.S. trade in goods, research and development expenditures, and external financial position. The survey also collected data on the U.S. direct investment position abroad and on balance of payments transactions between U.S. parents and their foreign affiliates in fiscal year 1994. The data for U.S. parent companies are disaggregated by industry of parent. The data for foreign affiliates are disaggregated by country and industry of affiliate or by industry of U.S. parent.

Acknowledgments

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Gerald A. Pollack, Associate Director for International Economics, provided general guidance for the survey. Betty L. Barker, former Chief of the International Investment Division (IID), and R. David Belli, Chief of IID, directed the design of the benchmark survey report forms, the conduct of the survey, and the analysis and publication of the results.

The Direct Investment Abroad Branch (DIAB) of IID, under the direction of Patricia C. Walker, was primarily responsible for conducting the survey. James Y. Shin, Chief of the Annual and Benchmark Surveys Section of DIAB, supervised the editing and processing of the reports.

The following current and former members of DIAB processed and edited the survey: Joan O. Adams, Chester C. Braham, Barbara S. Clark, Margo A. Collier, Emily D. Curry, Laura A. Downey, Charles R. Gravitz, David N. Hale, Stephanie L. Henderson, Jeanne Hicks, Barbara K. Hubbard, Marie K. Laddomada, Christine J. Lee, Sherry Lee, Marcia S. Miller, Leila C. Morrison, Juanita L. Mortimer, Sidney Moskowitz, John A. Munz, Pearl Rivers, Ronald L. Ross, William R. Shupe, Gary M. Solamon, Dwayne Torney, Diann L. Vann, and Andrea Wright.

Mahnaz Fahim-Nader and Raymond J. Mataloni, Jr., of the Research Branch, under the direction of Obie G. Whichard, Assistant Chief of IID, assisted in the review of the survey results for consistency and accuracy. Mark W. New, Chief of the Quarterly Surveys Section of DIAB, and David H. Galler, Chief of the Special Surveys Branch, also assisted in the review.

Smith W. Allnutt, Chief of the Data Retrieval and Analysis Branch, supervised the computer programming for data estimation and tabulation. Deanna D. Ibarra designed the computer programs for data review. Arnold Gilbert designed the computer programs used to derive the estimates for unreported data, to generate the tables, and to prevent the disclosure of company-specific data. Robert Price and Irving Skinner assisted in deriving the estimates for unreported data. Peter T. Bowman assisted in generating, and performing disclosure analysis on, the tables.

Stephen P. Holliday, Chief of the Applications Development Branch of the Computer Systems and Services Division, coordinated the computer programming and data conversion and processing activities that were performed by Elizabeth L. Shumate, Brenda J. Bolden, Effie M. Eason, and Janice E. Townsend.

Raymond J. Mataloni, Jr., prepared the text and coordinated the design of the tables for this publication.

Ernestine T. Gladden of the Publications Services Branch (PSB) coordinated the production of this publication and typeset the text and tables. W. Ronnie Foster of PSB designed the cover graphics.

Methodology

The 1994 Benchmark Survey of U.S. Direct Investment Abroad was conducted by the Bureau of Economic Analysis (BEA) to obtain complete and accurate data on U.S. direct investment abroad in 1994. Reporting in the survey was mandatory under the International Investment and Trade in Services Survey Act.[1]

The publication presents 243 tables that contain nearly all of the data collected in the benchmark survey. Three related types of data are presented: (1) Foreign-affiliate financial and operating data, (2) U.S.-parent financial and operating data, and (3) direct investment position and balance of payments data. The financial and operating data cover balance sheets and income statements; property, plant, and equipment; employment and compensation of employees; U.S. trade in goods; sales of goods and services; gross product; technology; taxes; and external financial position.

The direct investment position and balance of payments data cover positions and transactions between foreign affiliates and their U.S. parents. These data are the source of the official estimates of direct investment that enter the U.S. national income and product accounts (NIPA's) and the U.S. international investment position and balance of payments (or "international transactions") accounts. Balance of payments data include data on capital flows between U.S. parents and their foreign affiliates, receipts of income by U.S. parents from their foreign affiliates, and U.S. parents' receipts and payments of royalties and license fees and charges for other services from and to their foreign affiliates.[2] The direct investment income and position data collected in the benchmark survey and shown in this publication are on a historical-cost basis; prior to their inclusion in the international accounts and the NIPA's they are adjusted to reflect current-period prices.

The amount and type of data collected in the survey differed, depending on whether the U.S. parents or foreign affiliates were banks or nonbanks and, for nonbank affiliates, depending on whether they were majority or minority owned.[3] In this publication, data for foreign affiliates and for their U.S. parents are presented separately for five affiliate groups: (1) All affiliates of all U.S. parents, (2) nonbank affiliates of nonbank U.S. parents, (3) majority-owned nonbank affiliates of nonbank U.S. parents, (4) nonbank affiliates of U.S. parents in banking, and (5) bank affiliates of all U.S. parents.

A variety of table formats are used: Some tables present data for several related items disaggregated by country or by industry; others present data for a single item disaggregated by country (or industry) and cross-classified by industry (or country).

The data in this publication supersede the preliminary estimates that appeared in *U.S. Direct Investment Abroad: 1994 Benchmark Survey, Preliminary Results* and that were summarized in "Operations of U.S. Multinational Companies: Preliminary Results from the 1994 Benchmark Survey" in the December 1996 issue of the SURVEY OF CURRENT BUSINESS.

The financial and operating data in this publication are part of an annual time series that covers 1982–95. Benchmark surveys were conducted for 3 years in the series—1982, 1989, and 1994—and they will continue to be conducted every 5 years. In nonbenchmark survey years, a sample survey is conducted to derive universe estimates that are comparable with the benchmark survey data.[4] The estimates for all years are available in publications, and the estimates for 1983–95 are also available on diskettes. Ordering information for the publications and diskettes is at the back of this publication. Some data items presented here—service charges by type and selected asset and liability positions of U.S. parents—were collected for the first time in the 1994 benchmark survey. Other data items—such as employment of U.S. parents by industry of sales, U.S. trade in goods of parents and affiliates by product and by destination or origin, compensation of and hours worked by production workers of manufacturing affiliates, sales by affiliates by country of

1. Public Law 472, 94th Cong., 90 Stat. 2059, 22 U.S.C. 3101–3108, as amended.

2. Benchmark survey data on U.S. trade in goods of parents and affiliates are grouped under financial and operating data rather than balance of payments data, because they are not the source of the official trade in goods statistics in the U.S. balance of payments accounts.

3. In this publication, the term "bank" is used to describe parents and affiliates that are classified as "depository institutions," which includes savings institutions and credit unions, as well as commercial banks.

4. The sample of affiliates for nonbenchmark surveys is determined by size. The sample for the nonbenchmark survey covering 1995, for example, consisted of affiliates that had total assets, sales, or net income (or loss) greater than $20 million.

Table 1.—Comparison of Tables in This Publication With Those in the Publications for 1990–93 and the Publications for 1995–98

Table in this publication	Comparable table in publications for 1990–93	Comparable table in publications for 1995–98
Nonbank Foreign Affiliates of Nonbank U.S. Parents		
Group A. Selected Data		
II.A1	II.A 1	II.A 1
II.A 2	II.A 2	II.A 2
Group B. Balance Sheet		
II.B 1–II.B 4.		
II.B 5	II.B 5	II.B 5
II.B 6	II.B 6	II.B 6
II.B 7–II.B 12.		
II.B 13	II.B 15	II.B 13
Group D. Property, Plant, and Equipment		
II.D 6–II.D 7.		
Group E. Income Statement		
II.E 1–II.E 2.		
II.E 3	II.E 3	II.E 3
II.E 4	II.E 4	II.E 4
II.E 5.		
II.E 6	II.E 6	II.E 6
II.E 7	II.E 7	II.E 7
II.E 8.		
II.E 9	II.E 9	II.E 9
II.E 10–II.E 11.		
Group F. Sales		
II.F 24.		
Group H. Employment and Compensation of Employees		
II.H 3	II.G 3	II.H 3
II.H 4	II.G 4	II.H 4
II.H 6	II.G 6	II.H 6
II.H 7	II.G 7	II.H 7
II.H 11	II.G 11	I.H 11
II.H 12.		
Group I. U.S. Trade in Goods		
II.I 1–II.I 2.		
II.I 5	II.H 5	II.I 5
II.I 6	II.H 6	II.I 6
II.I 9.		
II.I 19	II.H 22	II.I 19
II.I 20	II.H 23	II.I 20
II.I 23.		
Nonbank U.S. Parents		
Group L. Selected Data		
II.L 1	II.K 1	II.L 1
Group M. Balance Sheet		
II.M 1–II.M 2.		
Group N. Asset and Liability Positions		
II.N 1.		
Group O. Property, Plant, and Equipment		
II.O 1–II.O 2.		
Group P. Income Statement		
II.P 1.		
Group Q. Sales		
II.Q 1	II.O 1	II.Q 1
II.Q 2	II.O 2	II.Q 2
Group R. Gross Product		
II.R.1		II.R 1
Group S. Employment and Compensation of Employees		
II.S 1–II.S 2.		
Group T. U.S. Trade in Goods		
II.T 1	II.Q 1	II.T 1
II.T 2–II.T 3.		
II.T 4	II.Q 4	II.T 4
II.T 5–II.T 6.		
Group U. Technology		
II.U 1–II.U 2.		
Group V. Other Financial and Operating Data		
II.V 1.		
Majority-Owned Nonbank Affiliates of Nonbank U.S. Parents		
Group A. Selected Data		
III.A 1	III.A 1	III.A 1
III.A 2	III.A 2	III.A 2
Group B. Balance Sheet		
III.B 1–III.B 2	III.B 1–2	III.B 1–2
III.B 3–III.B 4	III.B 3–4	III.B 3–4
III.B 5	III.B 5	III.B 5
III.B 6	III.B 6	III.B 6
III.B 7	III.B 7	III.B 7
III.B 8–III.B 10.		
III.B 11–III.B 12	III.B 13–14	III.B 11–12
III.B 13	III.B 15	III.B 13
Group C. External Financial Position		
III.C 1	III.C 1	III.C 1
III.C 2–III.C 10.		
Group D. Property, Plant, and Equipment		
III.D 6–III.D 8		III.D 6–III.D 8
Group E. Income Statement		
III.E 1	III.E 1	III.E 1
III.E 2	III.E 2	III.E 2
III.E 3	III.E 3	III.E 3
III.E 4	III.E 4	III.E 4
III.E 5	III.E 5	III.E 5
III.E 6	III.E 6	III.E 6
III.E 7	III.E 7	III.E 7
III.E 8	III.E 8	III.E 8
III.E 9	III.E 9	III.E 9
III.E 10–III.E 11.		
Group F. Sales		
III.F 1	III.F 1	III.F 1
III.F 2	III.F 2	III.F 2
III.F 3	III.F 3	III.F 3
III.F 4	III.F 4	III.F 4
III.F 5–III.F 6.		
III.F 7	III.F 7	III.F 7
III.F 8	III.F 8	III.F 8
III.F 9	III.F 9	III.F 9
III.F 10–III.F 12.		
III.F 13	III.F 13	III.F 13
III.F 14	III.F 14	III.F 14
III.F 15.		
III.F 16	III.F 16	III.F 16
III.F 17	III.F 17	III.F 17
III.F 18	III.F 18	III.F 18
III.F 19.		
III.F 20	III.F 20	III.F 20
III.F 21.		
III.F 22	III.F 22	III.F 22
III.F 23.		
III.F 24	III.F 24	III.F 24
Group G. Gross Product		
III.G 1–III.G 9		III.G 1–III.G 9
Group H. Employment and Compensation of Employees		
III.H 1–III.H 2.		
III.H 3	III.G 3	III.H 3
III.H 4	III.G 4	III.H 4
III.H 5.		
III.H 6	III.G 6	III.H 6
III.H 7	III.G 7	III.H 7
III.H 8–III.H 10.		
III.H 11	III.G 11	III.H 11
III.H 13–III.H 20		

Table 1.—Comparison of Tables in This Publication With Those in the Publications for 1990–93 and the Publications for 1995–98—Continued

Table in this publication	Comparable table in publications for 1990–93	Comparable table in publications for 1995–98
Group I. U.S. Trade in Goods		
III.I 1	III.H 1	III.I 1
III.I 2	III.H 2	III.I 2
III.I 3–III.I 4.		
III.I 5	III.H 5	III.I 5
III.I 6–III.I 8.		
III.I 9	III.H 9	III.I 9
III.I 10–III.I 18.		
III.I 19	III.H 22	III.I 19
III.I 20–III.I 22.		
III.I 23	III.H 26	III.I 23
III.I 24–III.I 25.		
Group J. Technology		
III.J 1	partly in III.I 3.	
III.J 2	partly in III.I 2–5	partly in III.J 12
III.J 3		III.J 3
III.J 4.		
III.J. 5.	partly in III.I 2–5	partly in III.J 12
III.J 6–III.J 11.		
Group K. Other Financial and Operating Data		
III.K 1–III.K 3.		

NOTE.—This publication contains tables (in general subject matter groups W, X, Y, and Z) that show direct investment position and balance of payments data, as well as tables that show financial and operating data. The tables that show direct investment position and balance of payments data are not listed here, because they are outside the scope of the publications for 1990–93 and 1995–98, which cover only financial and operating data. Direct investment position and balance of payments data comparable with those in this publication, which are on a fiscal year basis, are not available (see text for discussion). However, direct investment position and balance of payments data are available on a calendar year basis for 1950–96 in other BEA publications.

Also not listed here are tables covering the financial and operating data of all foreign affiliates of all U.S. parents, nonbank affiliates of parents in banking, and bank affiliates of all parents. These data are also outside the scope of the publications for 1990–93 and 1995–98, which cover only financial and operating data of nonbank parents and their nonbank affiliates.

destination—were collected in the last (1989) benchmark survey, but not in the annual surveys for nonbenchmark years.

Table 1 lists the tables in this publication and gives the comparable tables in the annual survey publications for 1990–93 and for 1995–98. To aid comparisons with the publications presenting the annual survey estimates for subsequent years, the table numbers in this publication are identical to those used in the annual survey publications for 1995–98. Many of the tables that appear in this publication do not have counterparts in the publications for 1990–93 or for 1995–98, primarily because the 1994 benchmark survey collected data for some items that were not collected in the annual surveys. If a comparable table for the other years is not available, no table numbers appear in table 1 in the columns for the other years' publications.

In some instances, data items collected separately in the benchmark survey may have been combined with other items in the annual survey. Thus, two or more items that were combined in a table in the annual survey publications may be shown separately in a table in this publication.

Coverage

The benchmark survey covered every U.S. person (as defined below) having a foreign affiliate—that is, having direct or indirect ownership or control of 10 percent or more of the voting securities of an incorporated foreign business enterprise or an equivalent interest in an unincorporated foreign business enterprise—at any time during its 1994 fiscal year. Reports were required even though the foreign business enterprise may have been established, acquired, liquidated, sold, or otherwise inactivated during the year.

Each benchmark survey report consisted of (1) Form BE-10A, which requested the data for the U.S. parent company, and (2) one or more Form BE-10B's, which requested the data for each of the parent's foreign affiliates that had total assets, sales, or net income (or loss) greater than $3 million or that owned another foreign affiliate for which a Form BE-10B had to be filed regardless of the size of its own assets, sales, or net income (or

Table 2.—Foreign Affiliates for Which BE-10B Forms Were Filed in the 1994 Benchmark Survey and the Universe of Foreign Affiliates

	Number of affiliates	Millions of dollars: Total assets	Sales	Net income	U.S. direct investment position abroad on a historical cost basis
Universe of foreign affiliates:					
Total	29,660	3,385,656	1,835,601	101,636	607,149
Nonbanks	28,669	2,381,523	1,762,216	93,831	581,257
Banks	991	1,004,133	73,385	7,805	25,892
Foreign affiliates for which BE-10B forms were filed:					
Total	22,332	3,380,983	1,830,744	101,792	606,393
Nonbanks	21,436	2,376,902	1,757,388	93,986	580,508
Banks	896	1,004,081	73,356	7,806	25,885
Foreign affiliates exempt from being reported on the BE-10B form:					
Total	7,328	4,673	4,857	–156	756
Nonbanks	7,233	4,621	4,828	–155	749
Banks	95	52	29	–1	7
Addenda—Affiliates for which BE-10B forms were filed as a percentage of the universe:					
Total	75.3	99.9	99.7	100.2	99.9
Nonbanks	74.8	99.8	99.7	100.2	99.9
Banks	90.4	100.0	100.0	100.0	100.0

loss). On a supplement to Form BE-10A, U.S. parents had to list all foreign affiliates that were exempt from being reported on Form BE-10B and give a few selected data items—percentage ownership, total assets, sales, net income, employment size class, and direct investment position—for each. If all foreign affiliates of a U.S. parent were exempt from being reported on Form BE-10B, the U.S. parent was only required to file Part I, items 1–4 of Form BE-10A (to identify itself) and the Form BE-10A Supplement (to identify its exempt foreign affiliates).

U.S. parents and foreign affiliates in banking—that is, parents and affiliates that had over 50 percent of their total revenues generated by activities characteristic of depository institutions (banks, savings and loans, and credit unions)—were permitted to report less detailed financial and operating data than nonbank parents and affiliates. Less detail was required because most of the information on bank parents and affiliates that was needed for policymaking purposes already had to be reported to other U.S. Government agencies. Shorter, specialized forms for bank parents (Form BE-10A BANK) and for bank affiliates (Form BE-10B BANK) were substituted for the standard forms.

The reporting criteria for banks are similar to those for nonbanks; however, foreign bank affiliates that were owned indirectly 50 percent or less by their U.S. parents and that did not own a nonbank foreign affiliate for which a Form BE-10B had to be filed were exempt from being reported even if their total assets, sales, or net income (or loss) were greater than $3 million.

Based on the above criteria, complete BE-10A forms were filed by 2,727 U.S. parents, of which 60 were banks; 709 U.S. parents filed partial BE-10A forms because all their foreign affiliates were exempt. BE-10B forms were received for 22,332 foreign affiliates, of which 571 were banks; 7,328 foreign affiliates were listed by their U.S. parents as exempt from being reported on Form BE-10B.

In table 2, foreign affiliates for which BE-10B forms were filed are compared with all foreign affiliates in the 1994 direct investment universe. Affiliates for which BE-10B forms were filed accounted for 75.3 percent of the universe in terms of numbers. However, because of the relatively low exemption level on the form, they accounted for almost the entire universe in terms of value—99.9 percent of total assets, 99.7 percent of sales, 100.2 percent of net income, and 99.9 percent of the historical-cost U.S. direct investment position abroad. Thus, in terms of value, coverage of the universe is virtually complete.

Nonbank affiliates for which BE-10B forms were filed accounted for 99.8 percent of total assets, 99.7 percent of sales, 100.2 percent of net income, and 99.9 percent of the historical-cost U.S. direct investment position of the nonbank affiliate universe. The corresponding percentages for bank affiliates were 100.0, 100.0, 100.0, and 100.0 percent, respectively.

Except for table 2, all tables in this publication cover only foreign affiliates for which BE-10B forms were filed and their U.S. parents. Thus, when the term "all foreign affiliates" is used, it refers to all foreign affiliates for which BE-10B forms were filed, not to the universe of affiliates shown in table 2.

Basic Concepts and Definitions

This section describes the basic concepts and definitions used in the 1994 benchmark survey. Major differences between these concepts and definitions and those used in BEA's last benchmark survey, which covered 1989, and in other BEA surveys of U.S. direct investment abroad since 1989 are noted.

Direct investment

Direct investment implies that a person in one country has a lasting interest in, and a degree of influence over the management of, a business enterprise in another country. For the United States, in accordance with international guidelines, ownership or control by a single person of 10 percent or more of an enterprise's voting securities or the equivalent is considered evidence of such a lasting interest or degree of influence over management.[5] Thus, U.S. direct investment abroad is the ownership or control, directly or indirectly, by one U.S. person of 10 percent or more of the voting securities of an incorporated foreign business enterprise or an equivalent interest in an unincorporated foreign business enterprise. Only U.S. investment abroad that is direct investment was covered by the 1994 benchmark survey.

Direct investment in a foreign business enterprise can result from direct or indirect ownership by a U.S. person. In direct ownership, the U.S. person holds the ownership interest in the foreign business enterprise. In indirect ownership, one or more tiers of ownership exist between the foreign business enterprise and the U.S. person. A U.S. person's percentage of indirect voting ownership in a given foreign business enterprise is equal to the direct-voting-ownership percentage of the U.S. person in the first foreign business enterprise in the ownership chain multiplied by that first enterprise's direct-voting-ownership

5. See International Monetary Fund (IMF), *Balance of Payments Manual*, 5th ed. (Washington, DC: IMF, 1993); and Organisation for Economic Co-Operation and Development (OECD), *OECD Benchmark Definition of Foreign Direct Investment*, 3rd ed. (Paris: OECD, 1996)

percentage in the second foreign business enterprise in the chain multiplied by the corresponding percentages for all other intervening enterprises in the chain multiplied by the last intervening enterprise's direct-voting-ownership percentage in the given foreign business enterprise. If more than one ownership chain exists, the percentages of direct and indirect ownership in all chains are summed to determine the U.S. person's ownership percentage.

Direct investment refers to ownership by a single person, not to the combined ownership of all persons in a country. A "person" is broadly defined to include any individual, branch, partnership, associated group, association, estate, trust, corporation or other organization (whether organized or not under the laws of any State), and any government (including a foreign government, the U.S. Government, a State or local government, and any agency, corporation or financial institution, or other entity or instrumentality thereof, including a government-sponsored agency).

An associated group consists of two or more persons who exercise their voting privileges in a concerted manner by the appearance of their actions, by agreement, or by understanding in order to influence the management of a business enterprise. The following are deemed to be associated groups: (1) Members of the same family, (2) a business enterprise and one or more of its officers and directors, (3) members of a syndicate or joint venture, and (4) a corporation and its domestic subsidiaries. Thus, direct investment is considered to exist as long as the combined ownership interests of all members of the group is at least 10 percent, even if no member owns 10 percent or more. The definition assumes, in effect, that the members' influence over management is comparable to that of a single person with the same ownership interest.

Investment by a U.S. person of less than 10 percent in a foreign business enterprise is not considered direct investment, even if another U.S. person has an interest of a least 10 percent in the enterprise. Thus, if one U.S. person owns 11 percent and another owns 9 percent, the 11-percent interest is included, but the 9-percent interest is excluded. However, if two or more U.S. persons each hold an interest of at least 10 percent, each such interest is included.

Determination of residency

For purposes of the benchmark survey (and BEA's other direct investment surveys), the "United States" means the 50 States, the District of Columbia, the Commonwealth of Puerto Rico, and all U.S. territories and possessions. U.S. offshore oil and gas sites are also considered to be in the United States.

"Foreign" means that which is situated outside the United States or that belongs to, or is characteristic of, a country other than the United States.

The country of residence, rather than the country of citizenship, of a person is used to determine whether a direct investor or the business enterprise owned by a direct investor is U.S. or foreign. A U.S. person is any person who resides in, or is subject to the jurisdiction of, the United States, and a foreign person is any person who resides outside the United States or who is subject to the jurisdiction of a country other than the United States.

A person is considered a resident of, or is subject to the jurisdiction of, the country in which the person is located if the person resides or expects to reside in that country for 1 year or more. Under this rule, persons who reside or expect to reside outside their country of citizenship for less than 1 year are considered residents of their country of citizenship, whereas persons who reside or expect to reside outside their country of citizenship for 1 year or more are considered residents of the country in which they are residing.

There are two exceptions to this rule. First, individuals (and their immediate families) who either own or are employed by a business in their country of citizenship and who are residing outside of that country for 1 year or more in order to conduct business for the enterprise are considered residents of their country of citizenship if they intend to return within a reasonable period of time. Second, individuals who reside outside their country of citizenship because they are government employees (such as diplomats, consular officials, members of the armed forces, and their immediate families) are considered residents of their country of citizenship regardless of their length of stay.

The U.S. parent

A U.S. parent is a U.S. person who has direct investment—that is, a 10-percent-or-more direct or indirect ownership interest—in a foreign business enterprise. Because a U.S. parent is a "person" in the broad sense defined above, it may be a business enterprise; a religious, charitable, or other nonprofit organization; an individual; a government; an estate or trust; and so forth. Most U.S. parents are business enterprises. A business enterprise is any organization, association, branch, venture, or the ownership of any real estate that exists to make a profit or to otherwise secure economic advantage.[6]

6. Ownership of real estate for profit-making purposes is defined to be a business enterprise, but ownership of real estate exclusively for personal use is not. A residence that is leased to others by an owner who intends to reoccupy it is considered real estate held for personal use and not a business enterprise.

If incorporated, the U.S. parent is the fully consolidated U.S. enterprise that consists of (1) the U.S. parent corporation whose voting securities are not owned more than 50 percent by another U.S. corporation, and (2) proceeding down each ownership chain from that U.S. corporation, any U.S. corporation (including Foreign Sales Corporations located within the United States) whose voting securities are more than 50 percent owned by the U.S. corporation above it. All other U.S. corporations and all foreign business enterprises owned by the U.S. parent are excluded from the full consolidation.

Where a U.S. individual or other nonbusiness person (such as a nonprofit organization or a government) owns more than 50 percent of a U.S. business enterprise that, in turn, owns a foreign business enterprise, the U.S. business enterprise, not the individual or other nonbusiness person, is considered the parent. This treatment ensures that financial and operating

data of the U.S. business enterprise are included in the U.S.-parent data and that data on the transactions and positions of the U.S. business enterprise with the foreign business enterprise are included in the foreign-affiliate data reported to BEA. Any direct transactions or positions of the individual or other nonbusiness person with the foreign business enterprise must be reported by the U.S. business enterprise and are, therefore, also included in the direct investment accounts.

Although the U.S. Government may have equity investment in a foreign business enterprise, such investment is not covered by BEA's direct investment surveys. Data on such investment are reported to other agencies and are included by BEA in the U.S. Government accounts, rather than in the direct investment accounts, of the U.S. international transactions accounts.

In the case of a U.S. estate, the estate itself, not its beneficiary, is considered the U.S. parent. For a U.S. trust, however, either the beneficiary or the creator of the trust may be considered the U.S. parent with respect to any investments of the trust, depending on the circumstances. The creator is considered the parent if there is a reversionary interest—that is, if the interest in the trust may be returned to the creator after a period of time—or if the creator is a corporation or other organization that designates its own shareholders or members as beneficiaries. In all other cases, the beneficiary is considered the parent.

The foreign affiliate

A foreign affiliate is a foreign business enterprise in which there is U.S. direct investment; that is, it is a foreign business enterprise that is directly or indirectly owned or controlled by one U.S. person to the extent of 10 percent or more of the voting securities for an incorporated business enterprise or an equivalent interest for an unincorporated business enterprise. The affiliate is called a *foreign* affiliate to denote that it is located outside the United States.

A business enterprise, and therefore an affiliate, may be either incorporated or unincorporated. Unincorporated business enterprises primarily take the form of branches and partnerships.

A foreign affiliate that is a branch consists of operations or activities in a foreign country that a U.S. person conducts in its own name rather than through an entity separately incorporated abroad. By definition, a branch is wholly owned. If a company is incorporated in the United States but carries out substantially all of its operations abroad, its foreign operations are treated by BEA as a branch (and, therefore, as a foreign affiliate) even though the U.S. company itself may consider the operations to be an integral part of, and would normally consolidate them with, its own operations and accounts.

In general, the foreign operations or activities of a U.S. person are considered to be a foreign affiliate if they are legally or functionally separable from the domestic operations or activities of the U.S. person. In most cases, it is clear whether the foreign operations or activities constitute a foreign affiliate. If an operation or activity is incorporated abroad—as most are—it is *always* considered a foreign affiliate. The situation is not always so clear with unincorporated foreign operations or activities. Most are legally or functionally separable from those of the U.S. person, but some are not clearly separable, and the determination of whether they constitute a foreign affiliate is made on a case-by-case basis, depending on the weight of the evidence.

The following characteristics would indicate that the unincorporated operation or activity is probably a foreign affiliate:

- It pays foreign income taxes.
- It has a substantial physical presence abroad, as evidenced by plant and equipment or by employees that are permanently located abroad.
- It has separate financial records that would allow the preparation of financial statements, including a balance sheet and income statement. (A mere record of disbursements to, or receipts from, the foreign operation or activity would not constitute a "financial statement" for this purpose.)
- It takes title to the goods it sells and receives revenues from the sale, or it receives funds from customers for its own account for services it performs.

The following characteristics would indicate that the unincorporated operation or activity is probably *not* a foreign affiliate:

- It engages only in sales promotion or public relations activities on behalf of the U.S. person.
- It conducts business abroad only for the U.S. person's account, not for its own account.
- It has no separate financial records that allow the preparation of financial statements.
- Its expenses are paid by the U.S. parent.
- It pays no foreign income taxes.
- It has limited physical assets or few employees permanently located abroad.

Consistent with these guidelines, the foreign stations, ticket offices, and terminal or port facilities of a U.S. airline or ship operator that provide services only to the airline's or ship operator's own operations are not considered foreign affiliates, because most of the revenues, such as passenger fares and freight charges, collected by these facilities are generated by the travel and transportation services rendered by the airline or ship operator of which they are a part, not by the activities of these facilities. However, if the facilities provide services to unaffiliated persons rather than to the U.S. airline or ship operator that owns them, they are considered foreign affiliates.

In general, each foreign affiliate was required to be reported separately. However, consolidation of affiliates in the same country was permitted if the affiliates were in the same three-digit industry or were integral parts of the same business operation.[7] (As an example of the latter, if Mexican affiliate A manufactured automobile engines and a majority of its sales were to Mexican affiliate B, which assembled automobiles, then affiliates A and B could have been consolidated.) Under no circumstances were affiliates in different countries permitted to be consolidated.

A majority-owned foreign affiliate (MOFA) is a foreign affiliate in which the combined direct and indirect ownership interest of all U.S. parents exceeds 50 percent. Data for MOFA's rather than for all foreign affiliates are required in order to examine the foreign investments over which U.S. parents exert unambiguous control.[8] Additionally, some aspects of affiliate operations can only be analyzed from the perspective of MOFA operations, because the necessary data items are not collected for other affiliates.

7. For a description of the industry codes used, see BEA's *Guide to Industry and Foreign Trade Classifications for International Surveys* in the appendix.

8. However, the U.S. parent(s) may be under the control of a foreign parent company. In 1994, U.S. parents that were ultimately controlled by foreign parents accounted for 11 percent of all U.S. parents, and they accounted for 11 percent of the assets and for 14 percent of the sales of all U.S. parents.

A small percentage of MOFA's are majority owned by a group of U.S. parents in which none of the parents has a majority stake. The group usually influences or controls the management of the affiliate as a single parent that has the same total ownership interest would. Most of these jointly owned MOFA's are in the petroleum industry, where parents sometimes pool their resources in order to raise capital or to mitigate risk.

Accounting Principles

Use of generally accepted accounting principles

Data in the 1994 benchmark survey were required to be reported as they would have been for stockholders' reports rather than for tax or other purposes. Thus, U.S. generally accepted accounting principles (GAAP) were followed unless otherwise indicated by the survey instructions. The survey instructions departed from GAAP in cases where the departure would result in data that were conceptually or analytically more useful or more appropriate for direct investment purposes. One major departure from GAAP was the use of the unique consolidation rules (see the preceding discussions of consolidated reporting in "The U.S. Parent" and in "The Foreign Affiliate" in the section "Basic Concepts and Definitions").

Currency translation

Monetary amounts were reported to BEA in U.S. dollars. The report forms specified that when a foreign affiliate's assets, liabilities, revenues, and expenses were denominated or measured in the affiliate's financial statements in a foreign currency, they must be translated into dollars in accordance with GAAP, specifically Financial Accounting Standards Board Statement No. 52 (FASB 52).

Under FASB 52, all assets, liabilities, revenues, and expenses are translated at current exchange rates. For assets and liabilities, the exchange rate as of the balance sheet date is used. For revenues and expenses, weighted-average exchange rates for the period are used.

Under FASB 52, exchange gains and losses resulting from remeasuring the foreign affiliates' assets and liabilities that are denominated in foreign currencies other than the affiliate's principal, or functional, currency into the functional currency at exchange rates that differ from those used in the prior period are included in affiliates' net income. However, exchange gains and losses that result from translating opening balances for foreign affiliates' assets and liabilities from the functional currency into U.S. dollars at exchange rates different from those for closing balances are taken directly to a separate component of owners' equity, entitled "translation adjustments," rather than being included in net income. The effects of translating foreign affiliates' revenues and expenses from their functional currency into U.S. dollars at exchange rates different from those in the prior period are reflected in net income, but they are not separately identified, and because they do not represent changes in the values of assets or liabilities, they are not regarded as capital gains or losses. (For a more complete description of translation procedures, refer to FASB 52.)

Valuation

The 1994 benchmark survey data are, for the most part, valued in the prices and exchange rates of 1994. Because 1994 prices and exchange rates may differ from those of other years, changes in U.S.-parent and foreign-affiliate data over time may reflect changes in prices and exchange rates rather than real changes. In addition, the accuracy of intercountry comparisons of foreign affiliate data may be affected if the market exchange rates used to translate foreign-affiliate data to U.S. dollars do not reflect the relative purchasing power of different currencies.[9]

Some benchmark survey items—such as property, plant and equipment, and the direct investment position—are valued at historical cost rather than in 1994 prices. For these items, the values shown largely reflect prices at the time the asset was acquired or the investment was made rather than prices of 1994.[10]

9. For further discussion of valuation issues and for the results of an initial BEA attempt to remove valuation effects from its measures of the activities of U.S. multinational companies, see "Real Gross Product of U.S. Companies' Majority-Owned Foreign Affiliates in Manufacturing," SURVEY OF CURRENT BUSINESS 77 (April 1997): 8-17.

Fiscal Year Reporting

Data for foreign affiliates and U.S. parents were required to be reported on a fiscal year basis. The 1994 fiscal year was defined to be the affiliate's or parent's financial-reporting year that ended in calendar year 1994.

The fiscal year data from the benchmark survey that are presented in this publication are not comparable with the calendar year estimates of transactions between foreign affiliates and their U.S. parents that appear in the U.S. international transactions accounts or with the calendar year estimates of the U.S. direct investment position abroad. The benchmark survey data must be adjusted to a calendar year basis before they are entered into the U.S. direct investment position abroad and the international transactions accounts.

The extent of noncomparability between the benchmark survey data presented here and the direct investment estimates that will be presented in the U.S. direct investment position and balance of payments accounts depends on the number and size of foreign affiliates and U.S. parents whose fiscal years do not correspond to the calendar year. Figures on the number of foreign affiliates and U.S. parents that have fiscal years that do not correspond to the calendar year and on the portion of the benchmark survey data accounted for by these foreign affiliates and U.S. parents are shown in tables 3–5.

10. For further discussion of historical-cost valuation of the direct investment position see the section "U.S. direct investment position abroad."

Table 3. Selected Data for All Foreign Affiliates and All U.S. Parents by Fiscal Year Ending Date

	Total	Fiscal year ending date				
		January 1 to March 31	April 1 to June 30	July 1 to September 30	October 1 to December 31	Addendum: December 31
Affiliate data						
Number of affiliates	22,332	1,099	2,124	1,896	17,213	14,408
Total assets (millions of dollars)	3,380,983	79,476	119,449	86,507	3,095,550	2,728,127
Sales (millions of dollars)	1,830,744	78,472	145,736	81,642	1,524,894	1,317,440
Net income (millions of dollars)	101,792	1,574	4,281	2,628	93,309	78,727
Number of employees (thousands)	7,240.5	327.1	635.4	426.6	5,851.5	4,952.2
Compensation of employees (millions of dollars)	230,629	10,451	17,354	12,484	190,339	161,459
U.S. direct investment position abroad on a historical-cost basis (millions of dollars)	606,393	15,085	34,024	29,182	528,102	467,840
Direct investment income (millions of dollars)	67,596	1,026	3,432	2,290	60,848	52,947
U.S. parent data						
Number of U.S. parents	2,727	221	306	288	1,912	1,722
Total assets (millions of dollars)	8,636,571	199,776	215,709	185,211	8,035,874	7,556,632
Sales (millions of dollars)	4,148,552	245,185	277,540	220,838	3,404,989	3,183,907
Net income (millions of dollars)	214,352	3,259	10,750	4,633	195,710	182,419
Number of employees (thousands)	19,330.0	1,504.4	1,400.4	1,234.6	15,190.6	13,981.9
Compensation of employees (millions of dollars)	840,608	28,852	51,748	49,998	710,009	653,746

Confidentiality

Under the International Investment and Trade in Services Survey Act, the direct investment data collected by BEA are confidential; they cannot be published in such a manner "that the person to whom the information relates can be specifically identified" without the prior written permission of the respondent. For this publication, each cell in a table was tested to determine whether the data it contained should be suppressed (that is, not shown) for confidentiality reasons. A "(D)" in a cell indicates that the data were suppressed to avoid the disclosure of information on an individual company. For employment data, a letter representing a size range was entered in place of a "(D)."

The act further stipulates that the data must be used for statistical and analytical purposes only; the use of an individual company's data for tax, investigative, or regulatory purposes is prohibited. Access to the data is limited to officials and employees (including consultants and contractors and their employees) of Government agencies designated by the President to perform functions under the act.

Private individuals may obtain access to the data only in the capacity of experts, consultants, or contractors whose services are procured by BEA, usually on a temporary or intermittent basis, for purposes of carrying out projects under the act—for example, to perform research on U.S. direct investment abroad. These people are subject to the same confidentiality requirements as regular employees of BEA or other government agencies performing functions under the act.

Classification of Data by Country and by Industry

Country classification

Each foreign affiliate is classified by its country of location—that is, the country in which the affiliate's physical assets are located or in which its primary activity is carried out. In most cases, the country of location of a business enterprise is the same as its country of organization or incorporation. However, in some cases, a business enterprise is incorporated in one country, but part or all of its physical assets are located, or its activities carried out, in a second country. If all its physical assets or operations are located in a single foreign country outside its country of incorporation, the enterprise is treated as an incorporated foreign affiliate in the country where its physical assets and operations are located. If, however, an enterprise has some physical assets or operations in each country, it is considered two separate affiliates—an incorporated affiliate located in the country of incorporation and an unincorporated affiliate (a branch) located in the other country.

There are two exceptions to these general rules. First, if a business enterprise incorporated in one foreign country has physical assets or operations in more than one other foreign country, an incorporated foreign affiliate is deemed to exist in the country of incorporation, even though the enterprise may have no physical assets or operations in that country. Unincorporated foreign affiliates (branches) are deemed to exist in the other foreign countries. In effect, the affiliate in the country of incorporation is considered a holding company whose assets are the equity it holds in the unincorporated affiliates in the other countries. Second, if a business enterprise incorporated abroad by a U.S. person conducts its operations from, and has all of its physical assets in, the United States, it is treated as an incorporated foreign affiliate in the country of incorporation, even though it has no operations or physical assets there. This treatment ensures that the foreign entity is reported to BEA.

Balance of payments transactions between parents and affiliates are recorded against the country of the affiliate with which the U.S. parent had a direct transaction, even if the transaction may reflect indirect claims on, liabilities to, or income from indirectly held affiliates in third countries. For example, suppose that a U.S. parent company acquires all of the equity of a German manufacturer for $100 million, channeling the purchase through its holding-company affiliate in the Netherlands. Both the direct investment capital flow and the direct investment position would be recorded against the Netherlands, because that is the country of the affiliate with which the U.S. parent had a direct transaction. (By contrast, the financial and operating data—such as employment and sales data—of the newly acquired affiliate would be shown in Germany because that is where the operations are located.)

Transactions with third-country transactors involving a given affiliate are classified in the affiliate's country of location. For example, suppose a U.S. parent purchases a Japanese affiliate's capital stock from a French resident; the resulting direct investment capital flow would be classified in Japan because such flows change the U.S. direct investment position in that country. (However, the associated settlement flows, which would be included in other capital accounts of the U.S. international transactions accounts, would likely be classified in France.)

Unless otherwise specified, the designation "by country" in a table title in this publication indicates that the data in the table are disaggregated by country of foreign

Table 4. Number and Total Assets of All Foreign Affiliates, Industry and Country of Affiliate by Fiscal Year Ending Date

	Total	Fiscal year ending date: January 1 to March 31	April 1 to June 30	July 1 to September 30	October 1 to December 31	Addendum: December 31
	Number of affiliates					
Total	**22,332**	**1,099**	**2,124**	**1,896**	**17,213**	**14,408**
By industry						
Petroleum	1,508	12	30	90	1,376	1,368
Manufacturing	8,018	402	784	817	6,015	4,890
Food and kindred products	796	25	146	132	493	425
Chemicals and allied products	1,917	77	159	155	1,526	1,217
Primary and fabricated metals	717	20	62	65	570	485
Industrial machinery and equipment	1,016	60	79	105	772	555
Electronic and other electric equipment	844	72	85	118	569	492
Transportation equipment	449	20	11	52	366	320
Other manufacturing	2,279	128	242	190	1,719	1,396
Wholesale trade	5,058	348	699	604	3,407	2,590
Depository institutions	571	2	2	1	566	552
Finance (except depository institutions), insurance, and real estate	2,981	71	190	121	2,549	2,186
Services	2,705	185	254	195	2,071	1,768
Other industries	1,491	79	165	68	1,179	1,054
By country						
Canada	2,094	139	192	197	1,566	1,405
Europe	10,781	520	1,155	1,016	8,090	6,620
Of which:						
France	1,262	69	130	128	935	743
Germany	1,403	79	145	139	1,040	845
Netherlands	1,013	46	153	102	712	580
United Kingdom	2,546	131	256	237	1,922	1,629
Latin America and Other Western Hemisphere	3,603	101	269	237	2,996	2,570
Of which:						
Brazil	448	18	37	27	366	310
Mexico	846	27	79	72	668	584
Africa	516	23	31	33	429	381
Middle East	354	7	20	12	315	277
Asia and Pacific	4,877	302	451	399	3,725	3,069
Of which:						
Australia	864	44	98	85	637	530
Japan	1,042	148	80	104	710	569
International	107	7	6	2	92	86
	Total assets (millions of dollars)					
Total	**3,380,983**	**79,476**	**119,449**	**86,507**	**3,095,550**	**2,728,127**
By industry						
Petroleum	253,947	440	3,088	2,332	248,086	247,903
Manufacturing	678,637	43,631	50,628	39,594	544,785	454,020
Food and kindred products	91,439	10,574	13,345	9,142	58,378	54,242
Chemicals and allied products	148,707	2,296	14,307	5,259	126,845	108,975
Primary and fabricated metals	30,376	463	1,436	1,636	26,842	22,363
Industrial machinery and equipment	98,608	3,239	5,828	9,729	79,813	61,676
Electronic and other electric equipment	53,152	3,177	3,814	6,061	40,100	34,806
Transportation equipment	118,136	(D)	473	(D)	98,030	85,162
Other manufacturing	138,218	(D)	11,425	(D)	114,777	86,796
Wholesale trade	180,874	7,237	18,200	16,228	139,210	106,907
Depository institutions	895,428	(D)	(D)	(D)	894,818	874,037
Finance (except depository institutions), insurance, and real estate	1,099,206	12,005	19,994	15,219	1,051,987	849,273
Services	106,493	7,578	9,664	8,899	80,352	70,313
Other industries	166,398	(D)	(D)	(D)	136,313	125,673
By country						
Canada	237,490	13,768	9,684	7,073	206,965	189,587
Europe	1,837,846	23,693	64,898	53,747	1,695,508	1,488,469
Of which:						
France	133,496	1,585	7,554	10,400	113,957	106,819
Germany	225,964	2,520	7,452	7,304	208,689	190,731
Netherlands	128,555	1,303	13,345	8,005	105,902	92,039
United Kingdom	913,546	12,232	17,309	11,468	872,537	751,196
Latin America and Other Western Hemisphere	468,889	5,972	10,091	7,221	445,605	404,028
Of which:						
Brazil	52,036	608	2,301	1,389	47,738	43,023
Mexico	59,905	486	2,124	1,410	55,886	50,716
Africa	23,708	430	1,243	714	21,322	20,469
Middle East	66,486	(D)	655	(D)	65,383	64,218
Asia and Pacific	731,380	35,272	32,784	17,296	646,027	550,888
Of which:						
Australia	98,585	962	11,214	1,757	84,652	81,150
Japan	291,922	26,246	7,018	9,522	249,137	196,491
International	15,184	(D)	95	(D)	14,740	10,468

D Suppressed to avoid disclosure of data of individual companies.

Table 5. Number and Total Assets of All U.S. Parents, Industry of U.S. Parent by Fiscal Year Ending Date

	Total	Fiscal-year ending date: January 1 to March 31	April 1 to June 30	July 1 to September 30	October 1 to December 31	Addendum: December 31
	Number of parents					
All industries	**2,727**	**221**	**306**	**288**	**1,912**	**1,722**
Petroleum	106	1	6	13	86	82
Manufacturing	1,552	113	193	193	1,053	923
Food and kindred products	80	5	16	19	40	34
Chemicals and allied products	207	14	15	13	165	147
Primary and fabricated metals	187	12	21	21	133	124
Industrial machinery and equipment	274	22	36	38	178	154
Electronic and other electric equipment	211	19	31	38	123	105
Transportation equipment	82	3	7	11	61	53
Other manufacturing	511	38	67	53	353	306
Wholesale trade	250	44	29	28	149	137
Depository institutions	60	0	0	0	60	60
Finance (except depository institutions), insurance, and real estate	230	11	11	10	198	192
Services	281	33	47	31	170	149
Other industries	248	19	20	13	196	179
	Total assets (millions of dollars)					
All industries	**8,636,571**	**199,776**	**215,709**	**185,211**	**8,035,874**	**7,556,632**
Petroleum	529,129	(D)	8,354	(D)	510,880	510,793
Manufacturing	2,296,314	50,917	136,032	119,833	1,989,535	1,826,345
Food and kindred products	246,480	10,701	52,111	27,098	156,570	150,334
Chemicals and allied products	416,463	5,018	30,756	12,631	368,058	341,750
Primary and fabricated metals	104,978	4,254	5,932	4,351	90,442	88,379
Industrial machinery and equipment	232,323	3,228	9,293	29,934	189,869	149,803
Electronic and other electric equipment	308,979	10,188	10,812	23,038	264,942	244,892
Transportation equipment	534,200	2,347	5,326	6,574	519,952	502,867
Other manufacturing	452,891	15,181	21,802	16,207	399,702	348,320
Wholesale trade	126,043	32,945	6,826	13,529	72,743	67,490
Depository institutions	1,918,568	0	0	0	1,918,568	1,918,568
Finance (except depository institutions), insurance, and real estate	2,512,799	43,734	3,952	34	2,465,079	2,195,192
Services	227,916	12,437	37,606	31,226	146,647	135,282
Other industries	1,025,802	(D)	22,942	(D)	932,423	902,963

D Suppressed to avoid disclosure of data of individual companies.

affiliate. If a different method of country disaggregation is used, it is specified in the table title; for example, trade data could be disaggregated either by country of affiliate or by country of origin or destination.

In table II.A1, selected data for all nonbank foreign affiliates of nonbank U.S. parents are classified by country of affiliate; each individual country in which U.S. direct investment in 1994 was reported is shown separately and is grouped by geographic area. (Table III.A1 presents similar information for majority-owned foreign affiliates.) Primarily because of confidentiality requirements, many countries could not be shown separately in the other tables in this publication. However, the individual countries included in a country group shown in the other tables may be determined, and their relative sizes assessed, by referring to table II.A1.

In this publication, the "International" category consists of affiliates that have operations spanning more than one country and that are engaged in petroleum shipping, other water transportation, or offshore oil and gas drilling. Affiliates in these industries that have operations entirely in one country are classified in that specific country. Thus, an affiliate engaged in shipping goods among countries is classified in "International," whereas one engaged in local coastal or inland shipping is classified in the country along whose coast or on whose waterways it is operating. Similarly, an oil rig that was moved from place to place during the year is classified in "International," but one that was stationary for the entire year is classified in the country where it was located.

Industry classification

Each U.S. parent or foreign affiliate was classified by industry on the basis of its sales (or of its total income, for holding companies) in a three-stage procedure. First, a given U.S. parent or foreign affiliate was classified in the major industry that accounted for the largest percentage of its sales.[11]

Second, within the major industry, the U.S. parent or foreign affiliate was classified in the two-digit industry in which its sales were largest; a two-digit industry was defined to consist of all three-digit subindustries that have

11. The major industries used were agriculture, forestry, and fishing; mining; petroleum; construction; manufacturing; transportation, communication, and public utilities; wholesale trade; retail trade; finance, insurance, and real estate; and services.

the same first two digits in their three-digit code.[12] Third, within its two-digit industry, the U.S. parent or foreign affiliate was classified in the three-digit subindustry in which its sales were largest. This procedure ensured that the U.S. parent or foreign affiliate was not assigned to a three-digit subindustry outside either its major industry or its two-digit industry.

The following example illustrates the three-stage classification procedure. Suppose a parent's or an affiliate's sales were distributed as follows:

Industry code	Percentage of total sales	
	All industries	**100**
	Manufacturing	**55**
35	Industrial machinery and equipment	30
351	Engines and turbines	5
352	Farm and garden machinery	10
353	Construction, mining, and materials handling machinery	15
36	Electronic and other electric equipment	25
367	Electronic components and accessories	25
	Wholesale trade	**45**
50	Durable goods	45
508	Machinery, equipment, and supplies	45

Because 55 percent of the parent's or affiliate's sales were classified in manufacturing and only 45 percent were classified in wholesale trade, the parent's or affiliate's major industry is manufacturing. Within manufacturing, 30 percent of its sales were accounted for by sales in two-digit industry 35 (industrial machinery and equipment)(the sum of the percentages in 351, 352, and 353), and 25 percent were in two-digit industry 36 (electronic and other electric equipment); therefore, the parent's or affiliate's two-digit industry is 35. Finally, because its sales within industry 35 were largest in subindustry 353, the parent's or affiliate's three-digit subindustry is 353. Thus, because of the three-stage classification procedure, the parent or affiliate was assigned to subindustry 353, even though its sales in that subindustry were smaller than its sales in either subindustries 508 or 367. Unless otherwise specified, the designation "by industry" in the title of a table in this publication indicates that the data in the table are disaggregated by industry of foreign affiliate. Exceptions to this rule are specified in the table title; for example, in some tables, affiliate data are disaggregated by industry of their U.S. parent.

The direct investment data are collected at the enterprise level, and each enterprise is classified in a single industry on the basis of its major activity. In contrast, the Standard Industrial Classification (SIC) is designed for classifying individual establishments (or plants) within an enterprise. Because many direct investment enterprises are active in several industries, it is not meaningful to classify all their data in a single industry if that industry is defined too narrowly. Accordingly, BEA has limited the detail in which it classifies U.S. parents and foreign affiliates by industry to a subset of the detail that is available in the SIC system.

In BEA's direct investment statistics, including those presented in this publication, petroleum is presented as a "major industry" that consolidates all the activities associated with petroleum production, transportation, and distribution. Consequently, these activities are excluded from the major industries in which they would otherwise be included. In particular, *manufacturing* excludes petroleum and coal products manufacturing, *mining* excludes oil and gas extraction, *wholesale trade* excludes petroleum wholesale trade, *retail trade* excludes gasoline service stations, and *transportation* excludes petroleum tanker operations, pipelines, and storage.

Beginning with the 1994 benchmark survey and reflecting a change in the 1987 SIC, savings institutions and credit unions are included in the industry "depository institutions," which also includes banks. Thus, the data for savings institutions and credit unions appear in the tables for "bank parents and affiliates" rather than in those for "nonbank parents and affiliates." Previously, these entities were classified as "nonbank parents and affiliates" in the industry "finance, except banking." This change has no material effect on comparisons of the data for 1993 and 1994, because in 1993, only one U.S. parent was classified as a savings institution or a credit union.

U.S. parents that are individuals, estates, or trusts were classified in the industry "nonbusiness entities, except government," which, in this publication, is treated as part of the major industry "finance, insurance, and real estate." This industry is included in tables that disaggregate affiliate data by industry of U.S. parent. It is not included in tables containing U.S.-parent data, because U.S. parents that were individuals, estates, or trusts were not required to report financial and operating data.

Table II.A2 presents selected data for nonbank foreign affiliates and nonbank U.S. parents classified by industry; each three-digit subindustry except depository institutions is shown separately and is grouped by the major industry to which it belongs. Table III.A2 presents similar data for majority-owned nonbank affiliates. Primarily because of confidentiality requirements, many of the three-digit industry categories are not shown in the other tables in this publication. However, each industry included, but not identified, in an industry group in the other tables may be ascertained by referring to table II.A2 or III.A2.

12. The only exceptions to this rule were that codes 401, 449, 450, 462, 472, and 477 were treated as being in the same two-digit industry–transportation.

Table 6.—Sales by All Foreign Affiliates and Sales by, and Employment of, All U.S. Parents, by Industry of Enterprise and by Industry of Sales

	Affiliate data		U.S. parent data			
	Sales (millions of dollars)		Sales (millions of dollars)		Number of employees (thousands)	
	By industry of affiliate	By industry of sales	By industry of U.S. parent	By industry of sales	By industry of U.S. parent	By industry of sales [1]
All industries	**1,830,744**	**1,830,744**	**4,148,552**	**4,148,552**	**19,330.0**	**19,330.0**
Petroleum	**294,223**	**285,400**	**368,949**	**327,322**	**510.3**	**365.5**
Oil and gas extraction	51,310	50,284	8,832	13,084	45.1	59.2
Crude petroleum extraction (no refining) and natural gas	46,659	45,319	5,079	8,383	11.5	16.7
Oil and gas field services	4,651	4,965	3,753	4,701	33.6	42.5
Petroleum and coal products	108,691	106,097	272,270	213,673	396.1	216.6
Integrated petroleum refining and extraction	33,070	33,144	255,049	188,858	362.1	184.6
Petroleum refining without extraction	73,395	70,704	15,092	19,822	26.6	13.6
Petroleum and coal products, not elsewhere classified	2,225	2,250	2,129	4,993	7.4	18.5
Petroleum wholesale trade	108,785	105,277	76,749	79,491	41.4	24.8
Other	25,438	23,743	11,099	21,073	27.7	64.9
Petroleum tanker operations	4,107	4,253	482	721	3.1	7.5
Petroleum and natural gas pipelines	1,450	1,995	(D)	13,839	24.2	25.2
Petroleum storage for hire	671	802	(D)	636	.4	2.6
Gasoline service stations	19,210	16,693	0	5,877	0	29.6
Manufacturing	**847,721**	**811,184**	**1,903,437**	**1,717,380**	**9,049.3**	**7,889.4**
Food and kindred products	104,978	103,346	264,097	206,956	1,269.9	821.4
Grain mill and bakery products	23,724	23,731	53,820	49,489	276.8	173.4
Grain mill products	20,006	20,249	35,076	36,150	195.7	83.2
Bakery products	3,718	3,483	18,744	13,339	81.1	90.2
Beverages	34,128	32,385	93,567	44,298	546.7	182.1
Other	47,126	47,230	116,709	113,169	446.4	466.0
Meat products	3,182	4,197	72,205	32,681	246.1	158.2
Dairy products	4,531	5,050	8,104	13,550	25.6	42.0
Preserved fruits and vegetables	7,322	6,718	15,281	21,423	82.1	83.4
Other food and kindred products	32,091	31,266	21,120	45,515	92.6	182.3
Chemicals and allied products	153,806	148,713	300,381	261,172	1,119.2	801.5
Industrial chemicals and synthetics	62,286	59,407	118,997	110,100	427.8	307.9
Drugs	40,039	39,673	100,097	68,345	392.2	242.4
Soap, cleaners, and toilet goods	31,395	27,703	48,547	33,683	170.1	100.2
Agricultural chemicals	4,303	5,511	7,009	13,949	20.3	36.3
Chemical products, not elsewhere classified	15,783	16,418	25,731	35,096	108.8	114.7
Primary and fabricated metals	30,188	31,029	107,109	103,405	562.7	529.0
Primary metal industries	10,180	10,175	64,616	54,685	293.2	211.0
Ferrous	1,919	1,808	27,925	30,120	121.2	117.1
Nonferrous	8,261	8,367	36,691	24,565	172.0	93.9
Fabricated metal products	20,009	20,854	42,493	48,720	269.5	318.0
Metal cans, forgings, and stampings	6,791	6,893	16,385	13,188	79.6	56.2
Cutlery, hand tools, and screw products	4,231	4,122	9,560	9,409	63.1	77.0
Heating and plumbing equipment and structural metal products	2,273	2,495	8,950	9,895	67.0	67.3
Fabricated metal products not elsewhere classified, ordnance, and services	6,714	7,343	7,599	16,228	59.8	117.5
Industrial machinery and equipment	129,300	116,693	214,730	194,393	1,050.6	918.7
Farm and garden machinery	4,874	5,470	16,882	13,566	70.2	51.9
Construction, mining, and materials handling machinery	13,511	13,391	27,390	24,550	130.6	116.1
Computer and office equipment	84,594	70,785	106,680	79,279	430.2	298.5
Other	26,321	27,046	63,778	76,998	419.7	452.1
Engines and turbines	5,506	6,094	8,468	23,293	39.5	102.7
Metalworking machinery	2,103	2,094	7,356	6,325	48.0	40.5
Special industry machinery	3,798	3,955	6,727	10,012	41.3	55.9
General industry machinery and equipment	6,843	6,818	19,747	15,941	143.5	121.6
Refrigeration and service industry machinery	5,738	5,662	18,073	17,036	123.8	101.9
Industrial machinery and equipment not elsewhere classified	2,333	2,423	3,408	4,389	23.5	29.6
Electronic and other electric equipment	73,308	73,259	199,241	173,555	946.3	967.6
Household appliances	10,715	10,344	14,375	19,302	73.9	96.0
Household audio and video, and communications equipment	15,259	15,243	27,958	54,137	113.5	268.8
Electronic components and accessories	35,955	35,707	102,743	62,028	407.5	336.5
Electronic and other electric equipment, not elsewhere classified	11,378	11,964	54,165	38,088	351.3	266.3
Transportation equipment	206,848	189,477	424,137	357,502	1,615.9	1,318.3
Motor vehicles and equipment	202,518	184,653	309,635	257,698	957.3	768.9
Other	4,329	4,825	114,502	99,804	658.6	549.4
Other manufacturing	149,294	148,666	393,742	420,397	2,484.7	2,532.9
Tobacco products	15,481	15,481	8,921	24,688	32.3	49.6
Textile products and apparel	9,113	9,261	32,378	38,896	325.2	386.8
Textile mill products	3,029	3,138	16,740	16,860	159.3	159.2
Apparel and other textile products	6,084	6,123	15,638	22,037	166.0	227.6
Lumber, wood, furniture, and fixtures	9,023	9,058	36,633	38,720	225.0	230.2
Lumber and wood products	4,143	4,275	17,341	24,682	72.8	121.7
Furniture and fixtures	4,880	4,783	19,292	14,037	152.1	108.5
Paper and allied products	27,385	28,122	97,338	76,313	456.1	369.3
Pulp, paper, and board mills	8,511	8,051	36,612	32,566	152.4	147.8
Other paper and allied products	18,875	20,071	60,726	43,747	303.8	221.5

Table 6.—Sales by All Foreign Affiliates and Sales by, and Employment of, All U.S. Parents, by Industry of Enterprise and by Industry of Sales—Continued

	Affiliate data		U.S. parent data			
	Sales (millions of dollars)		Sales (millions of dollars)		Number of employees (thousands)	
	By industry of affiliate	By industry of sales	By industry of U.S. parent	By industry of sales	By industry of U.S. parent	By industry of sales [1]
Printing and publishing	7,194	6,877	55,362	55,929	391.1	374.3
Newspapers	245	240	17,061	16,341	122.4	134.0
Miscellaneous publishing	4,770	4,713	27,383	27,505	180.6	141.7
Commercial printing and services	2,179	1,925	10,918	12,082	88.2	98.6
Rubber products	12,132	11,530	26,033	22,706	152.1	135.2
Miscellaneous plastics products	14,648	13,580	16,653	28,252	104.8	173.8
Glass products	5,510	6,318	11,909	11,761	81.7	80.7
Stone, clay, and nonmetallic mineral products	5,535	5,308	15,551	14,058	85.4	75.5
Instruments and related products	35,708	34,785	79,578	81,588	536.1	503.4
Measuring, scientific, and optical instruments	5,124	5,885	36,562	33,284	274.8	237.3
Medical instruments and supplies and ophthalmic goods	12,213	13,133	21,758	32,382	145.7	204.3
Photographic equipment and supplies	18,371	15,767	21,258	15,922	115.5	61.7
Other	7,564	8,347	13,386	27,487	95.0	154.1
Leather and leather products	548	574	1,529	3,591	12.0	35.2
Miscellaneous manufacturing industries	7,016	7,773	11,857	23,896	83.0	118.9
Wholesale trade	**310,932**	**323,800**	**263,717**	**329,332**	**491.2**	**577.0**
Durable goods	194,748	202,491	152,346	173,879	247.7	316.4
Motor vehicles and equipment	25,220	39,769	18,138	24,511	35.4	47.1
Lumber and construction materials	1,132	1,079	5,222	7,889	11.5	9.3
Professional and commercial equipment and supplies	99,001	90,329	28,303	41,515	56.5	97.5
Metals and minerals	3,955	4,264	47,229	28,861	17.2	12.2
Electrical goods	31,704	33,023	34,562	34,429	69.9	62.6
Hardware, plumbing, and heating equipment and supplies	3,858	3,897	3,587	3,217	9.7	7.0
Machinery, equipment and supplies, not elsewhere classified	19,502	19,446	6,565	17,588	24.1	41.9
Durable goods, not elsewhere classified	10,375	10,683	8,741	15,871	23.3	38.7
Nondurable goods	116,184	121,309	111,371	155,453	243.5	260.7
Paper and paper products	3,741	4,970	12,806	17,029	33.6	34.4
Drugs, proprietaries, and sundries	26,072	24,077	30,684	23,194	55.3	31.8
Apparel, piece goods, and notions	7,615	7,916	8,441	10,002	28.8	29.8
Groceries and related products	16,579	18,691	30,176	38,669	79.9	92.0
Farm product raw materials	25,127	28,476	19,958	32,630	17.6	17.7
Nondurable goods, not elsewhere classified	37,051	37,179	9,307	33,928	28.2	54.9
Depository institutions	**64,362**	**64,459**	**158,539**	**140,170**	**764.6**	**684.9**
Banks	(D)	64,291	158,539	137,220	764.6	660.2
Savings institutions and credit unions	(D)	169	0	2,950	0	24.7
Finance (except depository institutions), insurance, and real estate	**98,997**	**102,268**	**471,207**	**552,232**	**1,098.5**	**1,200.5**
Finance, except depository institutions	49,750	53,109	105,810	171,335	273.3	448.2
Business franchising	647	1,747	0	4,123	0	14.3
Other	49,103	51,362	105,810	167,212	273.3	433.9
Insurance	47,646	47,720	362,007	372,755	811.1	727.0
Life insurance	17,359	16,811	126,299	124,420	221.9	187.8
Accident and health insurance	6,900	8,125	8,504	43,860	17.3	101.6
Other	23,387	22,784	227,204	204,475	571.9	437.5
Real estate	1,393	1,438	3,387	8,142	13.7	24.5
Holding companies	208	0	3	0	.4	.7
Services	**86,230**	**109,610**	**171,243**	**252,146**	**2,116.8**	**2,658.7**
Hotels and other lodging places	3,501	3,956	11,950	11,687	236.6	202.3
Business services	50,224	69,058	60,451	111,999	953.1	1,249.7
Advertising	6,497	6,434	4,735	7,591	30.4	37.7
Equipment rental (except automotive and computers)	2,939	3,590	1,720	6,998	12.5	31.6
Computer and data processing services	31,917	47,724	28,307	65,471	196.1	422.8
Computer processing and data preparation services	4,596	4,815	(D)	16,373	K	143.9
Information retrieval services	869	875	(D)	1,715	H	8.9
Computer related services, not elsewhere classified	26,452	42,034	22,954	47,383	141.7	269.9
Business services, not elsewhere classified	8,871	11,311	25,690	31,939	714.0	757.6
Services to buildings	234	304	5,948	4,717	118.7	105.4
Personnel supply services	4,048	4,081	9,270	9,038	360.7	361.3
Other	4,589	6,926	10,472	18,184	234.6	291.0
Automotive rental and leasing	2,596	2,590	6,751	8,067	65.6	64.8
Motion pictures, including television tape and film	7,844	7,770	32,482	23,619	169.9	91.6
Health services	554	639	24,604	30,364	315.1	361.4
Engineering, architectural, and surveying services	7,463	7,959	9,720	20,903	73.7	144.7
Management and public relations services	5,243	5,306	7,768	10,971	57.8	100.5
Other	8,806	12,332	17,517	34,537	245.0	443.8
Automotive parking, repair, and other services	121	295	(D)	2,878	H	43.4
Miscellaneous repair services	1,152	4,129	(D)	4,904	G	36.7
Amusement and recreation services	1,791	1,585	2,627	6,841	42.3	100.9
Legal services	234	248	2,178	2,295	11.3	12.4
Educational services	371	365	971	1,199	17.1	19.2
Accounting, auditing, and bookkeeping services	478	484	6,791	5,942	76.1	69.5
Research, development, and testing services	1,829	2,268	647	4,617	6.5	60.8
Other services provided on a commercial basis	2,831	2,959	3,896	5,860	87.7	100.9
Other industries	**128,279**	**131,073**	**811,459**	**793,060**	**5,299.4**	**5,546.9**
Agriculture, forestry, and fishing	2,827	3,060	4,433	7,526	32.1	48.4
Agricultural production—crops	1,695	1,781	3,236	4,638	17.5	19.7
Agricultural production—livestock	680	798	(D)	2,283	I	20.1
Agricultural services	(D)	91	(D)	280	I	6.7
Forestry	(D)	261	0	(D)	0	F
Fishing, hunting, and trapping]	130	130	0	(D)	0	G

Table 6.—Sales by All Foreign Affiliates and Sales by, and Employment of, All U.S. Parents, by Industry of Enterprise and by Industry of Sales—Continued

	Affiliate data		U.S. parent data			
	Sales (millions of dollars)		Sales (millions of dollars)		Number of employees (thousands)	
	By industry of affiliate	By industry of sales	By industry of U.S. parent	By industry of sales	By industry of U.S. parent	By industry of sales [1]
Mining	11,365	11,274	14,079	23,415	57.6	116.4
Metal mining	8,105	7,974	7,774	6,680	30.0	29.3
Iron ores	(D)	805	(D)	(D)	G	5.2
Copper, lead, zinc, gold, and silver ores	6,195	6,065	7,336	5,636	27.2	21.2
Other metallic ores	966	989	(D)	347	.3	1.9
Metal mining services	(D)	114	(D)	(D)	F	1.0
Nonmetallic minerals	3,260	3,300	6,305	16,735	27.6	87.1
Coal	2,501	2,607	3,735	11,055	16.4	59.1
Coal mining services	(D)	(D)	0	1	0	0
Nonmetallic minerals, except fuels	(D)	(D)	2,570	(D)	11.2	K
Nonmetallic minerals services, except fuels	4	4	0	(D)	0	G
Construction	8,881	8,987	33,676	28,924	179.6	157.5
Transportation	17,898	18,311	125,594	129,103	992.9	987.9
Railroads	412	374	28,046	20,518	161.3	120.2
Water transportation	3,836	3,926	6,348	9,155	29.2	41.7
Transportation by air	(D)	(D)	48,399	46,892	330.0	322.2
Pipelines, except petroleum and natural gas	472	472	0	0	0	0
Passenger transportation arrangement	(D)	(D)	5,335	10,586	24.7	24.9
Transportation and related services, not elsewhere classified	9,161	9,501	37,466	41,953	447.7	478.9
Communication	21,377	21,292	235,928	196,958	1,055.6	805.2
Telephone and telegraph communications	19,890	19,858	215,186	170,152	949.6	707.0
Other communications services	1,488	1,434	20,742	26,806	105.9	98.2
Electric, gas, and sanitary services	16,791	16,850	94,996	94,262	304.2	295.2
Retail trade	49,140	51,297	302,753	312,873	2,677.5	3,136.3
General merchandise stores	8,183	8,344	173,002	149,805	1,362.2	1,312.1
Food stores	11,602	11,555	41,191	42,442	318.2	326.6
Apparel and accessory stores	1,975	2,074	32,854	35,794	415.1	417.3
Eating and drinking places	11,170	10,302	13,323	28,325	269.6	702.9
Retail trade, not elsewhere classified	16,210	19,022	42,384	56,507	312.4	377.3
Unspecified	**0**	**2,951**	**0**	**36,909**	**0**	**407.1**

D Suppressed to avoid disclosure of data of individual companies.
1. Bank parents, unlike nonbank parents, were not required to disaggregate their employment by industry of sales. The distribution of employment by industry of sales for bank parents was, therefore, estimated by multiplying each parent's total employment by the percentage of sales that were in each industry.

NOTE.—Size ranges are given in employment cells that are suppressed. The size ranges are A—1 to 499; F—500 to 999; G—1,000 to 2,499; H—2,500 to 4,999; I-5,000 to 9,999; J—10,000 to 24,999; K—25,000 to 49,999; L—50,000 to 99,999; M—100,000 or more.

Each U.S. parent and foreign affiliate was classified in a single industry, even though many parents and affiliates had activities in more than one industry. As a result, the distribution of data by industry of U.S. parent or foreign affiliate differs from the distribution that would result if each activity of a parent or an affiliate was classified by industry. In the benchmark survey, sales by U.S. parents and foreign affiliates and employment by U.S. parents were classified by activity. Specifically, each U.S. parent was required to distribute its sales and employment among the eight three-digit subindustries in which its sales were largest and to distribute the sales of each foreign affiliate among the five three-digit subindustries in which the affiliate's sales were largest. Unspecified sales and employment are shown in the "not specified by industry" row or column in the tables that display data by industry of sales. Because a parent or affiliate that has an establishment in an industry usually also has sales in that industry, the distribution by industry of sales roughly approximates the distribution that would result if the data were reported and classified by industry of establishment.

In table 6, U.S. parents' sales and employment disaggregated by industry of sales are compared with their sales and employment disaggregated by industry of parent, and foreign affiliates' sales disaggregated by industry of sales are compared with their sales disaggregated by industry of affiliate. (For nonbank parents of nonbank affiliates, data by industry of sales cross-classified by industry of parent are shown in table II.Q2 for sales and table II.S2 for employment; for nonbank affiliates of nonbank parents and for majority-owned nonbank affiliates of nonbank parents, sales by industry of sales cross-classified by industry of affiliate are shown in tables II.F24 and III.F24, respectively.)

For sales, differences between the distribution by industry of enterprise and the distribution by industry of sales were much larger for U.S. parents than for foreign affiliates, primarily because U.S. parents are more diversified than their affiliates. Their greater diversity partly reflects the much greater degree of consolidation of U.S. parents.

Estimation and General Validity of the Data

A completed benchmark survey form was required for affiliates that had total assets, sales, or net income (or losses) greater than $3 million. Either a long form or a short form was required, depending on the size of the affiliate.[13] To present financial and operating data in the same detail for all nonbank affiliates, BEA estimated the items that appeared only on the long form for the affiliates that were reported on the short form. Estimates were also made for some affiliates that failed to report on the benchmark survey but for which data could be obtained from other direct investment surveys.

The long form (BE-10B(LF))—which was filed by U.S. parents for nonbank foreign affiliates with total assets, sales, or net income (or loss) greater than $50 million—collected detailed data. The most detail was collected for majority-owned nonbank affiliates. The short form (BE-10B(SF))—which was filed by nonbank U.S. parents for nonbank foreign affiliates with total assets, sales, or net income (or losses) of $50 million or less and by bank parents for their nonbank affiliates regardless of size—collected most balance of payments items but only selected financial and operating data items. For a given short-form affiliate, long-form items were generally estimated on the basis of relationships among data items for the most comparable panel of long-form affiliates that could be constructed; specifically, the panel comprised affiliates that had total assets of between $50 million and $250 million and that were in the same industry group as the affiliate whose data were being estimated.

A total of 13,557 nonbank affiliates of nonbank parents filed short forms. Although these affiliates accounted for 60.7 percent of all nonbank affiliates of nonbank parents, they accounted for only a modest portion of the universe of nonbank affiliates of nonbank parents in terms of value—8.0 percent of total assets, 12.0 percent of sales, and 24.0 percent of employment.

BEA also made estimates of the data for some nonbank affiliates that did not file a benchmark survey report even though they met the criteria for filing. For the 567 affiliates covered by these estimates, BEA had a report in another direct investment survey that served as a basis for estimation. These affiliates, most of which were small, accounted for only a minor portion of the nonbank universe in terms of value—1.7 percent of total assets, 1.6 percent of sales, and 3.2 percent of employment. The estimation of data for these affiliates ensured that the 1994 data were as complete as possible.

All data reported for U.S. parents and foreign affiliates were required to pass a number of computerized edit checks. Where possible, the data for a parent or an affiliate were reviewed for their consistency with related data for the parent or affiliate from other parts of the report form, with data provided in related report forms, with comparable data reported by other parents or affiliates, and with comparable data from outside sources. As a result of this edit and review process, a number of changes to the reported data were made, often after consultation with survey respondents. In some cases, usually involving small parents and affiliates, estimates based on industry averages or on other information were substituted for missing or erroneously reported data.

For some data items—such as those pertaining to trade by product and by country of destination and origin—survey respondents had difficulty in supplying the required information because the data were not easily accessible or were unavailable from their standard accounting records. In these cases, respondents often made estimates, the quality of which is difficult to assess.

Number of U.S. Parents and Foreign Affiliates

Table 7 shows the number of parents and affiliates covered by the 1994 benchmark survey. Table II.A2 shows the number of nonbank foreign affiliates by country, and table III.A2 shows the number of nonbank U.S. parents and nonbank foreign affiliates by industry. The counts of nonbank parents and affiliates are comparable with the counts shown in the previous annual survey publications.

The counts of parents and affiliates should be used cautiously because with the exception of those shown in table 2, they exclude the numerous very small affiliates (and parents of only very small affiliates) that were exempt from filing a benchmark survey report. In addition, some parents and affiliates that were required to file a report did not do so. Because of limited resources, BEA's efforts to ensure compliance with reporting requirements focused mainly on large parents and affiliates. As a result, some of the parents of small affiliates that were not aware of the reporting requirements and that were not on BEA's mailing list may not have filed reports. The omission of these parents and their affiliates from the benchmark survey results probably has not significantly affected the aggregate value of the various data items collected, but it could have caused an unknown, but possibly significant, understatement of the number of parents or affiliates.

Even an exact count of parents or affiliates would be difficult to interpret because each report covers a consolidated business enterprise. The number of consolidated business enterprises varies according to the degree of consolidation used and the differences in the organizational structure of the companies.

13. Facsimiles of these forms appear in the appendix.

Financial and Operating Data for Foreign Affiliates and U.S. Parents

Financial and operating data focus on the overall operations of U.S. parents and their affiliates. Among the items covered by these data are the following: Balance sheets and income statements; gross product; sales of goods and services; external financial position; taxes; property, plant, and equipment; employment and compensation of employees; U.S. trade in goods; and research and development expenditures. Only a few of these items were obtained for bank parents and affiliates; consequently, most of the tables that present financial and operating data cover only nonbank parents and affiliates.

The financial and operating data for foreign affiliates are not adjusted for the ownership share of the U.S. parents. Thus, for example, the employment data include all employees of each affiliate, including affiliates in which the U.S. parent's ownership share is less than 100 percent. To help address issues for which control is relevant, many tables cover only majority-owned foreign affiliates.

Most of the concepts and definitions used in reporting the financial and operating data can be found on the BE-10 forms or in the *Instruction Booklet* to the forms, all of which are reproduced in the appendix. The following discussion focuses on the concepts, definitions, and statistical issues that require further explanation or that are not covered in either the forms or the *Instruction Booklet.*

Gross product

Gross product measures the contributions of foreign affiliates to the gross domestic product (GDP) of foreign countries and the contribution of U.S. parents to U.S. GDP. Often referred to as "value added," gross product can be measured as gross output (sales or receipts and other operating income plus inventory change) minus intermediate inputs (purchased goods and services). Alternatively, it can be measured as the sum of the costs incurred (except for intermediate inputs) and the profits earned in production. The estimates presented in this publication for U.S. parents and majority-owned foreign affiliates were calculated as the sum of costs and profits.

Estimates of gross product rather than sales or other measures are generally preferred in assessing the impact of parents or affiliates on the entire host economy as well as on individual industries. Using gross product permits a more focused analysis of the economic impact of parents and affiliates because it measures only the parents' and affiliates' own production, whereas sales do not distinguish between internal production and production originating elsewhere. In addition, gross product measures the value added to the economy during a specific period. In contrast, some sales in a given period may represent production from earlier periods.

The measure of profits from current production used to compute gross product is profit-type return. Unlike the net income item in the income statement, profit-type return measures profits before income taxes, and it excludes nonoperating items (such as special charges and capital gains and losses) and income from equity investments. Tables included in this publication show profit-type return of majority-owned foreign affiliates by detailed country and industry.

External financial position

The 1994 benchmark survey was the first BEA survey to collect data on the external financial position of U.S. parent companies. These new data for parents are similar to the data collected for majority-owned foreign affiliates in the 1994 and previous benchmark surveys and in BEA's annual surveys of U.S. direct investment abroad. For parents, the benchmark survey obtained a breakdown of most financial-asset and liability positions with affiliated and unaffiliated persons and with U.S. or foreign persons. For affiliates, a similar breakdown was collected for current liabilities and long-term debt, owners' equity, and receivables and financial investments.

These new data for U.S. parents provide a more complete picture of the parents' international commercial and financial activities than had been available. In past benchmark surveys, detail on U.S. parents' transactions with unaffiliated foreigners had been limited to trade in goods, sales of goods and services, and receipts and payments of fees and royalties. The new data fill a gap by providing information on parents' financial relationships—asset and liability positions—with unaffiliated foreigners. They also permit better integration of the data for U.S. parents in the international accounts with the data on financial and commercial claims and liabilities of all U.S. companies collected by the Treasury Department.

Sales of goods and services

For U.S. parents and majority-owned foreign affiliates, the 1994 benchmark survey collected data on sales (or gross operating revenues) that were disaggregated into goods, services, and investment income and by type of customer—by affiliated and unaffiliated parties—and by destination—sales to the United States, local sales, and sales to other foreign countries.[14]

14. Sales are defined as gross sales (or, for holding companies, gross operating revenues) minus returns, allowances, and discounts. They are net of sales taxes and consumption taxes levied directly on consumers, value-added taxes, and excise taxes levied on manufacturers, wholesalers, and retailers.

As a general rule, sales of goods are defined as sales generated by activities that are characteristic of establishments in the following major industries: Agriculture (except agricultural services), forestry, and fishing; mining (except mining services); petroleum (except petroleum services); construction; manufacturing; and wholesale and retail trade. However, a parent or an affiliate that is not classified in one of these industries may have sales of goods.

As a general rule, sales of services are defined as sales generated by activities that are characteristic of establishments in the following industries: The "services" division of the Standard Industrial Classification (and the International Surveys Industry Classification) system; petroleum services; finance, insurance, and real estate; agricultural services; mining services; transportation; communication; and public utilities. However, a parent or an affiliate that is not classified in one of these industries may have sales of services.

One exception to these rules occurs when goods are among the products of services industries or services are among the products of goods industries. For example, sales of mass-produced prepackaged computer software are recorded as sales of goods even if the software is sold directly by a software producer (classified in a services industry). Similarly, sales of structures are sales of goods regardless of whether they are sold by a company in a goods industry (such as a construction firm) or by a company in a services industry (such as a real estate firm).

Another exception is that finance and insurance companies that include investment income in total sales (or gross operating revenues) reported such income as investment income rather than as sales of services. In most other industries, companies generally consider investment income an incidental revenue source and include it in the income statement in a separate "other income" category rather than in sales.

When a sale consisted of both goods and services and the two components could not be unbundled, because for example, the goods and services were not separately billed, the total sale was classified as a good or as a service on the basis of whether the good or the service accounted for the most value.

Employment and compensation of employees

In the benchmark survey, data on employment and compensation of employees were collected for U.S. parents and foreign affiliates. For U.S. parents and majority-owned foreign affiliates, data were also collected on the number of employees engaged in research and development activities and on the components of compensation of employees—wages and salaries and employee benefits. For majority-owned foreign affiliates in manufacturing, data were also collected on the number of production workers and on the compensation of, and hours worked by, those workers.

Survey respondents were asked to report employment as the number of full-time and part-time employees on the payroll at the end of fiscal year 1994. However, a count taken during the year was accepted if it was a reasonable proxy for the end-of-year number. In addition, if employment at the end of the year was unusually high or low because of temporary factors, such as seasonal variations or a strike, a number reflecting normal operations was requested.

Employment by U.S. parents is classified both by industry of parent and by industry of sales. The classification by industry of sales is based on information supplied by each U.S. parent on employment in the individual three-digit industries in which it had sales.

Employment by foreign affiliates is classified both by industry of affiliate and by industry of U.S. parent. It is not classified by industry of sales because the necessary data were not collected. (Earlier surveys had indicated that most affiliates had employment in only one three-digit industry.)

Worker compensation rates were not directly collected in the benchmark survey, but the data needed to derive hourly compensation of production workers of majority-owned foreign affiliates in manufacturing were collected. Such data were collected only for production workers because data on hours worked by nonproduction workers are generally not maintained by survey respondents and because data on aggregate hourly compensation and wage rates for the United States and foreign countries that might be comparable with the benchmark survey data are limited to data for production workers.

Data that could be used to compute compensation per employee and wages and salaries per employee of U.S. parents and foreign affiliates also were collected. However, the computed rates may not accurately reflect the compensation rates normally paid by parents and affiliates (and, thus, are not shown in this publication). The computed rates may be distorted by the inclusion of part-time employment, because a part-time employee is counted the same as a full-time employee, or they may be distorted by data that cover only part of the year—for example, data for a parent or affiliate that was newly established during the year.

U.S. trade in goods

In the benchmark survey, data were collected on several aspects of the U.S. trade in goods of U.S. parents and foreign affiliates. For U.S. parents, data were collected by country of destination or origin, by affiliation (that is, whether or not the trade was with affiliated parties), and by product. For all foreign affiliates, data were collected by affiliation. For majority-owned foreign affiliates, data were also collected by product and, for exports, by intended use.

The concepts and definitions underlying the data collected on trade in goods are nearly identical to those used for the data on total U.S. trade in goods compiled by the Census Bureau. However, because of certain reporting problems, the 1994 benchmark survey data are not completely comparable with the Census Bureau trade data. In the benchmark survey, U.S. trade in goods data were requested on a "shipped" basis—that is, on the basis of when, where, and to (or by) whom the goods were shipped—in order for them to be comparable with the data on total U.S. trade. However, most survey respondents keep their accounting records on a "charged" basis—that is, on the basis of when, where, and to (or by) whom the goods were charged. The two bases are usually the same, but differences between them can be substantial.[15]

On the basis of its review, BEA believes most data were reported on a shipped basis rather than on a charged basis. However, some survey respondents had difficulty obtaining data on a shipped basis, which usually required using shipping department invoices rather than accounting records. If BEA determined that the data were reported on a charged basis and that these data were likely to differ materially from data reported on a shipped basis, it required revised reports to be filed. However, some cases of erroneous reporting were probably not identified.

Additional differences between the BEA trade data and those of the Census Bureau may have resulted simply because the data come from two different sources: The BEA data are based on company records, whereas those of the Census Bureau are compiled from export and import documents filed by the shipper with the U.S. Customs Service on individual transactions. The timing, valuation, origin or destination, shipper, and product involved in a given export or import transaction may be recorded differently on company records than on customs export and import documents.

In the 1994 benchmark survey, exports and imports of U.S. parents and majority-owned foreign affiliates are disaggregated into 12 product categories on the basis of the *Standard International Trade Classification, Revision 2* (United Nations Statistical Papers, Series M, No. 34, New York: United Nations, 1975). (See pages 21–24 in the *Guide to Industry and Foreign Trade Classifications for International Surveys* in the appendix for a description of the categories used.) U.S. exports of goods shipped to majority-owned foreign affiliates were also disaggregated by intended use into three categories: Capital equipment, goods for further manufacture, and goods for resale without further manufacture.

Total trade of a given U.S. parent with all of its foreign affiliates combined was reported on the parent survey form (BE-10A), and trade of a foreign affiliate with its U.S. parent was reported on the affiliate survey form (BE-10B). However, the total trade of a U.S. parent with all of its affiliates combined may not equal the sum of the trade with the U.S. parent that was reported for the affiliates, because of differences in timing and valuation and because the parent's survey form may include data for affiliates that are exempt from being reported on the affiliates' survey forms.

Research and development

The 1994 benchmark survey collected data on two technology-related items—research and development (R&D) expenditures and the number of employees engaged in R&D-related activities—for U.S. parents and majority-owned foreign affiliates. R&D includes basic and applied research in science and engineering and design and development of prototypes and processes.

The data on R&D expenditures were collected on two bases: R&D that is performed by the parent or affiliate (whether the R&D was for its own use or for use by others) and R&D that is funded by the parent or affiliate (whether the R&D was performed internally or by others). R&D on the performance basis is consistent with the data on R&D performed by all U.S. companies that are compiled by the National Science Foundation. R&D on the funding basis is consistent with guidelines of the Financial Accounting Standards Board for accounting for the costs of R&D. Both R&D measures provide some indication of the production or use of technology by parents and affiliates; however, the connection between R&D activity and technology is imprecise.

15. For example, if a U.S. parent buys goods from an affiliate in country A and sells them to an affiliate in country B and if the goods are shipped directly from country A to country B, the parent's accounting records would show a purchase from country A and a sale to country B. If the parent's trade data were reported on a charged basis, the purchase and sale would have appeared as a U.S. import and a U.S. export, respectively; however, the goods never entered or left the United States, and on a shipped basis, they are not included in either U.S. imports or U.S. exports.

Direct Investment Position and Balance of Payments Data

Direct investment position and direct investment balance of payments data measure the value of U.S. parents' investment positions in, and the value of their transactions with, their foreign affiliates. In contrast, the financial and operating data of parents and affiliates, discussed earlier, provide measures of the overall operations of parents and affiliates, including their transactions and investment positions with persons outside of the U.S. multinational company. For example, the U.S. direct investment position in a foreign affiliate is equal to its U.S. parents' equity in, and net outstanding loans to, the affiliate; in contrast, a foreign affiliate's total assets are equal to the sum of (1) the total owners' equity in the affiliate that is held by its U.S. parents and by all other persons and (2) the total liabilities owed by the affiliate to its U.S. parents and to all other persons.[16]

For U.S. direct investment abroad, the following major items appear in the U.S. international transactions accounts:

- Direct investment capital outflows,
- Direct investment income,
- Direct investment royalties and license fees, and
- Other direct investment services.

Two adjustments are made to the data before they are entered into the U.S. international accounts and the national income and product accounts, but these adjustments are made only at the global level; the data required to make them for countries and industries are not available. The data from the benchmark survey are adjusted from a fiscal year basis to a calendar year basis.

In addition, income and capital outflows are adjusted to ensure that depreciation charges reflect current-period prices and to more closely align income earned in a given period with charges against income in the same period, as required by economic accounting principles. The adjustment is accomplished in a three-step process. First, a capital consumption adjustment is made to convert depreciation charges from a historical-cost basis to a current- or replacement-cost basis. Second, earnings are raised by the amount of the charges for depletion of natural resources, because these charges are not treated as production costs in the national income and product accounts. Third, expenses for mineral exploration and development are reallocated across periods to ensure that they are written off over their economic lives rather than all at once.

The adjusted data for 1994 will be extrapolated forward to derive universe estimates for calendar years after 1994 on the basis of sample data collected in BEA's quarterly surveys for those years. BEA is evaluating the need to revise previously published data for 1990–93 to incorporate information obtained in the 1994 benchmark survey.

Two changes, discussed in more detail below, have been introduced to make BEA's data more consistent with the international standards recommended in the International Monetary Fund's *Balance of Payments Manual* and in the United Nations System of National Accounts. First, intercompany debt transactions and positions and associated interest transactions with affiliates that are financial intermediaries other than depository institutions are excluded from direct investment in accordance with the methodology used for depository institutions (see the discussion in the section "U.S. direct investment position abroad"). Second, data on intercompany service charges are disaggregated by type of service (see the discussion in the section "Other direct investment services").

U.S. direct investment position abroad

The U.S. direct investment position abroad at historical cost is equal to the net book value of U.S. parents' equity in, and net outstanding loans to, their foreign affiliates. The position may be viewed as the U.S. parents' contributions to the total assets of their foreign affiliates or as the financing provided in the form of equity or debt by U.S. parents to their foreign affiliates. The data are derived from the accounting records of the foreign affiliates at yearend.

The direct investment position data in this publication are valued at historical cost and are not adjusted to current value. Thus, they largely reflect prices at the time of investment rather than prices of the current period. Because historical cost is the basis used for valuation in company accounting records in the United States, it is the only basis on which companies can report data in BEA's direct investment surveys. It is also the only basis on which detailed estimates of the position are available by country, by industry, and by account. However, BEA does provide aggregate estimates of the position valued on two current-period-price bases—current cost

16. For example, suppose that an affiliate is owned 80 percent by its U.S. parent and that the affiliate has total owners' equity of $50 million and total liabilities of $100 million, of which $20 million is owed to the parent. In this case, the affiliate's total assets would be $150 million (total owners' equity of $50 million plus total liabilities of $100 million), and the parents' position in the affiliate would be $60 million (80 percent of the $50 million of owners' equity plus the $20 million of intercompany debt).

and market value.[17] The direct investment position at current cost revalues that portion of the position that represents U.S. parents claims on the tangible assets of foreign affiliates (such as plant, equipment, and inventories), using price indexes appropriate to each of a few broad asset classes. The direct investment position at market value revalues both the tangible assets and the intangible assets on which U.S. parents have claims, using aggregate stock price indexes for foreign countries.

U.S. parents' equity in incorporated foreign affiliates can be broken down into U.S. parents' holdings of capital stock in, and other capital contributions to, their affiliates and U.S. parents' equity in the retained earnings of their affiliates. Capital stock includes all stock of affiliates, whether the stock is common or preferred or is voting or nonvoting. Other capital contributions by U.S. parents, also referred to as the "U.S. parents' equity in additional paid-in capital," consist of invested or contributed capital that is not included in capital stock; these contributions include the amount paid for stock in excess of its par or stated value, the capitalization of intercompany accounts (conversions of debt to equity) that do not result in the issuance of capital stock, and donations. U.S. parents' equity in retained earnings is the U.S. parents' shares of the cumulative undistributed earnings of their incorporated foreign affiliates.

Although the owners' equity of some unincorporated affiliates could not be disaggregated by type, the data on U.S. parents' equity in affiliates by type cover both incorporated and unincorporated affiliates. For unincorporated affiliates for which no breakdown of owners' equity by type was available, the parents' total equity was included in capital stock. The U.S. parents' share in total owners' equity (not broken down by type) is shown for incorporated affiliates and for unincorporated affiliates in addenda to the tables.

U.S. parents' net outstanding loans to their foreign affiliates, also referred to as "U.S. parents' net intercompany debt receivables from foreign affiliates," consist of trade accounts and trade notes payable, other current liabilities, and long-term debt that is owed by the affiliates to their U.S. parents and that is net of similar items due to the affiliates from their U.S. parents.

Intercompany debt includes the value of capital leases and of operating leases of more than 1 year between U.S. parents and their foreign affiliates. The value of property leased to a foreign affiliate by its U.S. parent is included in affiliates' payables, and the value of property leased by a foreign affiliate to its U.S. parent is included in affiliates' receivables.[18]

For affiliates that are depository institutions or other financial intermediaries, certain types of funding received from, or provided to, their parents are excluded from direct investment in accordance with international guidelines. For affiliates that are depository institutions, the direct investment position is defined to include only their U.S. parents' permanent equity and debt investment in them; similarly, the direct investment flows that enter the U.S. international transactions accounts for these affiliates include only the transactions related to such permanent investment. All other transactions and positions—mainly claims and liabilities arising from the parents' and affiliates' normal banking business, which are reported to the U.S. Treasury Department rather than to BEA, are excluded from the direct investment accounts, but they are included with other banking claims and liabilities in the portfolio investment accounts.

Beginning with the 1994 benchmark survey, a similar treatment has been adopted for affiliates that were financial intermediaries other than depository institutions: The direct investment position in, and capital and income flows with, these affiliates are defined to include only the U.S. parents' permanent investment in them. Other U.S.-parent positions in, and flows with, these affiliates—positions and flows associated with the affiliates intermediation activity—are included in the portfolio investment accounts. This change was made in order to make BEA's data more consistent with the international standards recommended in the International Monetary Fund's *Balance of Payments Manual.*[19]

The industrial classification system used in the 1994 benchmark survey separately classified depository institutions, but it did not provide a separate classification for other financial intermediaries. Instead, financial intermediaries and other nonbank financial affiliates are classified in the "other finance" industry (international

17. For the estimates of the position at current cost and at market value for U.S. direct investment abroad (and for foreign direct investment in the United States), see Russell B. Scholl, "The International Investment Position of the United States in 1996," Survey of Current Business 77 (July 1997): 24–33. For a discussion of concepts and estimating procedures, see J. Steven Landefeld and Ann M. Lawson, "Valuation of the U.S. Net International Investment Position," Survey 71 (May 1991): 40–49.

18. Under a capital lease, like an installment sale, it is anticipated that title to the leased property will be transferred to the lessee at the termination of the lease. The term of an operating lease is significantly shorter than the expected useful life of the tangible property being leased, and the leased property is usually returned to the lessor at the termination of the lease. For capital leases, the value of the leased property is calculated according to U.S. generally accepted accounting principles (GAAP); under GAAP, the lessee records either the present value of the future lease payments or the fair market value of the property, whichever is lower, and the lessor records the sum of all future lease receipts. For operating leases of more than 1 year, the value is the original cost of the leased property less accumulated depreciation.

19. This new treatment will be incorporated in the U.S. international transactions accounts beginning with the estimates to appear in the July 1998 issue of the Survey of Current Business.

surveys industry code 612 in the *Guide*). A review of the affiliates in that industry identified three groups of affiliates that have characteristics of financial intermediaries: (1) Those located in the Netherlands Antilles, (2) those whose parents were depository institutions, and (3) those whose parents were securities dealers.[20]

The Netherlands Antilles affiliates were identified as financial intermediaries because according to international guidelines, financial intermediaries include affiliates set up abroad to raise and channel funds to their U.S. parent companies. Such affiliates are part of a broader category referred to as *special purpose entities* (SPE's), which "are enterprises that engage primarily in international transactions and do little or no local business."[21] Until mid-1984, U.S. parents were prompted to borrow indirectly through nonbank financial affiliates in the Netherlands Antilles rather than directly from foreign capital markets, because the interest payments on their borrowings from affiliates were exempt from U.S. withholding taxes under a tax treaty between the United States and the Netherlands Antilles. The repeal of the withholding tax in 1984 caused most borrowing from these affiliates to cease and the repayment of previous borrowings to increase, but some U.S. parents continue to borrow indirectly through their nonbank financial affiliates in the Netherlands Antilles.

As a practical matter, permanent investment in affiliates that are financial intermediaries other than depository institutions has been defined to be equivalent to the parents' equity investment in the affiliates. Thus, intercompany debt positions in these affiliates are excluded from the direct investment position; changes in these positions are excluded from direct investment capital flows; and interest payments and receipts are excluded from direct investment income. This treatment was necessary because data were not collected separately on the parents' permanent investment in these affiliates.[22]

A U.S. parent and its foreign affiliate may have a two-way financial relationship—that is, each may have debt and equity investment in the other. Thus, a U.S. parent may have investment in a foreign affiliate that, in turn, has investment in the U.S. parent as a result of the affiliate's lending funds to, or acquiring voting securities or other equity interest in, the U.S. parent. In the intercompany debt portion of the position, affiliates' receivables from their U.S. parents (reverse debt investment) are netted against affiliates' payables to their U.S. parents.[23] Reverse equity investment by foreign affiliates in their U.S. parents is included in foreign portfolio investment in the United States if the affiliate's ownership is less than 10 percent, or it is included in the foreign direct investment position in the United States if the affiliate's ownership of its U.S. parent is 10 percent or more.

The direct investment position at the end of the year is equal to the position at the end of the previous year plus the change in the position during the year. The change during the year is the sum of direct investment capital flows (see the next section) and valuation adjustments. Valuation adjustments are broadly defined to include all changes in the position other than capital flows. They primarily reflect differences between transactions values, which are used to record direct investment capital flows, and the book values on foreign affiliates' accounting records, which are used to record the position and, therefore, changes in the position. For example, valuation adjustments include differences between the sale value and book value of foreign affiliates that are sold by U.S. parents. Valuation adjustments also include capital gains and losses and currency-translation adjustments. Currency-translation adjustments to the position are made to reflect changes in the exchange rates that are used to translate foreign affiliates' foreign-currency-denominated assets and liabilities into dollars, according to the guidelines in FASB 52 (see the section "Currency translation").

Direct investment capital outflows

Direct investment capital outflows consist of equity capital outflows, reinvested earnings, and intercompany debt outflows. This section first defines these components and then discusses the coverage, measurement, and presentation of direct investment capital outflows.

Equity capital outflows.—Equity capital outflows are net increases in U.S. parents' equity in their foreign affiliates; equity capital inflows (decreases in equity) are netted against equity capital outflows (increases in equity) to derive the net outflow. Equity capital outflows exclude changes in equity that result from the reinvestment of earnings, which are recorded as a separate component of direct investment capital outflows.

20. Outside sources were used to determine which U.S. parents were securities dealers because the industrial classification system used in the 1994 benchmark survey did not provide a separate classification for them.

21. International Monetary Fund (IMF), *Report on the Measurement of International Capital Flows* (Washington, DC: IMF, September 1992): 28.

22. The data collected for depository institutions suggest that the distinction between permanent investment and other investments is largely based on the form of the investment–equity or debt; equity was generally reported as permanent investment, and intercompany debt was generally excluded from permanent investment.

23. In the extremely rare case in which a foreign affiliate and its U.S. parent own 10 percent or more of each other, a foreign affiliate's debt investment in its U.S. parent is not netted against the parents' debt investment in it. In order to avoid double-counting, the U.S. parents' debt investment in the affiliate is included in the U.S. direct investment position abroad, and the affiliate's debt investment in the parent is included in the foreign direct investment position in the United States.

Equity capital outflows to foreign affiliates result from U.S. parents' establishment of new foreign affiliates, from their initial acquisitions of 10-percent-or-more ownership interests in existing foreign business enterprises, from their acquisitions of additional ownership interests in existing foreign affiliates, and from capital contributions to their foreign affiliates. Equity capital inflows result from liquidations of foreign affiliates, from partial or total sales of ownership interests in foreign affiliates, and from the return of capital contributions. Equity capital inflows also include liquidating dividends, which are a return of capital to U.S. parents.

Equity capital outflows are recorded at transactions values on the basis of the accounting records of the U.S. parents rather than on the basis of the accounting records of the affiliates. The data are based on the accounting records of the parent partly because some transactions—such as when a U.S. parent purchases or sells capital stock from or to an unaffiliated third party—are not recorded in the accounting records of the foreign affiliates. In addition, the transactions values that are required for balance of payments accounting are sometimes available only from the parent's accounting records; for example, the equity capital of a foreign affiliates that is newly acquired or sold by its U.S. parent is carried at book value in the accounting records of the foreign affiliate, but it is carried at transaction value—including any premium or discount—in the accounting records of the U.S. parent.

Reinvested earnings.—Reinvested earnings of foreign affiliates are earnings less distributed earnings. Earnings are U.S. parents' shares in the net income of their foreign affiliates after the provision for foreign income taxes. Earnings are from the accounting records of the foreign affiliate. A U.S. parent's share in net income is based on its directly held equity interest in the foreign affiliate. The earnings and reinvested earnings estimates in this publication are not adjusted to reflect current-period prices, because the source data needed to adjust the estimates by detailed country and industry are not available.

Earnings are a part of the direct investment income account because they are income to the U.S. parent, whether they are reinvested in the affiliate or remitted to the parent. However, because reinvested earnings are not actually transferred to the U.S. parent, they increase the parent's investment in its affiliate. Thus, an entry equal to the value of reinvested earnings is made in the direct investment income account, and a similar entry, but with the opposite sign, is made in the direct investment capital account.

For incorporated foreign affiliates, distributed earnings are dividends on common and preferred stock of the affiliates that are held by their U.S. parents before the deduction of foreign withholding taxes. Distributions can be paid out of current or past earnings. Dividends exclude stock and liquidating dividends. Stock dividends are excluded because they are a capitalization of retained earnings—a substitution of one type of equity (capital stock) for another (retained earnings); they reduce the amount of retained earnings available for distribution but leave total owners' equity unchanged. Thus, stock dividends do not give rise to entries in the international transactions accounts.[24] Liquidating dividends are excluded because they are a return of capital rather than a remittance of earnings (liquidating dividends are included instead as inflows in the direct investment equity capital account). For unincorporated affiliates, distributed earnings are earnings distributed to U.S. parents out of current or past earnings.

Distributed earnings are based on the accounting records of U.S. parents. Because they are on an accrual basis, they are reported as of the date that they are either received from foreign affiliates or entered into intercompany accounts with foreign affiliates. Thus, for example, a dividend declared by a foreign affiliate, but not remitted because of exchange controls, would be recorded in the direct investment capital account as a distributed earnings inflow when the dividend is entered into intercompany accounts; an offsetting intercompany debt outflow would be recorded at the same time. Distributed earnings are included whether they are paid in cash, through debt creation, or in kind.

Intercompany debt outflows.—Intercompany debt outflows consist of the increase in U.S. parents' net intercompany debt receivables from their foreign affiliates during the year, as they are recorded in the financial records of the U.S. parents.[25] The increase for a given period is derived by subtracting the net outstanding intercompany debt balance (that is, U.S.-parent receivables less U.S.-parent payables) at the end of the previous period from the net outstanding balance at the end of the current period.

When a U.S. parent lends funds to its foreign affiliate, the balance of the U.S. parents' receivables (amounts due) from the affiliate increase; subsequently, when the affiliate repays the principal owed to its U.S. parent, the balance of the U.S. parent's receivables from the affiliate

24. The concept of "stock dividends" used here is essentially the same as that in the International Monetary Fund's *Balance of Payments Manual* under the heading of "bonus shares." BEA has retained its terminology because it is better understood by survey respondents.

25. For foreign affiliates that are depository institutions, debt outflows that are not permanently invested are excluded. For foreign affiliates that are financial intermediaries other than depository institutions, all debt outflows are excluded.

is reduced. Similarly, when a U.S. parent borrows funds from its foreign affiliate, the balance of the U.S. parent's payables (amounts owed) to the affiliate increase; subsequently, when the U.S. parent repays the principal owed to its affiliate, the balance of the U.S. parent's payables to the affiliate are reduced.

Increases in U.S. parents' receivables from, or reductions in parents' payables to, their foreign affiliates result in outflows on intercompany debt accounts. Reductions in U.S. parents' receivables from, or increases in U.S. parents' payables to, their affiliates result in inflows on intercompany debt accounts.

Not all intercompany debt transactions reflect actual flows of funds. For example, when distributed earnings, interest, or royalties and license fees from a foreign affiliate accrue to its U.S. parent, the full amount is included as an income or royalty and license fee receipt (an inflow) on U.S. direct investment abroad. If all or part of that amount is not actually transferred to the U.S. parent, the amount not transferred is entered into intercompany debt as an increase in the U.S. parent's receivables from its affiliate (an outflow).

The net change in intercompany debt includes changes in the value of capital leases and operating leases of more than 1 year between U.S. parents and their foreign affiliates. When property is leased by a foreign affiliate from its U.S. parent, the value of the leased property is recorded as an intercompany debt outflow because it increases the U.S. parent's receivables. The subsequent payment of principal on a capital lease or of depreciation on an operating lease is a return of capital and is recorded as an intercompany debt inflow because it reduces the U.S. parent's receivables. When property is leased to a U.S. parent by its foreign affiliate, the flows recorded are the reverse of the preceding.

Coverage, measurement, and presentation.—All intercompany debt flows result from transactions between U.S. parents and their foreign affiliates. Equity capital flows, however, may result from transactions between U.S. parents and either their foreign affiliates or unaffiliated foreign persons. An example of an equity capital flow resulting from a transaction between a U.S. parent and an unaffiliated foreign person is the parent's purchase of an affiliate's capital stock from such a person.

Direct investment capital outflows exclude transactions between two U.S. persons because transactions between U.S. persons are not international transactions. Thus, if one U.S. person purchases a direct investment interest in a foreign affiliate from another U.S. person, the new owner will establish or increase its ownership interest in the foreign affiliate, but no equity capital outflow is recorded, because the transaction occurs entirely within the United States. In addition, there is no net increase in U.S. claims on foreign countries; instead, one U.S. person's claims have merely been substituted for those of another.[26]

However, if a U.S. person has a portfolio (less-than-10-percent) investment interest and if, as a result of the purchase of an additional interest, the combined interests qualify as a direct investment, a direct investment capital outflow and offsetting portfolio investment capital inflow are recorded to change the status of the original investment. Similarly, if a U.S. parent's interest in an affiliate falls below 10 percent, a direct investment capital inflow is recorded to eliminate the direct investment interest, and an offsetting portfolio investment capital outflow is recorded for the new portfolio interest.

In cases of reverse investment, treatment of reverse equity capital and intercompany debt flows is the same as that for the analogous accounts in the direct investment position (see the section "U.S. direct investment position abroad").

Equity capital and intercompany debt outflows are disaggregated into several subaccounts in this publication. Equity capital outflows, which are recorded as a net amount, are disaggregated to show increases in equity separately from decreases. Intercompany debt outflows are disaggregated to show flows resulting from changes in U.S. parents' receivables separately from flows resulting from changes in U.S. parents' payables. Certain transactions may affect two of these subaccounts simultaneously and by exactly offsetting amounts. Such transactions are "grossed up"; that is, the outflows and the offsetting inflows are recorded in the affected subaccounts rather than being netted to zero and not recorded in any subaccount. However, because such gross flows are offsetting, they have no effect on net capital outflows. For example, the capitalization of intercompany debt, which gives rise to an intercompany debt inflow and an offsetting equity capital outflow, results in gross, but not net, flows.

Direct investment income

Direct investment income is the return on the U.S. direct investment position abroad; that is, it is the U.S. parents' return on their debt and equity investment in foreign affiliates. Direct investment income consists of earnings (that is, U.S. parents' shares in the net income of their foreign affiliates) and interest on intercompany debt between U.S. parents and foreign affiliates (where interest is defined as interest received by U.S. parents from their foreign affiliates, net of interest paid by U.S. parents to their foreign affiliates).

26. Any revaluation of the investment by the new U.S. parent is treated as a valuation adjustment to the U.S. direct investment position abroad.

Direct investment income is recorded as accrued. When funds are not actually transferred to U.S. parents, offsetting entries are made in the direct investment capital account.

Direct investment income and earnings exclude all capital gains and losses whether or not such gains and losses are included in net income for income statement purposes. This treatment is intended to make income and earnings reflective of the current operating performance of foreign affiliates, as recommended by international guidelines for the compilation of balance of payments accounts.

Direct investment income (and the reinvested earnings component of capital outflows) are adjusted to reflect current-period prices prior to being entered into the international transactions accounts (see the introduction to the section "Direct Investment Position and Balance of Payments Data" for details). However, these adjustments are made on a global basis only and do not appear in the tables in this publication, which are disaggregated by country or by industry.

Direct investment income is measured before deduction (that is, gross) of all withholding taxes.[27] This treatment views taxes as being levied on the recipient of the distributed earnings or interest and thus as being paid across borders, even though, as an administrative convenience, the taxes are actually paid by the affiliate (or parent) whose disbursement gave rise to them. Thus, foreign withholding taxes on distributed earnings and on interest received by the U.S. parent are recorded as if they were paid by the parent, not by the foreign affiliate. Similarly, U.S. withholding taxes on interest payments by the U.S. parent are recorded as if they were paid by the foreign affiliate, not by the U.S. parent. Counter entries for these taxes are made in the U.S. international transactions accounts under unilateral transfers.

BEA collects data on withholding taxes on distributed earnings on its quarterly survey of U.S. direct investment abroad, but withholding taxes on interest—and on royalties and license fees and other private services, discussed in the next two sections—are only collected in benchmark surveys. Withholding taxes on these items must be estimated for nonbenchmark years; the estimates are only prepared on a global basis and are not disaggregated by country or industry.

Interest is recorded on a net basis, which is interest paid or credited to U.S. parents on debt owed to them by their foreign affiliates less interest paid or credited by U.S. parents on debt owed by them to their foreign affiliates.[28] Interest payments are netted against interest receipts because in the intercompany debt component of the U.S. direct investment position abroad, debt owed by U.S. parents to foreign affiliates is netted against debt owed by foreign affiliates to U.S. parents. Interest includes interest paid through debt creation or in kind, as well as interest paid in cash.

Interest includes net interest payments on capital leases between U.S. parents and foreign affiliates because the outstanding capitalized value of such leases is included in the intercompany-debt component of the direct investment position.

Direct investment royalties and license fees

Direct investment royalties and license fees consist of receipts by U.S. parents from, and payments by U.S. parents to, their foreign affiliates of fees for the use or sale of intangible property or rights, such as patents, industrial processes, trademarks, copyrights, franchises, designs, expertise, formulas, techniques, manufacturing rights, and other intangible assets or proprietary rights.

U.S. parents' receipts and U.S. parents' payments for royalties and license fees are entered separately into the U.S. international transactions accounts; U.S. parents' receipts are recorded as exports of services, and U.S. parents' payments are recorded as imports of services. Both receipts and payments are measured before deduction, or gross, of (foreign or U.S.) withholding taxes.

Receipts and payments of royalties and license fees are based on the accounting records of the U.S. parents and are reported as accrued. When funds are not actually transferred, offsetting entries are made in the intercompany debt account.

Other direct investment services

Transactions in other direct investment services consist of receipts by U.S. parents from, and payments by U.S. parents to, their foreign affiliates of service charges, of charges for the use of tangible property, and for film and television tape rentals.

U.S. parents' receipts and U.S. parents' payments are entered separately into the U.S. international transactions accounts; U.S. parents' receipts are recorded as exports of services, and U.S. parents' payments are recorded as imports of services. Both receipts and payments are measured before deduction, or gross, of (foreign or U.S.) withholding taxes.

Receipts and payments for other direct investment services are based on the accounting records of the U.S.

27. Withholding taxes are taxes withheld by governments on income or other funds that are distributed or remitted.

28. For foreign affiliates that are depository institutions, interest payments other than those on permanently invested capital are excluded. For foreign affiliates that are financial intermediaries other than depository institutions, all interest payments are excluded.

parents and are reported as accrued. When funds are not actually transferred, offsetting entries are made in the intercompany debt account.

Service charges.—Service charges consist of fees for services—such as management, professional, or technical services—rendered between U.S. parents and their foreign affiliates. The service charges may represent sales of services or reimbursements. Sales of services are receipts for services rendered that are normally included in sales or gross operating revenues in the income statement of the seller. Normally, such receipts are included in sales if the performance of the service is a primary activity of the enterprise. (For example, if a U.S. management consulting firm provides management-consulting services to its foreign affiliates, the resulting revenues are included in its sales.)

Reimbursements are receipts for services rendered that are normally included in “other income” rather than in sales in the income statement of the provider of the service. Normally, the performance of the service is not a primary activity of the enterprise; however, the service may facilitate or support the conduct of the enterprise’s primary activities. (For example, if a U.S. manufacturer provides management services to its foreign manufacturing affiliate, the associated charges would be recorded in its income statement under “other income” and reported to BEA as a reimbursement.)

Reimbursements may be allocated expenses or direct charges for the services rendered. Allocated expenses are overhead expenses that are apportioned among the various divisions or parts of an enterprise. An example would be R&D assessments on foreign affiliates by a U.S. parent for R&D the parent performs and shares with its affiliates.

Data on intercompany service charges are disaggregated into six categories—insurance services, financial services, transportation services, computer and information services, communication services, and “other services” —for the first time in this publication; these data are presented in table II.Z8. The new data were collected on the 1994 benchmark survey to allow all U.S. international transactions in private services—with both affiliated and unaffiliated foreigners—to be disaggregated by the categories specified in the International Monetary Fund’s *Balance of Payments Manual*. The new data complement data from other BEA surveys that collect data on U.S. international transactions in private services. (See the footnotes to table II.Z8 for the definitions used on the 1994 benchmark survey for each category of intercompany service charges.)

The data on intercompany service charges by category indicate that 83.0 percent of U.S. parents’ receipts and 74.9 percent of U.S. parents’ payments were “other” services. These high percentages may result because survey respondents do not have the necessary information in their standard accounting records to provide a breakdown of their allocated expenses or of other services transactions with their foreign affiliates by type of service. The share for “other” services may also be large because many services (such as advertising, management, research and development, and accounting services) are not covered by the other five categories.[29]

Charges for the use of tangible property.—Charges for the use of tangible property include total lease payments under operating leases of 1 year or less and net rent on operating leases of more than 1 year. From the lessors’ viewpoint, total lease payments for operating leases consist of two components: (1) Net rent, which covers interest, administrative expenses, and profit, and (2) depreciation, which is a return of capital.

For operating leases of more than 1 year, net rent is included in “other direct investment services,” and depreciation is included as an intercompany debt flow in the direct investment capital account. For operating leases of 1 year or less, total lease payments—both net rent and depreciation—are included in “other direct investment services.” Because the value of property leased to or from foreigners for 1 year or less is excluded from U.S. exports and imports of goods in the U.S. international transactions accounts, no export or import by U.S. parents is recorded in the trade-in-goods account; thus, no subsequent return of capital to or by U.S. parents in the form of depreciation is recorded in the direct investment capital account. Instead, such depreciation is considered part of rentals—a receipt for services rendered by, rather than a return of capital to, the lessor.

Film and television tape rentals.—Film and television tape rentals are rentals received by U.S. parents from, and rentals paid by U.S. parents to, their foreign affiliates for the sale or use of film and television tapes. Except for mass-produced films and tapes, such as prerecorded video cassettes (which are recorded in the U.S. trade-in-goods), such film and television tapes are treated as if they were being rented rather than sold, and payments for the tapes are considered payments for services rather than payments for goods. This treatment is used because the value of the tapes is derived mostly from the services—entertainment, education, and so on—that they provide, not from the value of the media on which they are recorded. Thus, the cost of the film and television tapes is excluded from the U.S. trade-in-goods account and is included instead in “other direct investment services.”

29. The five categories were chosen on the basis of the detail recommended in the International Monetary Fund’s *Balance of Payments Manual*.

Table Arrangement

The amount and type of data available from the benchmark survey varies according to whether the foreign affiliates or U.S. parents are banks or nonbanks, and for nonbank affiliates, according to whether they are majority or minority owned. The 15 possible groups of affiliates and parents are shown in table 7. Selected data for the affiliates in each group are shown in panel A, and selected data for each group's U.S. parents are shown in panel B. Primarily because of space and resource limitations, the tables in this publication cover only 5 of the 15 groups: Group I, all affiliates of all U.S. parents (column 1 of table 7); group II, nonbank affiliates of nonbank U.S. parents

Table 7.—Selected Data for Foreign Affiliates and Their U.S. Parents, by Group of Affiliate or Parent

Panel A.—Affiliate Data

	All affiliates			Nonbank affiliates									Bank affiliates		
				Of all parents			Of nonbank parents			Of bank parents					
	Of all parents	Of nonbank parents	Of bank parents	Total	Majority-owned nonbank affiliates [1]	Other nonbank affiliates [2]	Total	Majority-owned nonbank affiliates [1]	Other nonbank affiliates [2]	Total	Majority-owned nonbank affiliates [1]	Other nonbank affiliates [2]	Of all parents	Of nonbank parents	Of bank parents
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Number of affiliates	22,332	21,487	845	21,761	19,196	2,565	21,436	18,929	2,507	325	267	58	571	51	520
Total assets (millions of dollars)	3,380,983	2,412,982	968,001	2,485,555	2,118,657	366,898	2,376,902	2,022,677	354,225	108,653	95,980	12,673	895,428	36,080	859,348
Sales (millions of dollars)	1,830,744	1,759,896	70,848	1,766,382	1,442,009	324,373	1,757,388	1,435,901	321,487	8,994	6,108	2,886	64,362	2,508	61,854
Net income (millions of dollars)	101,792	94,348	7,444	95,760	82,273	13,487	93,986	81,095	12,891	1,774	1,178	596	6,032	362	5,670
Number of employees (thousands)	7,240.5	7,112.6	128.0	7,128.4	5,717.8	1,410.6	7,104.6	5,707.1	1,397.5	23.8	10.7	13.1	112.2	8.0	104.2
Compensation of employees (millions of dollars)	230,629	224,722	5,906	225,157	184,245	40,912	224,275	183,591	40,684	882	654	228	5,471	447	5,024
U.S. direct investment position abroad on a historical-cost basis (millions of dollars)	606,393	571,799	34,594	580,508	546,530	33,978	569,317	536,298	33,019	11,191	10,232	959	25,885	2,482	23,403
Direct investment income (millions of dollars)	67,596	62,687	4,909	63,546	61,416	2,130	62,422	60,449	1,973	1,124	967	157	4,050	265	3,785

Panel B.—U.S. Parent Data

	Parents of all affiliates			Parents of nonbank affiliates									Parents of bank affiliates		
				All parents			Nonbank parents			Bank parents					
	All parents	Nonbank parents	Bank parents	Total [3]	Of majority-owned nonbank affiliates [2 4]	Of other nonbank affiliates [1 4]	Total [3]	Of majority-owned nonbank affiliates [1 4]	Of other nonbank affiliates [2 4]	Total [3]	Of majority-owned nonbank affiliates [1 4]	Of other nonbank affiliates [2 4]	All parents [3]	Nonbank parents [3]	Bank parents [3]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Number of U.S. parents	2,727	2,667	60	2,690	2,549	714	2,667	2,529	699	23	20	15	74	16	58
Total assets (millions of dollars)	8,636,571	6,718,003	1,918,568	7,952,491	7,770,715	5,308,184	6,718,003	6,622,513	4,254,700	1,234,488	1,148,202	1,053,484	2,657,477	754,510	1,902,967
Sales (millions of dollars)	4,148,552	3,990,013	158,539	4,096,101	3,936,312	2,678,509	3,990,013	3,837,699	2,589,660	106,088	98,613	88,849	298,275	141,510	157,275
Net income (millions of dollars)	214,352	191,154	23,199	206,063	201,904	145,811	191,154	188,247	133,368	14,909	13,656	12,443	31,612	8,580	23,032
Number of employees (thousands)	19,330.0	18,565.4	764.6	19,026.4	18,073.3	11,398.1	18,565.4	17,647.4	11,045.0	460.9	425.9	353.1	1,121.1	363.7	757.3
Compensation of employees (millions of dollars)	840,608	805,372	35,235	828,461	811,496	525,262	805,372	790,074	506,714	23,088	21,422	18,548	57,768	22,838	34,930

1. A majority-owned nonbank affiliate is a nonbank affiliate in which the combined direct and indirect ownership interest of all U.S. parents exceeds 50 percent.
2. Other nonbank affiliates are nonbank affiliates that are not majority-owned nonbank affiliates, as described in footnote 1.
3. Because some parents have both nonbank and bank affiliates, the sum of columns 4 and 13, columns 7 and 14, and columns 10 and 15 contain duplication and do not equal the totals in columns 1, 2, and 3, repectively, in panel B.
4. Because some parents have both majority- and minority-owned affiliates, the sum of columns 5 and 6, columns 8 and 9, and columns 11 and 12 contain duplication and do not equal the totals in columns 4, 7, and 10, respectively, in panel B.

(column 7); group III, majority-owned nonbank affiliates of nonbank U.S. parents (column 8); group IV, nonbank affiliates of U.S. parents in banking (column 10); and group V, bank affiliates of all U.S. parents (column 13). In total, 15 tables are presented for group I; 83 tables, for group II; 143 tables, for group III; 1 table, for group IV; and 1 table, for group V.

The following list indicates the tables included in this publication for each of the five affiliate groups. The columns represent the five affiliate groups and the rows list the different tables. An "X" in the column for a given affiliate group means that the listed table is published for the affiliates in that group or for their U.S. parents.

Each table is identified by an alphanumeric code consisting of (1) a Roman numeral (I, II, III, IV, or V) to indicate the affiliate group covered, (2) a capital letter to indicate the general subject matter,[30] and (3) an Arabic numeral to indicate the specific subject matter of the table. For example, table I.B5 covers all affiliates of all U.S. parents (group I), is part of the group of tables that covers affiliates' balance sheets, and provides data specifically on total assets disaggregated by country and cross-classified by major industry. If a given table is published for more than one affiliate group, it will have the same letter and Arabic numeral designation (to indicate that the general and specific subject matters of the tables are the same), but it will have different Roman numerals (to indicate that different affiliate groups are being covered). For example, table III.B5 has the same format and the same general and specific subject matters as table I.B5, but it covers majority-owned nonbank affiliates of nonbank U.S. parents (group III) rather than all affiliates of all U.S. parents (group I).

All tables for group I are presented first, followed by tables for groups II, III, IV, and V, in that order. The group covered is indicated in the "running head" at the top of each page.

Because some tables are not shown for some affiliate groups, the numbering of tables often are not consecutive within a group. For example, the first table presented for group I affiliates is table I.A3 because tables I.A1 and I.A2 are not presented.

30. The letters A to K indicate that the table contains foreign-affiliate financial and operating data; L to V, U.S.-parent financial and operating data; and W to Z, direct investment position and balance of payments data.