

Foreign Direct Investment in the United States

Final Results From the 2002 Benchmark Survey

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Preface

This volume presents the results of the 2002 Benchmark Survey of Foreign Direct Investment in the United States that was conducted by the U.S. Bureau of Economic Analysis (BEA). Benchmark surveys are BEA's most comprehensive surveys—in terms of both the number of companies covered and the amount of information gathered. The 2002 survey covered the foreign direct investment universe, which consists of all U.S. business enterprises owned 10 percent or more, directly or indirectly, by a foreign person. The last benchmark survey covered 1997.

The survey collected detailed data on the financial structure and operations of U.S. affiliates of foreign companies in 2002. The data include balance sheets, income statements, sales of goods and services, external financial position, employment and compensation of employees, U.S. trade in goods, research and development expenditures, and U.S. land owned. The survey also collected data on transactions and positions between U.S. affiliates and their foreign parent companies that are the source data of the official estimates of direct investment that enter the U.S. national income and product accounts and the U.S. international investment position and international transactions (or balance of payments) accounts. The data from the survey are disaggregated in a number of ways, including

by industry of U.S. affiliate, by country and industry of ultimate beneficial owner or foreign parent, and, for selected data, by state.

The data from the benchmark survey will be used as the primary basis for expanding to universe levels the data for nonbenchmark years that are collected in BEA's quarterly and annual cutoff sample surveys, which cover all U.S. affiliates above a size-exemption level. The quarterly surveys collect sample data on balance of payments transactions between U.S. affiliates and their foreign parents, and the annual surveys collect sample data on the financial structure and operations of U.S. affiliates. For both types of data, estimates for nonsample affiliates usually are derived by extrapolating forward their data from the benchmark survey on the basis of the year-to-year movements in the data reported by affiliates in the sample.

Many of the items for which data were collected in the 2002 benchmark survey are also collected annually, but other items are collected only in benchmark survey years. These items include research and development expenditures broken down by source of funding, the number of employees covered by collective bargaining agreements, and U.S. exports and imports of goods by product and by country of destination and origin.

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The Bureau of Economic Analysis thanks the staffs of the U.S. companies that responded to the 2002 benchmark survey for their efforts in completing and filing reports and for their cooperation with BEA during the processing and review of the data.

Ralph Kozlow, Associate Director for International Economics, provided general guidance for the survey project. Obie G. Whichard, Chief of the International Investment Division (IID), and David H. Galler, Assistant 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 in the United States Branch (DIUSB) under the direction of David H. Galler, former Chief of DIUSB, and Joseph F. Cherry III, the current Chief, was primarily responsible for conducting the survey. Joseph F. Cherry III, former Chief of the Annual and Benchmark Surveys Section of DIUSB, and Charles R. Gravitz, the current Chief, supervised the editing and processing of the reports.

The following staff processed and edited the survey: Chester C. Braham, Sarah E. Braham, Nichole Brooks, Erica Carson-Brown, Karen M. Dennison, Constance T. Deve, Michelle L. Granson, Lonnie A. Hunter, Kristina Kaminski, Edna A. Ludden, Isabel L. McConnell, Demetria A. McCormick, Gregory L. McCormick, Sidney A. Moskowitz, Chad M. Poist, Joseph N. Poist III, Ronald L. Ross, Clarence D. Smith, Marie P. Smith, John R. Starnes, Christopher J. Stein, and Diann L.

Vann.

Lonnie A. Hunter and William J. Zeile conducted the final review of the results by DIUSB to ensure consistency and accuracy.

Luis Garcia, Chief of the Information Technology Branch, supervised the computer programming for data estimation and tabulation. Karen E. Poffel programmed the integrated control file of foreign direct investment in the United States. Diane I. Young, with the assistance of Tara O'Brien, designed the programs used to derive the estimates for unreported data, to generate the tables, and to prevent the disclosure of company-specific data. Neeta B. Kapoor assisted in generating the tables.

Stephen P. Holiday, Douglas J. Klear, Brenda J. Bolden, and Elizabeth Shumate of the Office of the Chief Information Officer (OCIO) under the direction of Alan C. Lorish, Jr., Chief of OCIO, performed the computer programming and data conversion and processing activities.

William J. Zeile of the Research Branch prepared the methodology and other text and coordinated the design of the tables for this publication. General guidance for writing the text was provided by Ned G. Howenstine, Chief of the Research Branch.

Kristina Maze of the Communications Division coordinated the production of this publication. Danielle Wittenberg typeset the tables and text and provided editorial assistance.

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Methodology

THE 2002 Benchmark Survey of Foreign Direct Investment in the United States was conducted by the Bureau of Economic Analysis (BEA) to obtain complete and accurate data on foreign direct investment in the United States in 2002. Reporting in the survey was mandatory under the International Investment and Trade in Services Survey Act.¹ Benchmark surveys, which are conducted every five years, are BEA's most comprehensive surveys of foreign direct investment, in terms of both coverage of companies and the amount of information collected; the last benchmark survey covered the year 1997.²

This publication presents the final results of the 2002 benchmark survey in 173 tables that contain nearly all the data collected. Two related types of data for U.S. affiliates of foreign companies are presented: (1) Financial and operating data, and (2) direct investment position and balance of payments data. The financial and operating data provide a variety of indicators of the overall operations of U.S. affiliates, including balance sheets and income statements; value added; sales of goods and services; external financial position; taxes; property, plant, and equipment; employment and compensation of employees; U.S. trade in goods; research and development activities; and U.S. land owned.

The direct investment position and balance of payments data cover transactions and positions between U.S. affiliates and their foreign parent groups. These data are the source of the official estimates of direct investment that enter the U.S. national income and product accounts (NIPAs) and the U.S. international investment position and international transactions (or balance of payments) accounts. Balance of payments data include data on capital flows between U.S. affiliates and their foreign parent groups that are recorded in the financial account of the balance of payments, payments of income by U.S. affiliates to their foreign

parent groups, and U.S. affiliates' payments and receipts of royalties, license fees, and charges for other services to and from their foreign parent groups. The direct investment capital flows, 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 NIPAs 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. affiliates were banks or nonbanks, and for nonbank affiliates, whether they were majority or minority owned.³ In this publication, data for U.S. affiliates are presented separately for four affiliate groups: (1) All affiliates (shown in Part I), (2) all nonbank affiliates (Part II), (3) majority-owned nonbank affiliates (Part III), and (4) bank affiliates (Part IV). Most of the tables cover majority-owned nonbank affiliates. Bank affiliates were required to report only a limited amount of data in the benchmark survey. For nonbank affiliates, more detailed data on affiliate operations were collected for majority-owned affiliates than for minority-owned affiliates. For consistency in presentation, most of the tables for bank affiliates in this publication cover majority-owned affiliates.

A variety of table formats are used: Some tables present data for several related items, each of which is disaggregated by industry, country, or state; other tables present data for a single item disaggregated by industry cross-classified by country, by country cross-classified by industry, or by state cross-classified by country.

The financial and operating data for nonbank affiliates presented in this publication extend estimates that begin with the year 1977 and that are derived from

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

2. See U.S. Bureau of Economic Analysis, *Foreign Direct Investment in the United States: Final Results From the 1997 Benchmark Survey* (Washington, DC: U.S. Government Printing Office, June 2001); an electronic version of this publication can be accessed on BEA's Web site at <www.bea.gov/beam/international.htm>.

3. In this publication, the term "bank affiliates" is used to describe all the affiliates that are classified under the BEA international surveys industry category "depository credit intermediation," which includes bank holding companies, credit unions, and savings institutions, as well as commercial banks. Beginning with the 2002 benchmark survey, the data reported for a bank affiliate include, in a single consolidated report, any data for nonbank U.S. companies that are more than 50-percent owned by the bank affiliate. In previous benchmark and annual surveys, nonbank companies that were more than 50-percent owned by bank affiliates were required to file separately in the reports for nonbank affiliates.

both annual and benchmark surveys.⁴ Table 1 presents selected financial and operating data for all nonbank U.S. affiliates from the 2002 benchmark survey and from the previous benchmark and annual surveys. Tabular data from the earlier surveys are available on BEA's Web site at <www.bea.gov>.

In a departure from BEA's previous surveys of U.S.-affiliate operations, the data collected and tabulated from the 2002 benchmark survey provide more detailed information on the operations of majority-owned U.S. affiliates (that is, affiliates that are owned more than 50 percent by foreign direct investors) than on the operations of all (majority-owned plus minority-owned) U.S. affiliates. This change reflects a shift in emphasis in the U.S.-affiliate financial and operating data to companies that are unambiguously under foreign control. Because of the presumption of foreign control, majority ownership is viewed by many as the preferred basis for selecting firms for the analysis of the role of multinational enterprises in a host country's economy.⁵ It is also recommended as the primary basis for the compilation of statistics on the operations of foreign-owned firms by the Organisation for Economic Co-operation and Development's *OECD Handbook on Economic Globalisation Indicators* and by the

international *Manual on Statistics of International Trade in Services*, reflecting in part the emphasis given to data on majority-owned affiliates by trade negotiators and other policy makers.

Table 2 identifies the financial and operating data tables in this report that have counterparts in the benchmark-survey report for 1997 or in the annual data reports for 1998–2001. It also provides cross-references between the table numbers used in the reports. Because of the shift in emphasis to data on majority-owned affiliates, many of the tables in this report do not have exact counterparts in earlier reports, which mainly presented data for all nonbank affiliates. However, most of the tables for majority-owned nonbank affiliates in this report are comparable to tables for all nonbank affiliates in earlier reports. Table 3 provides cross-references between the tables on majority-owned nonbank affiliates in this report and the corresponding tables on all nonbank affiliates in the reports for 1997–2001.

Certain tables in this publication have counterparts in the earlier benchmark survey reports but not in the annual survey reports, because they cover items that are not collected in the annual surveys. For example, the benchmark surveys collect direct investment position and balance of payments data in addition to the financial and operating data collected in the annual surveys for nonbenchmark years. In addition, some items in the financial and operating data for U.S. affiliates—such as the number of employees covered by collective bargaining agreements and U.S. exports and

4. Estimates for nonbenchmark survey years from BEA's annual surveys provide information similar to that collected in the benchmark surveys, but are less detailed.

5. See, for example, Robert E. Lipsey, "Foreign Direct Investment and the Operations of Multinational Firms: Concepts, History, and Data," in *Handbook of International Trade*, ed. Kwan Choi and James Harrigan (Oxford, United Kingdom: Basil Blackwell, 2003).

Table 1. Selected Financial and Operating Data of Nonbank U.S. Affiliates of Foreign Companies, 1977–2002

	Millions of dollars					Thousands of employees	Millions of dollars	
	Total assets	Gross property, plant, and equipment	Sales	Net income ¹	Compensation of employees		U.S. exports of goods shipped by affiliates	U.S. imports of goods shipped to affiliates
1977.....	143,488	66,785	193,991	3,966	18,781	1,218.7	24,858	43,896
1978.....	181,187	80,683	241,543	4,843	24,225	1,429.9	32,169	56,567
1979.....	228,556	101,209	327,870	7,301	31,686	1,753.2	44,341	63,039
1980.....	291,339	127,838	412,390	8,759	40,047	2,033.9	52,199	75,803
1981.....	406,985	187,956	510,218	11,234	54,798	2,416.6	64,066	82,259
1982.....	476,439	225,235	518,087	3,830	61,487	2,448.1	60,236	84,290
1983.....	531,738	244,012	536,640	5,584	66,807	2,546.5	53,854	81,464
1984.....	602,522	269,462	593,571	9,605	73,155	2,714.3	58,186	100,489
1985.....	741,077	295,181	632,983	5,398	79,933	2,862.2	56,401	113,331
1986.....	838,039	320,215	672,004	2,458	86,492	2,937.9	49,560	125,732
1987.....	943,654	353,278	744,617	7,820	96,009	3,224.3	48,091	143,537
1988.....	1,200,823	418,069	886,407	12,049	119,588	3,844.2	69,541	155,533
1989.....	1,431,315	489,461	1,056,645	9,286	144,158	4,511.5	86,316	171,847
1990.....	1,550,238	578,355	1,175,857	-4,535	163,592	4,734.5	92,308	182,936
1991.....	1,752,628	640,140	1,185,858	-11,018	175,969	4,871.9	96,933	178,702
1992.....	1,825,219	660,826	1,231,972	-21,331	182,079	4,715.4	103,925	184,464
1993.....	2,065,804	705,665	1,329,435	-4,354	193,000	4,765.6	106,615	200,599
1994.....	2,206,701	754,383	1,443,489	8,132	200,615	4,840.5	120,683	232,362
1995.....	2,388,724	769,491	1,544,603	15,493	206,354	4,941.8	135,153	250,824
1996.....	2,681,745	825,695	1,667,619	24,379	220,637	5,105.0	140,886	268,673
1997.....	3,071,483	877,568	1,726,344	40,924	233,482	5,201.9	141,305	264,924
1998.....	3,534,509	990,332	1,875,489	32,312	262,112	5,646.1	151,005	292,046
1999.....	4,177,211	1,075,364	2,044,359	26,576	292,727	6,027.6	153,572	324,994
2000.....	4,893,942	1,175,628	2,334,692	34,593	332,164	6,524.6	164,673	372,164
2001.....	5,436,996	1,181,091	2,327,091	-44,894	344,730	6,268.3	157,459	347,823
2002.....	5,229,812	1,192,710	2,216,530	-57,011	341,935	5,925.1	150,147	348,111

1. Includes capital gains and losses.

NOTE: Time-series data on the operations of nonbank U.S. affiliates can be accessed on BEA's Web site at www.bea.gov; from the home page, click on "Direct Investment".

imports of goods by product and by country of destination or origin—are collected only in benchmark surveys.

In a few instances, an item collected in the benchmark survey was combined with one or more other items in the annual surveys. Thus, two items that are shown in a table in this publication may be shown as only one item in the corresponding table in the annual survey publications.

The data in this publication are based on data collected at the enterprise—or company—level. Data presented on the establishment—or plant—level are also

available for selected years as a result of a project to link BEA's enterprise data on foreign direct investment in the United States with more detailed Census Bureau establishment data for all U.S. companies.⁶

6. Publications presenting the establishment data are available for 1987–92 and 1997; electronic files for these publications can be accessed on BEA's Web site at <www.bea.gov/bea/ai1.htm#BEACENS>. The 1987, 1992, and 1997 publications cover establishments in both manufacturing and non-manufacturing industries; the 1988–91 publications cover establishments in manufacturing industries only. A forthcoming publication will present establishment data for both manufacturing and nonmanufacturing industries in 2002.

**Table 2. Comparison of Tables for Nonbank Affiliates in This Report
With Those in the 1997 Benchmark Survey Report and in the Reports for 1998–2001**

Table in 2002 benchmark survey report	Comparable table in 1997 benchmark survey report	Comparable table in 1998–2001 reports
Part II. All Nonbank Affiliates		
Group A. Selected Data		
II.A 1	J-1	J-1
II.A 2–II.A 3	A-1–A-2	A-1–A-2
II.A 4–II.A 5	n.a.	n.a.
II.A 7	A-7	A-7
II.A 10	A-9	A-9
Group B. Balance Sheet		
II.B 5	B-5	B-5
Group C. Composition of External Financial Position		
II.C 1	C-1	C-1
Group D. Gross Property, Plant, and Equipment		
II.D 3	D-3	D-3
II.D 11	D-11	D-11
Group E. Income Statement		
II.E 3	E-3	E-3
Group G. Employment and Compensation of Employees		
II.G 3	G-3	G-3
II.G 19	G-8 (Part), G-13 (Part)	G-8 (Part), G-13 (Part)
Part III. Majority-Owned Nonbank Affiliates¹		
Group A. Selected Data		
III.A 1	J-1	J-1
III.A 2–III.A 3	J-2–J-3	J-2–J-3
III.A 8	J-4	J-4
Group B. Balance Sheet		
III.B 5	J-5	J-5
Group E. Income Statement		
III.E 3	J-6	J-6
Group F. Value Added		
III.F 2	J-7	J-7
Group G. Employment and Compensation of Employees		
III.G 3	J-8	J-8
III.G 8 (Part), III.G 13 (Part)	J-9	J-9
Group H. U.S. Trade in Goods		
III.H 1–III.H 2	J-10–J-11	J-10–J-11
III.H 22	J-12	n.a.
Group I. Interest, Dividends, Taxes Other Than Income Taxes, and Research and Development Expenditures		
III.I 6	J-13	J-13

n.a. Not available

1. Tables in Part III that have counterparts in reports for earlier years.

NOTE: Time-series data on the operations of nonbank U.S. affiliates can be accessed on BEA's Web site at www.bea.gov; from the home page, click on "Direct Investment."

Table 3. Comparison of Tables for Majority-Owned Nonbank Affiliates in This Report With Those for All (Majority-owned plus Minority-owned) Nonbank Affiliates in the 1997 Benchmark Survey Report and in the Reports for 1998-2001

Table for majority-owned nonbank affiliates in 2002 benchmark survey report	Comparable table for all nonbank affiliates in 1997 benchmark survey report	Comparable table for all nonbank affiliates in 1998-2001 reports
Group A. Selected Data		
III.A 1	n.a.	n.a.
III.A 2—III.A 3	A-1—A-2	A-1—A-2
III.A 4—III.A 5	n.a.	n.a.
III.A 6—III.A 8	A-6—A-8	A-6—A-8
III.A 10	A-9	A-9
Group B. Balance Sheet		
III.B 1—III.B 6	B-1—B-6	B-1—B-6
III.B 7—III.B 9	B-7—B-9	n.a.
Group C. Composition of External Financial Position		
III.C 1	C-1	C-1
III.C 2—III.C 8	C-2—C-8	n.a.
Group D. Gross Property, Plant, and Equipment		
III.D 1—III.D 3	D-1—D-3	D-1—D-3
III.D 4—III.D 5	D-4—D-5	n.a.
III.D 6—III.D 7	D-6—D-7	D-6—D-7
III.D 8	D-8	n.a.
III.D 9—III.D 13	D-9—D-13	D-9—D-13
III.D 14—III.D 15	D-14—D-15	n.a.
III.D 16	D-16	D-16
III.D 17—III.D 23	D-17—D-23	D-17—D-23
III.D 24—III.D 25	D-24—D-25	D-24—D-25
Group E. Income Statement		
III.E 1—III.E 4	E-1—E-4	E-1—E-4
III.E 5—III.E 6	E-5—E-6	n.a.
III.E 7—III.E 8	E-7—E-8	E-7—E-8
III.E 9	E-9	n.a.
III.E 10—III.E 15	E-10—E-15	E-10—E-15
Group F. Value Added		
III.F 1—III.F 3	F-1—F-3	F-1—F-3
III.F 4	F-4	n.a.
III.F 5—III.F 6	F-5—F-6	F-5—F-6
Group G. Employment and Compensation of Employees		
III.G 1—III.G 4	G-1—G-4	G-1—G-4
III.G 5	G-5	n.a.
III.G 6—III.G 8	G-6—G-8	G-6—G-8
III.G 9	G-9	n.a.
III.G 10—III.G 11	G-10—G-11	G-10—G-11
III.G 12	G-12	n.a.
III.G 13	G-13	G-13
III.G 14	G-14	n.a.
III.G 15—III.G 18	G-15—G-18	G-15—G-18
Group H. U.S. Trade in Goods		
III.H 1—III.H 4	H-1—H-4	H-1—H-4
III.H 5	H-5	n.a.
III.H 6—III.H 7	H-6—H-7	H-6—H-7
III.H 8—III.H 36	H-8—H-36	n.a.
III.H 37	H-37	H-37
Group I. Interest, Dividends, Taxes Other Than Income Taxes, and Research and Development Expenditures		
III.I 1—III.I 2	I-1—I-2	I-1—I-2
III.I 3—III.I 5	I-3—I-5	n.a.
III.I 6	I-6	I-6

n.a. Not available

NOTE: Time-series data on the operations of nonbank U.S. affiliates can be accessed on BEA's Web site at www.bea.gov; from the home page, click on "Direct Investment."

Coverage

The benchmark survey covered every U.S. business enterprise that was a U.S. affiliate of a foreign person. A U.S. affiliate is a U.S. business enterprise in which a foreign person owns or controls, directly or indirectly, at least 10 percent of the voting securities if the enterprise is incorporated or an equivalent interest if the enterprise is unincorporated.

For both the financial and operating data and the direct investment position and balance of payments data, the data presented in this publication cover every U.S. business enterprise that was a U.S. affiliate at the end of its 2002 fiscal year. The coverage of the direct investment position and balance of payments data in this publication is thus consistent with that of the financial and operating data. However, it differs from the coverage of these data in the U.S. international investment position and international transactions accounts, which, for a given calendar year, include transactions for U.S. businesses that were U.S. affiliates some time during the year but that were not affiliates at the end of the year, because the foreign parents' interest in them was liquidated or sold during the year. In addition, the direct investment position figures for 2001 shown in this publication cover only U.S. businesses that remained affiliates at the end of their 2002 fiscal year.

U.S. affiliates with total assets, sales, or net income (or loss) greater than \$10 million were required to complete a benchmark survey report for 2002. Affiliates that did not meet these criteria were exempt from reporting, but they had to file an exemption form with information on their total assets, sales, and net income. In the benchmark surveys for 1980, 1987, and 1992, the exemption level for reporting was \$1 million; in the benchmark survey for 1997, the exemption level was \$3 million. The exemption level for 2002 was raised to \$10 million in order to reduce the reporting burden of small enterprises.

For the 2002 benchmark survey, exemption claims were filed by 8,717 affiliates, compared with 5,932 affiliates that were required to report. In terms of value, however, the data for exempt affiliates were minuscule relative to the data totals for the direct investment universe: Together, they accounted for 0.2 percent of the total assets and 0.4 percent of the sales of all affiliates (table 4).⁷

Consistent with the benchmark survey publication for 1997, the data presented in this publication include

7. Because of limited resources, BEA cannot verify that exemption forms were filed by all affiliates that were below the threshold for submitting benchmark survey reports. However, because of their small size, the effect of any noncompliance by exempt affiliates on the benchmark survey data in terms of value is likely to be negligible.

estimates for exempt affiliates as well as data for U.S. affiliates that were required to complete a benchmark survey report. In contrast, estimates for exempt affiliates were not included in the published data for affiliates for years before 1997. Because the data for exempt affiliates are so small, this difference has virtually no effect on comparability with the published data across years.

Concepts and Definitions

This section discusses the basic concepts and definitions used in the 2002 benchmark survey.

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 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.⁸ Thus, foreign direct investment in the United States is ownership or control, direct or indirect, by one foreign person of 10 percent or more of the voting securities of an incorporated U.S. business enterprise or an equivalent interest in an unincorporated U.S. business enterprise. Only foreign investment in the United States that is direct investment was covered by the 2002 benchmark survey.

Direct investment in a U.S. business enterprise can result from direct or indirect ownership by a foreign person. In direct ownership, the foreign person itself holds the ownership interest in the U.S. business enterprise. In indirect ownership, one or more tiers of ownership exist between the U.S. business enterprise and the foreign person. For example, a U.S. business enterprise may be directly owned by another U.S. business enterprise that is, in turn, owned by the foreign person. A foreign person's percentage of indirect voting ownership in a given U.S. business enterprise is equal to the direct-voting-ownership percentage of the

8. 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).

Table 4. Total Assets and Sales of U.S. Affiliates by Their Reporting Requirement in the Benchmark Survey

	Millions of dollars		Percent	
	Total assets	Sales	Total assets	Sales
All affiliates.....	7,438,863	2,368,402	100.0	100.0
Required to report.....	7,424,268	2,357,869	99.8	99.6
Exempt from reporting.....	14,594	10,532	0.2	0.4

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

Direct investment refers to ownership by a single person, not to the combined ownership by all the 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 or not organized under the laws of any state) and any government (including a foreign government, the U.S. Government, a state or local government, or any corporation, financial institution, or other entity or instrumentality thereof, including a government-sponsored agency).

An associated group is treated in this definition as a single person. 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 an understanding—in order to influence the management of a business enterprise. The following are deemed associated groups: (1) Members of the same family, (2) a business enterprise and one or more of its officers or 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 interest of all members of the group is at least 10 percent, even if no one 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 foreign person of less than 10 percent in a U.S. business enterprise is not considered direct investment, even if another foreign person—of the same country or of another country—has an interest of at least 10 percent in the enterprise. Thus, if one foreign 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 foreign 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 which 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 subject to the jurisdiction of, the country in which the person is located if the person resides or expects to reside in it for 1 year or more. Under this rule, individuals 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 individuals 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 enterprise 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. affiliate

A U.S. affiliate is a U.S. business enterprise in which there is foreign direct investment. The affiliate is called a U.S. affiliate to denote that it is located in the United States.

A business enterprise is any organization, association, branch, venture, or the ownership of real estate that exists for profitmaking purposes or to otherwise secure economic advantage. Therefore, by definition, a business enterprise excludes the ownership of real estate exclusively for personal use; 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.

A business enterprise, and therefore an affiliate, may be either incorporated or unincorporated. Unincorporated affiliates primarily take the form of branches and partnerships. They may also include directly held commercial property.

A U.S. affiliate that is a branch consists of operations or activities in the United States that a foreign person conducts in its own name rather than through an entity separately incorporated in the United States. By definition, a branch is wholly owned.

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

1. It is subject to U.S. income taxes.
2. It has a substantial physical presence in the United States, as evidenced by plant and equipment or employees that are permanently located in the United States.
3. It has separate financial records that allow the preparation of financial statements, including a balance sheet and income statement. (A mere record of disbursements to, or receipts from, the U.S. operation or activity would not constitute a “financial statement” for this purpose.)
4. 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 probably is *not* a U.S. affiliate:

1. It is not subject to U.S. income taxes.
2. It has limited physical assets or few employees permanently located in the United States.
3. It has no separate financial records that allow the preparation of financial statements.
4. It conducts business in the United States only for the foreign person’s account, not for its own account.
5. It engages only in sales promotion or public

relations activities.

6. Its expenses are paid by the foreign person.

Consistent with these guidelines, the U.S. stations, ticket offices, and terminal or port facilities of a foreign airline or ship operator that provide services only to the airline’s or ship operator’s operations are not considered U.S. 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, they are considered U.S. affiliates.

Each U.S. affiliate was required to report on a fully consolidated domestic (U.S.) basis. The full consolidation includes all other U.S. affiliates of the foreign parent in which the affiliate directly or indirectly owned more than 50 percent of the outstanding voting interests. The consolidation excludes all other U.S. business enterprises and all foreign business enterprises owned by the U.S. affiliate.

There were two exceptions to this general consolidation rule. First, a given U.S. affiliate may have been excluded from full consolidation because of the lack of effective control. Second, a U.S. affiliate in which a direct ownership interest was held by one foreign person and an indirect ownership interest was held by another foreign person was not permitted to be consolidated in the report of another U.S. affiliate; this rule ensured that data on transactions and positions of both owners could be obtained from the affiliate.

The foreign owners

The existence of direct investment in a U.S. affiliate is determined solely on the basis of the voting shares (or the equivalent) held by its *foreign parent*. To more completely describe the foreign ownership of a U.S. affiliate, however, reference must be made to two additional entities—the *foreign parent group* and the *ultimate beneficial owner* (UBO). All three concepts are necessary to identify fully the owners of U.S. affiliates. The foreign parent of a U.S. affiliate must be identified to establish that foreign direct investment does in fact exist. The UBO of each U.S. affiliate is identified to determine the person that ultimately owns or controls and, therefore, ultimately derives the benefits from owning or controlling the U.S. affiliate.⁹ Members of the foreign parent group are identified to distinguish foreign persons that are affiliated with a U.S. affiliate from those that are not.

9. UBOs that are individuals were not required to be identified by name; however, their countries of location were required.

The affiliate's transactions with all these persons are included in the investment income, services, and financial accounts of the U.S. international transactions accounts, and the direct investment positions in the affiliate that are held by all members of the foreign parent group, not just by its foreign parent, are included in the foreign direct investment position in the United States.¹⁰

A given U.S. affiliate may have more than one ownership chain above it, if it is owned at least 10 percent by more than one foreign person. In such cases, the affiliate may have more than one foreign parent, UBO, and foreign parent group.

A *foreign parent* is the first person outside the United States in a U.S. affiliate's ownership chain that has a direct investment interest in the affiliate. By this definition, the foreign parent consists *only* of the first person outside the United States in the affiliate's ownership chain; all other affiliated foreign persons are excluded.

The *ultimate beneficial owner* (UBO) of a U.S. affiliate is that person, proceeding up the affiliate's ownership chain beginning with and including the foreign parent, that is not owned more than 50 percent by another person. The UBO excludes other affiliated persons. If the foreign parent is not owned more than 50 percent by another person, the foreign parent and the UBO are the same. Unlike the foreign parent, the UBO may be either a U.S. person or a foreign person (though most are foreign).

Both the foreign parent and the UBO are "persons." Thus, they may be business enterprises; religious, charitable, or other nonprofit organizations; individuals; governments; estates or trusts; associated groups; and so forth. In the case of a foreign estate, the estate, not its beneficiary, is considered the foreign parent or UBO. For the investments of a foreign trust, either the creator or the beneficiary of the trust may be considered the foreign parent or UBO, depending on the circumstances. The creator is considered the foreign parent or UBO if the creator is a corporation or other organization that designates its own shareholders or members as beneficiaries or if there is a reversionary interest—that is, the interest in the trust may later be returned to the creator. In all other cases, the beneficiary of the trust is considered the foreign parent or UBO.

A *foreign parent group* consists of (1) the foreign parent, (2) any foreign person, proceeding up the for-

foreign parent's ownership chain, that owns more than 50 percent of the person below it, up to and including the UBO, and (3) any foreign person, proceeding down the ownership chain(s) of each of these members, that is owned more than 50 percent by the person above it.

Accounting Principles

In most cases, data in the 2002 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 appropriate for direct investment purposes. One major departure from GAAP was in the area of consolidation rules (see the preceding discussion of consolidated reporting for "The U.S. affiliate" in the section "Concepts and Definitions").

Fiscal Year Reporting

Data for U.S. affiliates were required to be filed on a fiscal year basis. An affiliate's 2002 fiscal year was defined to be the affiliate's financial reporting year that ended in calendar year 2002. Because the fiscal year data from the benchmark survey that are presented in this publication are not identical to the calendar year estimates that are needed for the U.S. international transactions accounts and in the foreign direct investment position in the United States, these data must be adjusted to a calendar year basis before they are entered into the international transactions and foreign direct investment position accounts.

The extent of the noncomparability between the benchmark survey data presented here and the direct investment estimates presented in the international transactions and foreign direct investment position accounts depends on the number and size of, and volatility of the data for, the U.S. affiliates whose fiscal years do not correspond to the calendar year. Selected data for affiliates classified by the affiliates' fiscal year ending date are shown in table 5. As indicated in the addendum to the table, affiliates whose fiscal year exactly corresponded to the calendar year 2002 accounted for most of the foreign direct investment position and direct investment income for all affiliates.

Unlike the direct investment position and balance of payments data, financial and operating data in all BEA surveys are consistently collected and published on a fiscal year basis.

Confidentiality

Under the International Investment and Trade in

10. Another type of transaction—trade in goods between affiliates and members of their foreign parent groups—is also included in the U.S. international transactions accounts, but it is not shown separately. Separate data on such trade, however, were obtained in the benchmark survey as part of the U.S.-affiliate financial and operating data; see the section "Financial and Operating Data."

Services Survey Act, the direct investment data collected by BEA from individual respondents are confidential; thus, they cannot be published in such a manner “that the person to whom the information relates can be specifically identified.” For this publication, each cell in a table was tested to determine whether the data it contained should be suppressed (not be 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 is entered in lieu of a “(D).”

The act further specifies 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. In addition, as amended by the Foreign Direct Investment and International Financial Data Improvements Act of 1990, the act grants access to certain other government agencies for limited statistical purposes. For example, access is granted to the Bureau of the Census for the purpose of linking BEA’s enterprise-, or company-, level data for foreign direct investment to the Census Bureau’s establishment-, or plant-, level data for all U.S. companies

to obtain more detailed data by industry and by state for the foreign-owned enterprises that report to BEA. A separate act, the Confidentiality Information Protection and Statistical Efficiency Act of 2002 (Title V of Public Law 107-347), also authorizes the sharing of business confidential data (including BEA’s direct investment data) between BEA, the Census Bureau, and the Bureau of Labor Statistics under specified conditions for statistical purposes.

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 Survey Act—for example, to perform research on foreign direct investment. 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

Both the financial and operating data and the direct investment position and balance of payments data from the benchmark survey can be classified by industry of affiliate, by country and industry of UBO, and by country and industry of foreign parent. In addition, the direct investment position and balance of payments data can be classified by country of each member of the foreign parent group.

Table 5. Selected Data of U.S. Affiliates by Fiscal Year Ending Date

[Millions of dollars, except as noted]

	Fiscal year ending date					
	Total	January 1 to March 31	April 1 to June 30	July 1 to September 30	October 1 to December 31	Addendum: December 31
	(1)	(2)	(3)	(4)	(5)	(6)
All affiliates:						
Total assets	7,438,863	665,424	100,755	176,725	6,495,959	6,224,216
Sales	2,368,402	356,028	71,908	124,568	1,815,897	1,698,483
Net income ¹	-57,991	-3,141	(D)	(D)	-37,954	-36,310
Compensation of employees	357,223	40,033	10,464	31,834	274,892	254,983
Thousands of employees	6,070.5	762.7	208.6	698.0	4,401.1	3,879.0
Exports of goods	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Imports of goods	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Foreign direct investment position in the United States	1,288,719	188,166	(D)	(D)	976,890	941,736
Direct investment income	13,359	63	(D)	(D)	8,218	8,455
Nonbank affiliates:						
Total assets	5,229,812	478,652	99,521	164,310	4,487,329	4,369,704
Sales	2,216,530	325,672	71,829	124,186	1,694,843	1,584,326
Net income ¹	-57,011	-2,270	-8,463	-8,483	-37,795	-37,427
Compensation of employees	341,935	39,576	10,453	31,788	260,118	241,533
Thousands of employees	5,925.1	758.9	208.5	697.7	4,259.9	3,747.9
Exports of goods	150,147	22,069	9,115	8,728	110,234	107,514
Imports of goods	348,111	96,225	6,720	11,465	233,700	229,553
Foreign direct investment position in the United States	1,214,469	188,027	38,607	83,248	904,587	874,724
Direct investment income	15,470	1,000	-2,543	7,594	9,418	8,680
Bank affiliates:						
Total assets	2,209,051	186,772	1,234	12,415	2,008,630	1,854,512
Sales	151,872	30,356	80	382	121,055	114,157
Net income ¹	-980	-871	(D)	(D)	-159	1,117
Compensation of employees	15,288	457	11	46	14,773	13,450
Thousands of employees	145.4	3.8	(*)	(*)	141.2	131.2
Exports of goods	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Imports of goods	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Foreign direct investment position in the United States	74,251	139	(D)	(D)	72,303	67,012
Direct investment income	-2,111	-937	(D)	(D)	-1,200	-225

NOTE: See "General Notes to the Tables" on page 2.

n.a. Not available

1. Includes capital gains and losses.

Industry classification

In the 2002 benchmark survey, each U.S. affiliate was classified by industry using the International Survey Industry (ISI) classification system, which was updated for the benchmark survey to reflect the 2002 revision to the North American Industry Classification System (NAICS). For most industries, the classifications under this system are identical to those in the NAICS-based ISI classification system used in the benchmark and annual surveys for 1997–2001.¹¹ The most significant change is the addition of several new industries in the information sector.

In the 2002 NAICS-based ISI classification system, there are 205 industries, compared with 197 industries in the 1997 NAICS-based ISI system. For the most part, the ISI classifications are equivalent to NAICS four-digit industries; at its most detailed level, NAICS classifies industries at a six-digit level. The ISI classification system is less detailed than NAICS because it is designed for classifying enterprises rather than establishments (or plants). 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. A list and a description of the NAICS-based ISI codes (and their relationship to NAICS) are presented in the *Guide to Industry and Foreign Trade Classifications for International Surveys, 2002* (see appendix B).¹²

Each U.S. affiliate was classified by industry on the basis of its sales (or of its total income, for holding companies) in a three-step procedure. First, a given U.S. affiliate was classified in the NAICS sector that accounted for the largest percentage of its sales.¹³ Second, within the sector, the U.S. affiliate was classified in the three-digit subsector in which its sales were largest; a three-digit subsector consists of all four-digit industries that have the same first three digits in their four-digit ISI code. Third, within its three-digit subsector, the U.S. affiliate was classified in the four-digit

11. In the surveys before 1997, the industry classification system was based on the Standard Industrial Classification (SIC). For a discussion of the differences between the NAICS-based ISI classification system introduced in 1997 and the earlier SIC-based ISI classification system, see the section on industry classification in the Methodology of *Foreign Direct Investment in the United States: Final Results From the 1997 Benchmark Survey*.

12. The *Guide* is also available on BEA's Web site at <www.bea.gov/bea/surveys/fdiusurv.htm>.

13. The sectors used were agriculture, forestry, fishing, and hunting; mining; utilities; construction; manufacturing; wholesale trade; retail trade; transportation and warehousing; information; finance and insurance; real estate and rental and leasing; professional, scientific, and technical services; management of companies and enterprises; administrative and support, waste management, and remediation services; educational services; health care and social assistance; arts, entertainment, and recreation; accommodations and food services; and other services.

industry in which its sales were largest.¹⁴ This procedure ensured that the U.S. affiliate was not assigned to a four-digit industry outside either its sector or its three-digit subsector.¹⁵

Tables II.A 2 and III.A 2 present selected financial and operating data for nonbank U.S. affiliates classified by industry of affiliate; each four-digit industry is shown separately and is grouped by the sector and subsector to which it belongs. (Table II.A 2 presents detailed industry data for all nonbank affiliates, and table III.A 2 presents detailed industry data for majority-owned nonbank affiliates.) Primarily because of confidentiality requirements, many of these four-digit industries are not shown in the other tables in this publication. However, each industry that is included, but not identified, in an industry group shown in the other tables may be ascertained by referring to tables II.A 2 and III.A 2.

Each U.S. affiliate was classified in a single industry—the primary industry of the affiliate. As a result, any affiliate activities that take place in secondary industries are classified as activities in the primary industry. Because the benchmark survey data were collected on an enterprise basis, the reports for many affiliates reflect substantial activities in secondary industries. Information on the distribution of activities

14. For affiliates reporting on the bank form, however, this procedure was not followed for affiliates that had large sales in nonbanking industries. Because the data reported for bank affiliates include any data for nonbank U.S. companies that are more than 50-percent owned by the bank affiliates (see footnote 3), the sales of a given bank affiliate may be largest in an industry other than banking. In the 2002 benchmark survey, a few affiliates that filed the bank form reported that their sales were largest in a nonbanking industry; in each case, the affiliate was classified in depository credit intermediation (banking), even though its sales were largest in another industry.

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

Industry code	Percentage of total sales
3341.....	5
3342.....	10
3344.....	15
3353.....	25
4236.....	45

} 30
} 55

where industry codes 3341, 3342, 3344, and 3353 are in the manufacturing sector and code 4236 is in the wholesale trade sector. Because 55 percent of the affiliate's sales were in manufacturing and only 45 percent were in wholesale trade, the affiliate's sector is manufacturing. Because the largest share of its sales within manufacturing is in the three-digit subsector 334 (computers and electronic products, which includes industry codes 3341, 3342, and 3344), the affiliate's three-digit subsector is 334. Finally, because its sales within subsector 334 were largest in industry 3344, the affiliate's four-digit industry is 3344 (semiconductors and other electronic components). Thus, the affiliate was assigned to industry 3344, even though its sales in that industry were smaller than its sales in either industry 4236 or industry 3353.

within each firm was obtained in the benchmark survey for two key items—sales and employment. Each majority-owned U.S. affiliate above a minimum size threshold was required to distribute its sales and its employment among the four-digit industries in which it had sales.¹⁶ Data on affiliate sales distributed by industry of sales are presented in tables III.A 8, III.E 7, III.E 8, and III.E 9; data on affiliate employment distributed by industry of sales are presented in tables III.A 8, III.G 10, III.G 11, and III.G 12.

The data classified by industry of sales confirm that many affiliates had activities in more than one industry. In particular, the largest affiliates tended to report substantial sales in a number of secondary industries, including industries outside of the sector in which the affiliate was classified. Table 6 illustrates the degree to which sales by large majority-owned affiliates classified in manufacturing are diversified across industries; it indicates that the 100 largest majority-owned manufacturing affiliates (which together account for 70 percent of the total sales of all majority-owned affiliates classified in manufacturing) on average had sales in 5 industries, and that 36 percent of these affiliates' sales were accounted for by four-digit industries other than the one in which the affiliate was classified.¹⁷ The table also shows that 2 of the 5 industries in which the average affiliate had sales are outside manufacturing; on average, sales outside manufacturing accounted for 16 percent of the affiliates' total sales.

In addition, table 6 shows that industry diversifica-

tion tends to increase with affiliate size. For example, in an examination of the 20 largest affiliates, the average number of industries in which affiliates had sales increases to 8 industries, and the average share of sales accounted for by industries other than the industry in which the affiliate was classified increases to 58 percent. Similar patterns of industry diversification are displayed by large affiliates classified in industries outside manufacturing, particularly by affiliates in wholesale trade.

As table 6 implies, the distribution of data by industry of affiliate differs from the distribution that would result if each of the affiliates' activities were classified by industry. In table III.A 8, majority-owned nonbank U.S. affiliates' sales and employment by industry of sales are compared with their sales and employment by industry of affiliate. (Data by industry of sales cross-classified by industry of affiliate are shown in table III.E 7 for sales and table III.G 10 for employment.)

The distribution of affiliate data by industry of sales roughly approximates the distribution that would result if the data were reported and classified by industry of establishment because an affiliate that has an establishment in an industry usually also has sales in that industry. However, if two establishments of an affiliate are in different industries and if one of the establishments provides all of its output to the other one, the affiliate will not have sales in the industry of the first establishment.¹⁸ Thus, the data by industry of sales approximate data by industry of establishment, but data by industry of establishment provide more precise and more detailed information on the activities

16. Specifically, large majority-owned U.S. affiliates (those with total assets, sales, or net income greater than \$125 million) had to specify their sales and employment in the 10 industries in which their sales were largest; medium-sized majority-owned affiliates (those with assets, sales or net income greater than \$30 million but not greater than \$125 million) had to specify their sales in the 4 industries in which their sales were largest. For majority-owned affiliates, affiliate sales and employment in all other industries are shown in the "unspecified" row in tables III.A 8, III.E 7, III.E 8, III.G 10, and III.G 11.

17. For 35 of these 100 affiliates, the industry in which the affiliate is classified accounts for less than half of the affiliate's total sales.

18. For example, if an affiliate operates both a metal mine and a metal manufacturing plant and if the entire output of the mine is used by the manufacturing plant, all of the affiliate's sales will be in metal manufacturing, and none will be in metal mining. When the mining employees are distributed by industry of sales, they are classified in manufacturing. In contrast, when they are distributed by industry of establishment, they are classified in mining.

Table 6. Industry Distribution of Sales by 100 Largest Majority-owned Affiliates Classified in Manufacturing

Sales rank	Number of four-digit industries in which affiliate has sales ¹			Percentage of affiliate sales accounted for by:					Addendum: Percentage of affiliate sales accounted for by four-digit industries other than those in which the affiliate is classified ²
	All industries	Manufacturing industries	Other industries	All industries ²	Manufacturing industries			Non-manufacturing industries ²	
					Total	Four-digit industry in which the affiliate is classified	Other		
100 largest affiliates	5.2	3.5	1.7	100.0	84.2	64.0	20.2	15.8	36.0
1-20	8.1	5.3	2.8	100.0	73.3	42.4	30.9	26.7	57.6
21-40	4.6	2.7	1.9	100.0	78.8	64.8	13.9	21.2	35.2
41-60	4.5	3.5	1.1	100.0	91.2	71.2	20.0	8.8	28.8
61-80	4.6	3.0	1.7	100.0	84.6	68.9	15.7	15.4	31.1
81-100	4.3	3.1	1.2	100.0	93.1	72.7	20.4	6.9	27.3

1. On the benchmark survey form, large majority-owned affiliates (those with assets, sales, or net income greater than \$125 million) were required to specify their sales in the 10 industries in which their sales were largest. To the extent that some affiliates had sales in more than 10 industries, there may be a slight downward bias in the average number of industries shown for a given group.

2. For affiliates that had sales in more than 10 industries, includes sales in industries that were not identified on the benchmark survey form.

of the affiliates. In addition, establishment data can be related directly to measures of economic activity by all establishments in the United States. Partly for these reasons, BEA plans to publish establishment data for U.S. affiliates for 2002 as part of a project that links the enterprise data from the benchmark survey to the establishment data from the Census Bureau's 2002 economic census.¹⁹

The foreign parent and UBO of each affiliate were also classified by industry; however, because a breakdown was not obtained for each industry in which the parent or UBO had sales, the categories used were much less detailed than those used for affiliates. In the benchmark survey, an affiliate had to assign its parent and UBO to 1 of 32 broad NAICS-based categories. These categories are shown in table 7, which presents selected data for majority-owned nonbank affiliates classified by industry of foreign parent. Selected data

19. Establishment data from the link project were published previously for 1987-92 and 1997; for further information, see footnote 6.

for majority-owned nonbank affiliates classified by industry of UBO are presented in table III.A 6. (Data by industry of affiliate cross-classified by industry of UBO are shown in tables III.B 7, III.E 5, III.F 4, and III.G 5.)

The industry classification of an affiliate's foreign parent may differ from that of its UBO. The foreign parent consists *only* of the first foreign person in the affiliate's ownership chain, and its industry of classification reflects only the activities of that first foreign person. In contrast, the UBO's industry reflects its fully consolidated worldwide activities, including the activities of both U.S. and foreign entities in the ownership chain below it.

A distribution of sales by industry was not obtained for UBOs or foreign parents. For affiliates that had more than one UBO or foreign parent, each UBO or foreign parent was classified. In the tables that show data disaggregated by industry of UBO or foreign parent, all data for these affiliates are shown in the

Table 7. Selected Financial and Operating Data of Majority-Owned Nonbank U.S. Affiliates by Industry of Foreign Parent

	By industry of foreign parent				Thousands of employees (5)
	Millions of dollars				
	Total assets	Gross property, plant, and equipment	Sales	Compensation of employees	
	(1)	(2)	(3)	(4)	
All industries	4,573,139	1,024,364	2,030,962	315,779	5,425.4
Government and government-related entities	4,123	1,411	2,898	350	7.3
Government and government-owned enterprises	3,513	(D)	2,872	350	7.3
Pension funds—Government run	611	(D)	26	1	(*)
Individuals, estates, and trusts	23,681	14,721	10,618	1,392	34.8
Pension funds—privately run	2,442	1,861	467	(D)	G
Estates, trusts, and nonprofit organizations	6,903	2,080	1,460	(D)	H
Individuals	14,335	10,780	8,691	1,205	29.7
Manufacturing	784,939	383,764	825,035	104,399	1,596.3
Food	33,603	12,502	31,089	4,054	77.7
Beverages and tobacco products	8,481	5,059	7,904	1,112	25.7
Petroleum and coal products	36,280	27,591	63,557	2,126	26.3
Chemicals	150,898	60,854	97,571	17,477	207.3
Pharmaceuticals and medicines	32,285	7,894	25,905	4,686	57.1
Other	118,613	52,961	71,666	12,790	150.2
Nonmetallic mineral products	23,775	20,389	16,298	3,002	62.6
Primary and fabricated metals	39,382	23,778	40,382	7,069	118.9
Machinery	33,100	13,292	31,331	5,919	96.3
Computer and electronic products	70,375	25,041	100,108	14,077	184.3
Electrical equipment, appliances, and components	44,051	18,678	61,568	8,577	124.3
Transportation equipment	270,295	132,927	294,108	24,894	357.8
Motor vehicles, bodies and trailers, and parts	248,737	127,548	277,616	21,251	303.4
Other	21,558	5,379	16,492	3,643	54.4
Other manufacturing	74,699	43,654	81,121	16,093	315.2
Wholesale and retail trade	97,063	33,463	191,932	13,278	380.9
Information	172,154	30,107	42,548	9,344	123.4
Depository institutions and bank holding companies	1,151,871	5,110	39,005	12,507	65.0
Finance (except depository institutions) and insurance	724,356	23,641	98,242	15,139	140.0
Finance (except depository institutions)	98,665	12,793	24,553	5,758	53.6
Insurance	625,690	10,849	73,689	9,381	86.4
Real estate	44,457	39,566	8,535	1,149	17.1
Professional, scientific, and technical services	30,102	4,099	24,244	6,270	71.5
Other industries	1,540,392	488,481	787,904	151,950	2,989.2
Agriculture, forestry, fishing, and hunting	2,526	1,073	2,195	326	6.9
Mining	22,042	19,588	15,542	2,595	29.7
Utilities	61,205	33,125	20,406	3,390	51.7
Construction	14,977	6,161	26,408	4,315	69.4
Transportation and warehousing	24,377	17,235	18,494	4,782	98.7
Holding companies	1,376,973	397,077	669,560	120,519	2,090.9
Other services	38,293	14,222	35,300	16,023	641.9

NOTES. See "General Notes to the Tables" on page 2.

The following 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.

industry of the UBO or foreign parent with the largest ownership share.

Country classification

In the benchmark survey, the UBO and the foreign parent of a U.S. affiliate were each classified by country. For affiliates that had more than one UBO or foreign parent, each UBO or foreign parent was classified; for most of the tables in this publication, the data for a given affiliate were then classified by the country of the UBO or the foreign parent that had the largest ownership share in the affiliate.

For most affiliates, the country of the UBO is the country of the foreign parent: Of the 5,932 U.S. affiliates that were required to complete a report, the country of the UBO and that of its foreign parent are the

same for 4,972 affiliates. Together, these affiliates account for more than three-fourths of the total assets, sales, and employment of all affiliates.

Table 8 shows for all U.S. affiliates the number that were required to report in the benchmark survey by country of UBO (in columns 1–3) and by country of foreign parent (in columns 4–6). For a given UBO country, the table shows the number of affiliates for which the affiliate's country of foreign parent is identical to, or differs from, its country of UBO. For most of the countries shown, the country of foreign parent is same as the country of UBO for the vast majority of affiliates. However, for some UBO countries—most notably, Hong Kong and a number of countries in the Middle East—the country of foreign parent of most affiliates differs from that of their UBO. For these

Table 8. Number of Affiliates by Country of UBO and Country of Foreign Parent, and by Whether or Not the Country of Foreign Parent is the Same as the Country of UBO

	By country of UBO			By country of foreign parent		
	Total	Affiliates whose country of foreign parent is:		Total	Affiliates whose country of UBO is:	
		Country of UBO	Another country		Country of foreign parent	Another country
	(1)	(2)	(3)	(4)	(5)	(6)
All countries	5,932			5,932		
Canada	558	544	14	613	544	69
Europe						
Austria	35	32	3	33	32	1
Belgium	74	54	20	70	54	16
Denmark	51	44	7	51	44	7
Finland	37	28	9	30	28	2
France	361	320	41	346	320	26
Germany	692	638	54	660	638	22
Ireland	30	26	4	35	26	9
Italy	153	100	53	109	100	9
Luxembourg	21	13	8	90	13	77
Netherlands	229	202	27	372	202	170
Norway	44	39	5	42	39	3
Spain	59	47	12	51	47	4
Sweden	88	74	14	81	74	7
Switzerland	246	194	52	233	194	39
United Kingdom	611	451	160	525	451	74
Other						
Latin America and Other Western Hemisphere						
South and Central America						
Brazil	39	22	17	25	22	3
Mexico	82	64	18	67	64	3
Panama	21	21	0	43	21	22
Venezuela	22	15	7	15	15	0
Other						
Other Western Hemisphere						
Bahamas	10	10	0	22	10	12
Bermuda	59	34	25	75	34	41
Netherlands Antilles	13	11	2	73	11	62
United Kingdom Islands, Caribbean	54	41	13	239	41	198
Other						
Africa						
South Africa	20	9	11	9	9	0
Other						
Middle East						
Israel	47	40	7	41	40	1
Kuwait	23	9	14	9	9	0
Lebanon	13	0	13	0	0	0
Saudi Arabia	66	9	57	9	9	0
United Arab Emirates	16	3	13	3	3	0
Other						
Asia and Pacific						
Australia	85	75	10	79	75	4
China	16	11	5	14	11	3
Hong Kong	81	34	47	40	34	6
India	23	19	4	19	19	0
Japan	1,452	1,418	34	1,424	1,418	6
Korea, Republic of	73	72	1	72	72	0
Malaysia	15	7	8	8	7	1
New Zealand	10	8	2	9	8	1
Singapore	40	29	11	34	29	5
Taiwan	111	85	26	87	85	2
Other						
United States	70	0	70	0	0	0

NOTE: This table covers all bank and nonbank affiliates (majority- and minority-owned) that were required to report in the benchmark survey.

countries, the tabular totals shown when data are distributed by country of UBO are much higher than those shown when data are distributed by country of foreign parent. Table 8 also shows, for a given country of foreign parent, the number of affiliates for which the affiliate's country of UBO is identical to, or differs from, its country of foreign parent. For some foreign-parent countries—most notably Luxembourg and several countries in Latin America and Other Western Hemisphere—the country of UBO of most affiliates differs from that of their foreign parent. For most of these countries, totals shown when data are distributed by country of foreign parent are substantially higher than those shown when data are distributed by country of UBO. Tables II.A 7 and III.A 7 compare data for selected items by country of UBO and by country of foreign parent for nonbank affiliates.

Most of the data in the tables that are disaggregated by country in this publication are classified by country of UBO. Classification by country of UBO usually is used for financial and operating data because the country that ultimately owns or controls a U.S. affiliate and that therefore derives benefits from owning or controlling the affiliate generally is considered most important for analyzing these data. Except for the data in table 9 (which provides data on several different classification bases), all balance of payments and direct investment position data in this publication are also classified by country of UBO, so that both types of data presented will be classified on the same basis. In contrast, the data in the U.S. international transactions accounts and in the foreign direct investment position in the United States are usually classified by the country of each member of the foreign parent group with which there are transactions or positions.

Tables II.A 3 and III.A 3 present selected financial and operating data for nonbank U.S. affiliates by country of UBO; by geographic area, they show each country in which a UBO was located in 2002. Table 9 shows data for all affiliates on the direct investment position and on direct investment income by each country in which a UBO was located. Primarily because of confidentiality requirements, many countries could not be shown in the other tables in this publication. However, each country included, but not identified, in a geographic group shown in the other tables may be ascertained by referring to table II.A 3, table III.A 3, or table 9.

Four tables—tables 9, 10, II.A 7, and III.A 7—show data by country of foreign parent. Table 9 shows the direct investment position and direct investment income by country of foreign parent and by country of each member of the foreign parent group, in addition

to by country of UBO. Table 10 shows selected financial and operating data for all affiliates, classified by country of foreign parent. As mentioned above, tables II.A 7 and III.A 7 compare a few key financial and operating data items classified by country of UBO and by country of foreign parent for nonbank affiliates.

Estimation and General Validity of the Data

Nonbank affiliates with total assets, sales, or net income greater than \$10 million were required to report in the benchmark survey. Depending on their size and the share of ownership held in them by foreigners, they had to report on a long form, a short form, or an abbreviated short form.²⁰

The long form (BE-12(LF)) was filed by majority-owned nonbank affiliates with total assets, sales, or net income (or loss) greater than \$125 million and collected the most detailed data. The short form (BE-12(SF)) was filed by minority-owned nonbank affiliates and by majority-owned nonbank affiliates with total assets, sales and net income (or loss) of \$125 million or less. The full short form—which was filed by nonbank affiliates with total assets, sales, or net income (or loss) greater than \$30 million—collected most balance of payments data items but only selected financial and operating data items. The abbreviated short form—which was filed by nonbank affiliates with total assets, sales, and net income (or loss) of \$30 million or less—collected key financial and operating data items only.

In order to present financial and operating data in the same detail for all majority-owned nonbank affiliates, BEA estimated the items that appeared only on the long form for the affiliates that reported on the short form or the abbreviated short form. For a given majority-owned affiliate that filed the short form, long-form items were generally estimated on the basis of relationships among data items for a comparable panel of long-form affiliates.

For both majority-owned and minority-owned nonbank affiliates, items that appeared on the full short form but not on the abbreviated short form were estimated for the affiliates that reported on the abbreviated short form. Estimates were also made for some affiliates that failed to report in the benchmark survey but for which BEA had a basis for estimation, usually from data reported in other BEA surveys. In addition, estimates were made for affiliates that were exempt from reporting in the benchmark survey.

A total of 4,738 nonbank affiliates filed benchmark

20. Bank affiliates reported on a separate form. For nonbank affiliates, the abbreviated short form consists of items 1 through 20 in part I of the short form. All the forms used in the benchmark survey are reprinted in appendix A.

Table 9. Foreign Direct Investment Position in the United States and Direct Investment Income by Country of UBO, of Foreign Parent, and of Each Member of the Foreign Parent Group

[Millions of dollars]

	By country of UBO		By country of foreign parent		By country of each member of the foreign parent group			By country of UBO		By country of foreign parent		By country of each member of the foreign parent group	
	Position	Income	Position	Income	Position	Income		Position	Income	Position	Income	Position	Income
	(1)	(2)	(3)	(4)	(5)	(6)		(1)	(2)	(3)	(4)	(5)	(6)
All countries	1,288,719	13,359	1,288,719	13,359	1,288,719	13,359							
Canada	106,796	(D)	114,247	145	96,444	-746	Dominican Republic	(D)	(D)	(D)	(D)	62	(D)
Europe	877,122	6,643	917,596	12,609	946,751	13,565	French Islands, Caribbean	(*)	(*)	(*)	(*)	(*)	(*)
Austria	(D)	(D)	2,537	20	3,085	23	Grenada	2	(*)	8	(*)	8	(*)
Belgium	(D)	(D)	11,553	489	12,859	540	Haiti	1	(*)	1	(*)	1	(*)
Denmark	(D)	(D)	261	-53	414	-48	Jamaica	1	(*)	1	(*)	-1	(*)
Finland	(D)	(D)	7,583	230	6,289	192	St. Vincent and the Grenadines	0	0	5	(*)	5	(*)
France	122,883	2,999	121,230	3,186	122,268	3,280	Trinidad and Tobago	36	5	29	4	35	4
Germany	156,884	-6,857	146,428	-7,714	138,269	-7,804	Africa	(D)	(D)	2,263	-44	2,369	-40
Ireland	(D)	(D)	14,755	384	14,296	391	South Africa	2,387	7	683	-48	659	-47
Italy	16,900	-16	7,392	-125	7,620	-130	Other	(D)	(D)	1,580	4	1,709	7
Luxembourg	5,675	256	108,375	-198	114,669	-165	Algeria	(D)	(D)	0	0	-1	0
Netherlands	(D)	4,224	169,149	3,035	149,667	2,545	Angola	(D)	(*)	(D)	(*)	(D)	(*)
Norway	1,956	-431	3,624	66	3,591	62	Congo (Brazzaville)	1	-3	0	0	0	0
Spain	6,569	-284	5,587	-268	5,623	-268	Egypt	17	-4	12	-4	6	-4
Sweden	(D)	(D)	21,959	1,842	20,677	1,771	Equatorial Guinea	0	0	0	0	(D)	0
Switzerland	50,527	(D)	104,488	5,100	120,159	5,171	Ghana	1	(*)	0	0	-3	0
United Kingdom	(D)	8,153	189,210	6,150	204,020	6,629	Guinea	(D)	(D)	(D)	(D)	(D)	(D)
Other	1,694	-15	3,463	465	23,244	1,376	Liberia	662	-18	1,388	(D)	1,554	(D)
Azerbaijan	(*)	(*)	(*)	(*)	-3	(*)	Mauritania	0	0	0	0	-3	0
Bulgaria	0	(*)	0	(*)	0	(*)	Mauritius	5	-2	(D)	-2	(D)	-2
Croatia	2	(*)	2	(*)	2	(*)	Morocco	12	-2	9	-2	9	-2
Cyprus	6	1	56	-7	56	-7	Nigeria	(D)	8	(D)	8	(D)	8
Czech Republic	1	(*)	1	(*)	13	(*)	Zambia	0	0	0	0	(*)	0
Georgia	0	0	0	0	-1	0	Middle East	10,228	-295	(D)	(D)	(D)	(D)
Gibraltar	33	2	1,376	585	1,376	585	Israel	3,110	87	2,519	70	2,551	70
Greece	880	114	470	43	466	43	Kuwait	(D)	45	947	55	944	55
Greenland	(D)	2	1	(*)	1	(*)	Lebanon	367	3	(*)	(*)	(*)	(*)
Hungary	7	3	1,158	-83	16,946	404	Saudi Arabia	4,309	-326	2,607	(D)	(D)	(D)
Iceland	154	14	151	14	(D)	(D)	United Arab Emirates	(D)	-12	220	(D)	227	(*)
Liechtenstein	253	-19	153	16	189	16	Other	249	-92	(D)	-64	492	-64
Lithuania	(*)	(*)	(*)	(*)	(*)	(*)	Bahrain	-11	-44	139	-16	325	-16
Poland	7	(D)	(D)	(D)	19	(D)	Iran	(D)	19	2	(D)	2	(D)
Portugal	-98	-19	-98	-19	-88	-19	Iraq	(D)	(D)	(D)	(D)	(D)	(D)
Romania	(*)	(*)	(*)	(*)	(*)	(*)	Jordan	-9	(D)	(D)	(D)	(D)	(D)
Russia	199	-90	54	-71	94	-69	Oman	-2	(*)	(*)	(*)	(*)	(*)
Slovakia	(*)	(*)	(*)	(*)	-1	(*)	Qatar	16	3	16	3	16	3
Turkey	(D)	(D)	(D)	(D)	142	(D)	Syria	6	(*)	0	0	0	0
Ukraine	(*)	(*)	(*)	(*)	(*)	(*)	Yemen (Sanaa)	1	(*)	1	(*)	(D)	(*)
Latin America and Other Western Hemisphere	96,980	3,930	77,831	-1,854	67,390	-1,930	Asia and Pacific	181,318	2,463	170,231	2,781	169,247	2,792
South and Central America	(D)	-307	13,056	-219	11,240	-270	Australia	(D)	-994	23,491	-885	22,758	-888
Brazil	2,179	176	706	91	441	90	China	533	(D)	312	18	406	17
Mexico	(D)	(D)	7,669	-115	7,537	-153	Hong Kong	2,918	94	1,141	56	1,573	58
Panama	(D)	(D)	397	-31	-1,070	-69	India	226	-48	222	-34	212	-34
Venezuela	(D)	(D)	3,431	-138	3,735	-112	Japan	139,655	3,286	135,110	3,482	135,168	3,492
Other	(D)	(D)	853	-26	597	-27	Korea, Republic of	3,568	208	3,567	208	3,446	208
Argentina	587	(D)	374	-42	846	-43	Malaysia	(D)	-5	645	-16	705	-16
Belize	2	4	1	4	1	4	New Zealand	260	-8	245	-14	487	-9
Chile	344	8	280	18	253	17	Singapore	3,266	53	2,588	45	1,670	43
Colombia	80	-8	45	-7	-219	-7	Taiwan	4,214	-107	2,614	-74	2,512	-74
Costa Rica	(D)	-3	6	(*)	1	(*)	Other	809	(D)	294	-5	309	-5
Ecuador	112	2	(D)	(*)	(D)	(*)	Afghanistan	(D)	(*)	(D)	(*)	(D)	(*)
El Salvador	47	2	9	2	8	2	Bangladesh	1	(*)	1	(*)	1	(*)
Guatemala	19	4	18	4	(D)	4	Brunei	(D)	3	5	-4	5	-4
Honduras	(D)	(*)	(*)	0	(*)	0	Indonesia	129	-32	58	-2	56	-2
Nicaragua	(D)	5	0	0	0	0	Marshall Islands	0	0	7	(D)	(D)	(D)
Paraguay	(*)	(*)	(*)	(*)	(*)	(*)	North Korea	0	0	0	0	-2	0
Peru	2	-1	1	(*)	-15	(*)	Pakistan	72	(D)	54	(D)	54	(D)
Suriname	0	0	(D)	-2	(D)	-2	Papua New Guinea	1	(*)	(*)	(*)	(*)	(*)
Uruguay	32	(*)	99	-3	26	-3	Philippines	198	12	94	5	98	5
Other Western Hemisphere	(D)	4,236	64,775	-1,635	56,151	-1,661	Sri Lanka	(*)	(*)	(*)	(*)	(*)	(*)
Bahamas	149	-8	879	16	1,429	19	Thailand	54	-18	58	-17	69	-17
Bermuda	63,049	4,596	24,364	-1,360	17,923	-1,096	Vanuatu	(D)	(D)	(D)	(D)	(D)	(D)
Netherlands Antilles	(D)	(D)	3,815	-343	3,885	-343	Vietnam	(*)	(*)	(*)	(*)	(*)	(*)
United Kingdom Islands, Caribbean	14,480	-30	18,777	-336	17,512	-420	United States	(D)	(D)	(D)	(D)	(D)	(D)
Other	(D)	(D)	16,939	389	15,402	181	Addenda:						
Aruba	(*)	(*)	(*)	(*)	(D)	(*)	European Union (15)	823,726	10,433	806,392	7,001	800,136	6,981
Barbados	(D)	(D)	16,848	387	15,301	178	OPEC	10,903	-450	7,549	-292	7,635	-270
Cuba	(*)	0	(D)	(D)	(D)	(D)							

NOTE: See "General Notes to the Tables" on page 2.

Table 10. Selected Financial and Operating Data of U.S. Affiliates by Country of Foreign Parent

	Millions of dollars					Thousands of employees
	Total assets	Gross property, plant, and equipment	Sales	Net income ¹	Compensation of employees	
	(1)	(2)	(3)	(4)	(5)	
All countries	7,438,863	1,204,287	2,368,402	-57,991	357,223	6,070.5
Canada	572,442	110,760	157,304	-5,235	29,719	539.4
Europe	5,313,012	754,376	1,466,403	-43,124	253,808	4,224.3
Austria	(D)	(D)	(D)	-56	663	13.0
Belgium	64,220	(D)	(D)	-564	4,219	141.6
Denmark	(D)	(D)	(D)	-95	2,103	42.6
Finland	47,126	(D)	16,536	-1,064	2,814	39.1
France	664,645	65,028	187,103	-6,353	30,350	489.5
Germany	1,005,889	180,300	318,696	-27,647	50,811	683.9
Ireland	(D)	(D)	(D)	-537	5,695	M
Italy	(D)	(D)	(D)	-400	1,849	K
Luxembourg	(D)	(D)	(D)	1,702	11,425	M
Netherlands	1,031,321	(D)	292,985	-671	44,563	M
Norway	(D)	2,781	(D)	-100	830	13.4
Spain	35,502	2,841	4,995	-284	833	18.3
Sweden	87,986	(D)	48,098	2,025	9,723	222.6
Switzerland	1,201,562	(D)	(D)	-13,001	47,371	631.6
United Kingdom	784,024	(D)	250,725	3,628	38,010	M
Other	(D)	(D)	11,834	293	2,549	K
Latin America and Other Western Hemisphere	688,762	122,734	172,064	730	23,155	475.8
South and Central America	489,885	55,077	92,694	4,779	7,868	162.7
Brazil	5,912	266	858	68	91	1.3
Mexico	(D)	7,314	(D)	-598	3,276	L
Panama	(D)	(D)	(D)	(D)	(D)	L
Venezuela	19,034	(D)	25,249	(D)	(D)	7.1
Other	(D)	(D)	(D)	-33	169	2.9
Other Western Hemisphere	198,877	67,657	79,370	-4,049	15,287	313.1
Bahamas	5,161	(D)	2,075	120	221	5.6
Bermuda	63,909	25,721	23,373	-3,153	4,523	102.2
Netherlands Antilles	(D)	9,903	9,040	-318	2,311	38.3
United Kingdom Islands, Caribbean	80,295	26,980	35,790	-115	5,788	125.6
Other	(D)	(D)	9,092	-583	2,444	41.5
Africa	(D)	7,924	(D)	26	812	12.3
South Africa	(D)	95	(D)	-25	197	2.0
Other	(D)	7,829	5,791	50	615	10.3
Middle East	(D)	11,245	(D)	-603	1,239	15.8
Israel	25,607	(D)	(D)	-17	474	8.6
Kuwait	(D)	(D)	(D)	54	30	F
Lebanon	(*)	(*)	(*)	(*)	(*)	(*)
Saudi Arabia	9,141	(D)	(D)	(D)	(D)	H
United Arab Emirates	(D)	295	(D)	2	34	0.6
Other	(D)	211	523	(D)	(D)	1.3
Asia and Pacific	812,256	197,247	538,770	-9,785	48,490	802.9
Australia	86,100	(D)	25,550	-12,257	4,176	61.9
China	(D)	(D)	(D)	33	185	2.5
Hong Kong	(D)	1,061	1,712	61	226	5.0
India	1,945	128	(D)	-49	114	1.5
Japan	661,223	162,526	466,634	2,434	41,493	686.7
Korea, Republic of	18,726	(D)	31,706	396	939	14.3
Malaysia	1,525	(D)	1,217	-11	129	H
New Zealand	470	115	1,240	-4	43	G
Singapore	9,699	2,841	3,720	-213	487	12.6
Taiwan	22,455	3,327	4,553	-173	617	11.8
Other	(D)	(D)	540	-1	80	2.4
Addenda:						
European Union (15)	4,087,902	682,657	1,256,500	-30,270	203,132	3,539.3
OPEC	32,585	19,627	(D)	-232	1,397	J

1. Includes capital gains and losses.

NOTES: See "General Notes to the Tables" on page 2.

The following 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.

survey reports (table 11). In terms of value, these affiliates accounted for 90 percent or more of the nonbank affiliate universe for most key data items. Estimates were made for 926 nonbank affiliates that did not file a benchmark survey report even though they met the criteria for filing (these affiliates accounted for 16 percent of the total number of nonbank affiliates that were required to report). For these affiliates, BEA had a report in another direct investment survey that could serve as a basis for the estimation. These affiliates, most of which were small, accounted for less than 10 percent of the nonbank universe for most key data items.

For majority-owned nonbank affiliates, the long form was filed by a total of 1,594 affiliates (table 12). Although these affiliates accounted for only 32 percent of all majority-owned nonbank affiliates that were required to report, in terms of value, they accounted for 85 percent or more of the majority-owned nonbank universe for most key data items.

A total of 1,281 majority-owned nonbank affiliates filed full short forms, and 1,249 majority-owned nonbank affiliates filed abbreviated short forms. Together, these affiliates accounted for slightly more than half of

all majority-owned nonbank affiliates that were required to report; however, in terms of value, they accounted for less than 5 percent of the majority-owned nonbank affiliate universe for most key data items. A large number of these affiliates were in real estate, and their shares of the universe in this industry in terms of value were disproportionately high. In real estate, affiliates that filed either the short form or the abbreviated short form accounted for 16 percent of the total assets, 19 percent of the sales, and 34 percent of the employment of majority-owned affiliates.

The data reported by U.S. affiliates had to pass a substantial number of computerized edit checks. Where possible, the data for an affiliate were reviewed for their consistency with related data for the affiliate from other parts of the report form, with data provided in related report forms, with comparable data reported by other 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, usually after consulting with the reporting affiliate. In some cases, usually involving small affiliates, estimates based on industry averages or other information were substituted for missing or erroneously

Table 11. Selected Data for U.S. Affiliates That Filed Reports and for Affiliates for Which Reports Were Estimated

	Number of affiliates	Millions of dollars					Thousands of employees
		Total assets	Gross property, plant, and equipment	Sales	Net income ¹	Compensation of employees	
Affiliates that were required to file a report	5,932	7,424,268	1,195,951	2,357,869	-57,293	355,227	6,029.8
Bank affiliates.....	268	2,209,004	11,576	151,857	-979	15,285	145.3
Nonbank affiliates.....	5,664	5,215,265	1,184,375	2,206,012	-56,315	339,942	5,884.4
Nonbank affiliates that actually filed reports	4,738	4,951,139	1,101,500	2,034,312	-51,202	305,168	5,299.7
Nonbank affiliates that failed to file reports and for which reports were estimated	926	264,126	82,875	171,700	-5,112	34,774	584.8
Affiliates that were exempt from reporting ²	8,717	14,594	8,336	10,532	-697	1,996	40.7

1. Includes capital gains and losses.

2. For exempt affiliates, data were estimated for all items except total assets, sales, and net income (which were reported on the exemption form).

Table 12. Selected Data for Majority-Owned Nonbank U.S. Affiliates That Were Required to Report

	Number of affiliates	Millions of dollars					Thousands of employees
		Total assets	Gross property, plant, and equipment	Sales	Net Income ¹	Compensation of employees	
Majority-owned nonbank affiliates that were required to file a report.....	4,920	4,558,592	1,016,029	2,020,444	-54,277	313,786	5,384.8
Majority-owned nonbank affiliates that actually filed reports.....	4,124	4,311,531	942,969	1,863,240	-50,175	282,478	4,874.4
Affiliates that filed long forms	1,594	4,231,847	899,016	1,787,298	-49,414	268,015	4,587.2
Affiliates that filed full short forms	1,281	61,876	34,654	59,820	-196	10,935	223.8
Affiliates that filed abbreviated short forms	1,249	17,807	9,300	16,123	-565	3,528	63.5
Majority-owned nonbank affiliates that failed to file reports and for which reports were estimated	796	247,061	73,059	157,204	-4,101	31,307	510.3
Addendum: Majority-owned affiliates that filed long forms as a percentage of all majority-owned nonbank affiliates that were required to report.....	32.4	92.8	88.5	88.5	91.0	85.4	85.2

1. Includes capital gains and losses.

reported data.

For some items—such as those pertaining to trade by product and country of origin or destination and employment by industry of sales or by state—affiliates 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, affiliates often made estimates, the quality of which is difficult to assess.

Number of Affiliates

Several tables in this publication present the number (by industry, country, or state) of affiliates that were required to report in the benchmark survey. Because the exemption level for filing reports was higher than in previous benchmark surveys, the number is not comparable with that shown in previous benchmark and annual publications.²¹

The number of affiliates shown in the tables of this publication exclude affiliates that were exempt from reporting, even though estimates for exempt affiliates are now included in the data for other items. For the benchmark survey, exemption claims were filed by 8,717 affiliates; however, the total number of affiliates that were below the threshold for submitting benchmark survey reports may be considerably higher than the number of exemption claims that were actually filed. In terms of value, the effect of any omission of exempt affiliates on the benchmark survey data is negligible, as exempt affiliates account for only a tiny percentage of the data for all affiliates (table 4). However, the number of exempt affiliates that were not counted could be substantial.

The published data on the number of affiliates that were required to report may also be subject to some imprecision, because some 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 affiliates. As a result, some small affiliates that were not aware of the reporting requirements and that were not on BEA's mailing list may not have filed reports. Although the omission of these affiliates from the benchmark survey results probably has not significantly affected the aggregate value of the various data items collected, it could have caused an unknown, but possibly significant, understatement of the number of affiliates.

Even an exact count of U.S. affiliates would be difficult to interpret because each report covers a fully consolidated U.S. business enterprise, which may consist of several companies. The number of fully consolidated enterprises varies according to the degree of consolidation used and the differences in the organizational structure of the company. Several tables in this publication (for example, table I.A 1) show the number of companies consolidated in the affiliates' reports in addition to the number of affiliates that were required to report. Because the report for one affiliate may cover many companies, the total number of companies consolidated is substantially higher than the total number of affiliates—34,362 companies, compared with 5,932 affiliates. For nonbank affiliates, the comparable figures are 33,436 companies and 5,664 affiliates.

This publication includes the number of nonbank affiliates by state in the following three categories: Affiliates with either property, plant, and equipment or employment (tables II.A 10, III.A 10, and IV.A 10); majority-owned nonbank affiliates with property, plant, and equipment (tables III.D 18 and III.D 19); and majority-owned nonbank affiliates with employment (table III.G 18). In the tables for majority-owned nonbank affiliates (in part III of this publication), the number for a given state may differ across tables because some affiliates have both employment and property, plant, and equipment in the state, some have only employment, and some have only property, plant, and equipment.

An affiliate is counted even if it only has a few employees in the state and even if the value of its property, plant, and equipment is small. For example, sales offices often account for a substantial portion of the total number of affiliates in a state. These offices often have fewer than 10 employees and only a nominal amount of property, plant, and equipment. The significance of such small operations in a particular state can be ascertained from tables III.D 18 and III.G 18, which show the number of affiliates with property, plant, and equipment and the number with employment, each disaggregated by size.

Financial and Operating Data

Financial and operating data focus on the overall operations of U.S. affiliates. Among the items covered by these data are the following: Balance sheets and income statements; value added; sales of goods and services; external financial position; taxes; property, plant, and equipment; employment and compensation of employees; U.S. trade in goods; research and development activities; and U.S. land owned by affiliates. Only a few of these items were obtained for bank affiliates;

21. As stated in the section on "Coverage," affiliates with total assets, sales, and net income (or loss) of \$10 million or less were exempt from reporting in the 2002 benchmark survey. In the 1997 benchmark survey, the exemption level for reporting was \$3 million. Under a \$10-million exemption level, 3,020 of the 10,090 affiliates that were required to report in the 1997 benchmark survey would have been exempt from reporting.

consequently, most of the tables that present financial and operating data cover nonbank U.S. affiliates only. Financial and operating data for bank affiliates are shown in tables 5 and 11, in tables I.A 1 and I.A 2, and in most of the tables in part IV.

The financial and operating data for U.S. affiliates are not adjusted for the ownership share of the foreign direct investors. Thus, for example, the employment data include all the employees of each affiliate, including affiliates in which the foreign investor's ownership share is less than 100 percent.

Most of the concepts and definitions used in reporting the financial and operating data can be found on the survey forms or in the *Instruction Booklet* to the forms in appendix A. 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*.

Balance sheets and income statements

U.S. affiliates' balance sheets and income statements are required to be filed according to U.S. generally accepted accounting principles (GAAP), and any major changes in GAAP will affect the affiliate data.

For most affiliates, the income statement includes all types of income, both ordinary and extraordinary. However, for some affiliates, such as those in insurance, GAAP requires certain unrealized gains and losses to be carried directly to owners' equity in the balance sheet rather than to be recorded on the income statement.

Under GAAP, depreciation and depletion charges are used to distribute the cost of an asset over that asset's estimated useful life. For example, affiliates engaged in extracting natural resources report net income after the deduction of book depletion—that is, those expenses representing the periodic chargeoff of the actual cost of natural resources. Tax or percentage depletion is not deducted.

Value added

Value added is an economic accounting measure of the production of goods and services. A U.S. affiliate's value added measures the value of its production net of any intermediate inputs produced by others; it thus measures the affiliate's contribution to U.S. gross domestic product (GDP).

For a U.S. affiliate, as for any firm, value added can be measured as its gross output less its intermediate inputs (purchased goods and services used in production). Alternatively, it can be measured as the sum of the costs incurred (except for intermediate inputs) and

the profits earned in production. The costs fall into four major categories: Compensation of employees, net interest paid, taxes on production and imports, and the capital consumption allowance.²² The estimates presented in this publication were calculated as the sum of costs and profits.

Value added is generally preferred to sales or other measures used to assess the economic impact of affiliates on the entire U.S. economy and on individual industries. Value added permits a more focused analysis of the impact of affiliates because it measures only the affiliates' own contribution to economic output, whereas sales do not distinguish between the affiliates' own contribution and the value of output embodied in inputs purchased from other companies. In addition, value added estimates measure the contribution to the economy by affiliates during a specific period. In contrast, some of the sales in a given period may represent production from earlier periods.

Sales of goods and services

For nonbank affiliates, the 2002 benchmark survey collected affiliates' sales (or gross operating revenues) disaggregated into goods, services, and investment income. Services were further disaggregated into sales to U.S. persons, sales to members of the foreign parent group, sales to foreign affiliates, and sales to other foreigners.²³

For purposes of distributing sales into goods, services, and investment income, "goods" are generally defined to be economic outputs that are tangible and "services" are generally defined to be economic

22. In the U.S. national income and product accounts (NIPAs), two measures of depreciation, or capital consumption, are used—the *capital consumption allowance* and *consumption of fixed capital*. The capital consumption allowance (CCA) consists of depreciation charges, which are based largely on tax returns, and allowances for accidental damage to fixed capital. Consumption of fixed capital consists of CCA plus an adjustment to place depreciation on an economic basis that uses economic service lives, depreciation that follows a geometric pattern, and replacement-cost valuation.

For U.S. affiliates, the only measure of capital consumption available from BEA's survey data is the book value of depreciation, reported on a basis consistent with GAAP. Because this measure does not provide for replacement-cost valuation, it is termed the "capital consumption allowance" in this publication (see table III.F 1).

The basis used to measure depreciation has no effect on the measurement of total value added; any differences between the measures of depreciation, which is a cost of production, have equal and offsetting effects on the profit-type-return component.

23. Data on sales of services collected in the benchmark and annual surveys of foreign direct investment in the United States and U.S. direct investment abroad, together with data on cross-border trade in services, are presented in annual articles in the *SURVEY OF CURRENT BUSINESS*; for a presentation of the most recent data, see Erin Nephew, Jennifer Koncz, Maria Borgia, and Michael Mann, "U.S. International Services: Cross-Border Trade in 2004 and Sales Through Affiliates in 2003," *SURVEY 85* (October 2005): 25–77.

outputs that are intangible.²⁴ Information on investment income was collected primarily to ensure that, if investment income was included in total sales (or gross operating revenues), it would not be included in sales of services. In finance and insurance, affiliates include investment income in sales because it is generated by a primary activity of the affiliate. In other industries, most affiliates consider investment income an incidental revenue source and include it in the income statement in an “other income” category rather than in sales.

For the first time, the 2002 benchmark survey collected data on sales of services by bank affiliates; these sales were disaggregated into sales to U.S. persons and sales to foreign persons. Also collected for the first time for bank affiliates were data on the affiliates’ total interest paid and total interest received, which will provide a basis for imputing the value of services provided without an explicit charge. In addition to these new data items for bank affiliates, the 2002 benchmark survey collected new data on insurance premiums earned and losses incurred for affiliates with activities in insurance and new data on goods for resale without further processing for affiliates with activities in wholesale or retail trade; these data (which are not presented in this publication) will provide the basis for improved estimates of insurance and distributive services by affiliates.²⁵

Employment and compensation of employees

In the benchmark survey, affiliates were requested to report employment as the number of full-time and part-time employees on the payroll at the end of fiscal year 2002. 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 is classified both by industry of affiliate and by industry of sales. The classification by industry of sales is based on information supplied by each affiliate on employment in the four-digit industries in which it had sales.

Data on employment, compensation of employees, and wages and salaries covering affiliates’ total U.S. operations were collected. For nonbank affiliates, data on their total employment and on their manufacturing employment were also collected by state. Manufacturing employees in a given state consist of the employees on the payroll of manufacturing plants in the state. These data are shown in tables II.G 19 and III.G 13.

For manufacturing, three measures of employment are available from the benchmark survey. The employment totals under each of the three measures differ. *Employment by manufacturing affiliates* (shown in tabulations by industry of affiliate) consists of the employment by affiliates *classified in manufacturing*. It includes all the employees of affiliates whose primary industry is manufacturing, even though the affiliates may have activities, and thus employees, in other industries; it excludes the manufacturing employees of affiliates not classified in manufacturing. *Nonbank affiliates’ manufacturing employment* (tables II.G 19 and III.G 13) consists of the employees on the payrolls of manufacturing plants of nonbank affiliates. It includes employees of manufacturing plants of nonbank affiliates that are not classified in manufacturing, and it excludes employees of nonmanufacturing plants of affiliates that are classified in manufacturing. *Manufacturing employment when employees are disaggregated by industry of sales* (tables III.G 10 to III.G 12) consists of the employment of affiliates in each four-digit manufacturing industry in which they had sales. Unlike nonbank affiliates’ manufacturing employment, it may include some nonmanufacturing employees.²⁶

The manufacturing employment data in table III.G 13 give a better indication of the number of manufacturing employees in a state than the data in table III.G 7, which shows affiliate employment in each state classified by industry of affiliate. The manufacturing employees shown in table III.G 13 are those actually engaged in manufacturing in the state regardless of the industry classification of the affiliate. In contrast, in table III.G 7, all the employees of a U.S. affiliate in the state are shown in the single industry in which, based on its total U.S. operations, the affiliate is classified, even if some of the employees are in other industries.

24. Tangible outputs are typically associated with establishments in the following six NAICS sectors: Agriculture, forestry, fishing and hunting (except support activities for agriculture and forestry); mining (except support activities); construction; manufacturing; wholesale trade; and retail trade. Intangible outputs are typically associated with establishments in the 14 other NAICS sectors—utilities; transportation and warehousing; information; finance and insurance; real estate and rental and leasing; professional, scientific, and technical services; management of companies and enterprises; administrative and support and waste management and remediation services; educational services; health care and social assistance; arts, entertainment, and recreation; accommodation and food services; other services (except public administration); and public administration—and with establishments that provide support activities for agriculture and forestry and for mining.

25. The improved estimates of banking, insurance, and distributive services and the methodologies used to prepare them will be presented in an article in the SURVEY OF CURRENT BUSINESS. For more information, see the box, “New Data on Insurance, Wholesale and Retail Trade, and Banking Services Sold Through Affiliates,” in “U.S. International Services” SURVEY 85 (October 2005): 29.

26. See the discussion of affiliate sales and employment classified by industry of sales in the section “Industry classification.”

Although the data on employment and compensation of employees from the benchmark survey can be used to compute rates of compensation per employee and wages and salaries per employee, these rates may not accurately reflect the compensation rates normally paid by affiliates (and, thus, are not shown in this publication). The computed rates may be distorted by the inclusion of part-time employees, because part-time employees are counted the same as full-time employees, or by data that cover only part of the year—for example, data for an affiliate that was newly established during the year.²⁷

Property, plant and equipment

In the benchmark survey, U.S. affiliates were required to disaggregate the gross book value of their property, plant, and equipment (PPE) by use, both for their total U.S. operations and for their operations in each state. A breakdown was obtained for two broad categories—commercial property and PPE used for all other purposes. Commercial property consists of the gross book value of all commercial buildings and associated land owned by the affiliate. Commercial buildings include apartment buildings, office buildings, hotels, motels, and buildings used for wholesale, retail, and services trades (such as shopping centers, recreational facilities, department stores, bank buildings, restaurants, public garages, and automobile service stations). PPE used for all other purposes includes PPE used for agriculture, mining, manufacturing, or other industrial purposes; it also includes equipment used in commercial buildings.

U.S. trade in goods

The concepts and definitions underlying the data collected in the benchmark survey on U.S. trade in goods of U.S. affiliates are nearly identical to those used for the data on total U.S. trade in goods compiled by the Census Bureau. The trade data are particularly difficult for affiliates to report, but BEA's review of the reported data indicates that most of the data conform well to Census Bureau concepts and definitions. However, because of certain reporting issues, the affiliate trade data are not completely comparable with the Census Bureau trade data. In the benchmark survey, data on U.S. trade in goods were requested to be reported 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 official U.S. trade

data. However, most affiliates 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 they can differ substantially. For example, if a U.S. affiliate buys goods from country A and sells them to country B and if the goods are shipped directly from country A to country B, the affiliate's books would show a purchase from country A and a sale to country B. Because the goods never entered or left the United States, on a shipped basis, they would not be recorded as either U.S. imports or U.S. exports. However, if the affiliate's trade data were reported on a charged basis, the purchase would appear as a U.S. import and the sale would appear as a U.S. export.

On the basis of its review, BEA believes most affiliates reported on a shipped, rather than on a charged, basis. However, some affiliates had difficulty obtaining data on a shipped basis, which usually requires 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.

In addition, the data on trade by U.S. affiliates that are collected by BEA are on a fiscal year basis, whereas the data on total U.S. trade in goods that are collected by the Census Bureau are on a calendar year basis. In the 2002 benchmark survey, affiliates whose fiscal year exactly corresponded to the calendar year 2002 accounted for 72 percent of the total exports and for 66 percent of the total imports of goods reported for all nonbank affiliates (table 5).

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

In the 2002 benchmark survey, as in previous benchmark surveys, exports shipped by affiliates were disaggregated by country of destination, and imports shipped to affiliates were disaggregated by country of origin. To reduce the reporting burden on U.S. affiliates, breakdowns of trade in goods by country of destination or origin are collected only in benchmark-survey years.

27. Employee compensation rates are better measured by hourly wage rates, which do not suffer from these shortcomings. Data on hourly wage rates for foreign-owned manufacturing establishments for 1988–92 and 1997 are available from the BEA-Census Bureau data link project; for further information, see footnote 6.

Affiliate exports and imports are also disaggregated by product only in benchmark-survey years. In the 2002 benchmark survey, as in the 1997 benchmark survey, exports and imports were broken down by 10 broad product categories that are based on the Standard International Trade Classification (see tables III.H 9 to III.H 21). As discussed in the Methodology of the 1997 benchmark survey publication, some of these product categories differ from the categories used in the benchmark surveys for 1980, 1987, and 1992.

In the 2002 benchmark survey—as in the benchmark surveys for 1980, 1992, and 1997—imports shipped to affiliates were disaggregated by intended use into three categories: Capital equipment, goods for resale without further manufacture, and goods for further manufacture. However, in the 1987 benchmark survey, data on capital equipment and goods for further manufacture were collected as a single category. Data on goods for further manufacture have been collected in the annual surveys since the 1993 survey.

Research and development

The 2002 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.

As in the 1992 and 1997 benchmark surveys, the 2002 benchmark survey data on R&D expenditures were collected on two bases: R&D *funded* by the affiliate (whether the R&D was performed internally or by others) and R&D *performed* by the affiliate (whether the R&D was for its own use or for use by others). The first basis views R&D from the perspective of the costs of production and can be used as an indicator of affiliates' use of technology; this basis is consistent with guidelines of the Financial Accounting Standards Board for accounting for the costs of R&D. The second basis can be used to gauge the technological capabilities of affiliates, and it is the primary basis on which National Science Foundation and Bureau of the Census surveys collect information on R&D from U.S. businesses.

R&D performed by affiliates is the only basis on which data on affiliate R&D expenditures have been collected in BEA's annual surveys of affiliate operations since the survey for 1998. Before the 1997 benchmark survey, the sole basis for collecting R&D expenditure data in the annual surveys was R&D funded by affiliates.

Data on the number of employees associated with R&D activities have been collected in the annual surveys since the 1993 survey. They were previously collected only in the benchmark surveys for 1980 and 1992.

Direct Investment Position and Balance of Payments Data

Direct investment position and direct investment balance of payments data measure the U.S. affiliate's transactions and positions with its foreign parent and other members of its foreign parent group. In contrast, affiliate financial and operating data provide measures of the U.S. affiliate's overall operations, including its transactions and positions with persons other than members of its foreign parent group. For example, the direct investment position in an affiliate is equal to its foreign parent group's equity in, and net outstanding loans to, its U.S. affiliate; a U.S. affiliate's total assets, in contrast, are equal to the sum of (1) the total owners' equity in the affiliate held both by members of the foreign parent group and by all other persons and (2) the total liabilities owed by the affiliate both to members of the foreign parent group and to all other persons.²⁸

In the benchmark survey, data for the position and balance of payments items were obtained in parts III and IV of the long form and in part III of the short form (see appendix A). For foreign direct investment in the United States, the following major items appear in the U.S. international transactions (balance of payments) accounts:

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

Two adjustments are made to the balance of payments data before they are entered into the U.S. international accounts. First, two of these items—income and capital flows—are adjusted to reflect current-period prices.²⁹ Second, the data from the benchmark survey are adjusted from a fiscal year basis to a calendar year basis. As discussed in the section on fiscal year reporting, the direct investment position and balance of payments data collected in the 2002 benchmark survey are on a fiscal year basis. Thus, before the data are incorporated into the U.S. international transactions accounts and the annual series on the position,

28. To illustrate, suppose that an affiliate is owned 80 percent by its foreign 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).

29. The adjustments are made only at the global level; the data required to make them for countries and industries are not available.

The adjustments are accomplished in three steps. 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 charges for the depletion of natural resources, because these charges are not treated as production costs in the NIPAs. 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.

which are on a calendar year basis, they must be adjusted from a fiscal year basis to a calendar year basis. The adjusted data for 2002 will be extrapolated forward to derive universe estimates for calendar years after 2002 on the basis of sample data collected in BEA's quarterly surveys for those years.³⁰

Foreign direct investment position in the United States

The foreign direct investment position in the United States at historical cost is equal to the net book value of the foreign parent groups' equity in, and net outstanding loans to, their U.S. affiliates. The position may be viewed as the foreign parent groups' contributions to the total assets of their U.S. affiliates or as financing provided in the form of equity or debt by foreign parent groups to U.S. affiliates.

The direct investment position data presented 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 BEAs 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 in current-period prices.³¹

Direct investment equity positions in U.S. affiliates are, by definition, held only by foreign parents. Foreign parents may also have direct debt positions with U.S. affiliates. For other members of the foreign parent groups, only direct debt positions are included in the direct investment position.

Foreign parents' equity in incorporated affiliates can be broken down into foreign parents' holdings of capital stock in, and other capital contributions to, their

U.S. affiliates and foreign parents' equity in the retained earnings of their U.S. affiliates. Capital stock consists of all the stock of the affiliates—both common and preferred and voting and nonvoting. Other capital contributions by foreign parents, also referred to as the “foreign parents' equity in additional paid-in capital,” consist of the invested and contributed capital that is not included in capital stock, such as cash contributions, the amount paid for stock in excess of its par or stated value, and the capitalization of intercompany accounts (conversions of debt to equity) that do not result in the issuance of capital stock. Foreign parents' equity in retained earnings is the foreign parents' shares of the cumulative undistributed earnings of their incorporated U.S. affiliates.

Although some unincorporated affiliates could not disaggregate owners' equity by type, the data on foreign 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, parents' total equity was included in “other” equity. The foreign 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.

Foreign parent groups' net outstanding loans to their U.S. affiliates, also referred to as “U.S. affiliates' net intercompany debt,” consist of trade accounts and trade notes payable, other current liabilities, and long-term debt owed by the affiliates to their foreign parents or other members of their foreign parent groups, net of similar items due to the affiliates from their foreign parents or other members of their foreign parent groups.

Intercompany debt includes the value of capital leases and of operating leases of more than 1 year between U.S. affiliates and their foreign parent groups. The value of the property leased to a U.S. affiliate by its foreign parent group is included in affiliates' payables, and the value of the property leased by a U.S. affiliate to the foreign parent group is included in affiliates' receivables. Under a capital lease, it is assumed that the title to the leased property will be transferred to the lessee at the termination of the lease, similar to an installment sale. Operating leases have a term that 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 GAAP; under GAAP, the lessee records either the present value of the future lease payments or the fair market value, whichever is lower, and the lessor records the present value of

30. As noted in the section on coverage, the universe estimates in the U.S. international transactions accounts include transactions for affiliates that were liquidated or sold during a given calendar year. In contrast, the balance of payments data collected in the 2002 benchmark survey and presented in this publication do not cover transactions for enterprises that were no longer U.S. affiliates at the end of the 2002 fiscal year. In the benchmark survey publications for 1992 and 1997, the balance of payments data and the beginning-of-year direct investment position data included estimates for affiliates that were liquidated or sold during the benchmark survey year, using data from other surveys. In this publication, the balance of payments and direct investment position data are not adjusted to include such estimates, in order to preserve consistency in coverage with the financial and operating data.

31. Position estimates measured at current cost and at market value for foreign direct investment in the United States (and for U.S. direct investment abroad) are published each July in an article on the U.S. international investment position in the SURVEY OF CURRENT BUSINESS. 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.

future lease receipts. For operating leases of more than 1 year, which are carried only on the balance sheet of the lessor, the value recorded is the original cost of the leased property less the accumulated depreciation.

For U.S. affiliates that are depository institutions, the direct investment position is defined to include only their foreign parent groups' 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 transactions related to such permanent investment. All other transactions and positions—mainly claims and liabilities arising from the parents' and affiliates' normal banking business—are excluded from the direct investment accounts and included with other banking claims and liabilities.

For nonbank U.S. affiliates that are primarily engaged in financial intermediation, the direct investment position and associated direct investment capital flows exclude intercompany debt transactions.³² This treatment, which was introduced in the U.S. international transactions accounts for 1994, is similar to the treatment of nonpermanent debt investment for affiliates that are depository institutions.³³

A foreign parent and its U.S. affiliate may have a two-way relationship—each may have debt and equity investment in the other. Thus, a foreign parent may have investment in a U.S. affiliate that, in turn, has investment in the parent as a result of the affiliate's lending funds to, or acquiring voting securities or other equity interest in, the parent. In addition, the other members of the foreign parent group may have debt investment in a U.S. affiliate, and a U.S. affiliate may have debt or equity investment in the other members of the foreign parent group. In the intercompany debt portion of the position, affiliates' receivables from their foreign parent groups (reverse debt investment) are netted against affiliates' payables to their foreign parent groups.³⁴ Equity investment by U.S. affiliates in members of their foreign parent groups is included in

32. For this purpose, a nonbank affiliate that is primarily engaged in financial intermediation is defined to be an affiliate classified in finance (except depository institutions or insurance) whose foreign parent (or—in the case of an affiliate whose foreign parent is a holding company—whose UBO) is either (1) a foreign depository institution or (2) a company in other finance (excluding insurance).

33. See the section on “reclassification of intercompany debt and associated interest transactions with financial intermediaries” in Christopher L. Bach, “U.S. International Transactions: Revised Estimates for 1986–97,” SURVEY 78 (July 1998): 52–53.

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

the U.S. direct investment position abroad if the affiliate's ownership is 10 percent or more and in the “foreign securities” component of U.S.-owned assets abroad if the affiliate's ownership is less than 10 percent.

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 (table 13). The change during the year is the sum of direct investment capital flows (defined below) and valuation adjustments. Valuation adjustments are broadly defined to include all changes in the position other than capital flows. They primarily reflect differences between the transactions values, which are used to record direct investment capital flows, and the book values on U.S. affiliates' books, which are used to record the position and, hence, changes in the position. For example, valuation adjustments include differences between the sale value and the book value of affiliates that are sold by foreign parents and differences between the purchase price and the book value of affiliates that are acquired by foreign parents.³⁵ They also include currency-translation adjustments—that is, the gains and losses that arise because of changes in the exchange rates used in translating affiliates' foreign-currency-denominated assets and liabilities into U.S. dollars—and other capital gains and losses, such as revaluations of assets that result from mergers and acquisitions.

Direct investment capital inflows

Direct investment capital inflows (which are recorded in the financial account of the U.S. international transactions accounts) consist of equity capital inflows, reinvested earnings, and intercompany debt inflows. This section first defines these components and then discusses the coverage, measurement, and presentation of direct investment capital inflows.

35. For the current-price estimates of the foreign direct investment position entered in the U.S. international investment position, the corresponding adjustments would reflect differences between the transactions values and the estimated current values of the affiliates.

Table 13. Change in the Historical-Cost Foreign Direct Investment Position in the United States by Account, 2002

[Millions of dollars]

Position at yearend 2001	1,212,248
Change in position	76,471
Capital inflows without current-cost adjustment.....	114,660
Equity capital	126,987
Increases	156,493
Decreases	29,507
Reinvested earnings without current-cost adjustment	-24,564
Intercompany debt	12,237
Increases in U.S. affiliates' payables	58,984
Increases in U.S. affiliates' receivables	46,747
Valuation adjustments	-38,189
Position at yearend 2002	1,288,719

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

Equity capital inflows to U.S. affiliates result from foreign parents' establishment of new U.S. affiliates, from their initial acquisition of 10-percent-or-more ownership interests in existing U.S. business enterprises, from their acquisition of additional ownership interests in existing U.S. affiliates, and from their capital contributions to U.S. affiliates.

Equity capital outflows result from liquidations of U.S. affiliates, from partial or total sales of ownership interests in U.S. affiliates, and from the return of capital contributions. Equity capital outflows also include liquidating dividends, which are a return of capital to foreign parents.

Equity capital inflows are recorded at transactions values. In most cases, transactions values may be obtained from the books of the U.S. affiliates. However, in some cases, such as when a foreign parent purchases or sells capital stock in the affiliate from or to an unaffiliated third party, the transactions value may be obtained only from the parent's books. In addition, transactions values on foreign parents' books reflect the actual cost of ownership interests in affiliates that are acquired or sold by foreign parents, including any premium or discount; such values may differ from the book values recorded on the affiliates' books.

Reinvested earnings.—Reinvested earnings of U.S. affiliates are earnings less distributed earnings. Earnings are foreign parents' shares in the net income of their U.S. affiliates after provision for U.S. income taxes; earnings are from the books of the U.S. affiliate.³⁶ A foreign parent's share in earnings is based on its directly held equity interest in the U.S. 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 entered into direct investment income because they are income to the foreign parent, whether they are reinvested in the affiliate or remitted to the parent.³⁷ However, because reinvested earnings are not actually transferred to the foreign parent but increase

the parent's investment in its affiliate, an entry that is equal to that made in the direct investment income account but that has the opposite sign is made in the direct investment financial account.

For incorporated U.S. affiliates, distributed earnings are dividends on common and preferred stock held by foreign parents. 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.³⁸ Liquidating dividends are excluded because they are a return of capital rather than a remittance of earnings (liquidating dividends are included as outflows in the direct investment equity capital account). For unincorporated affiliates, distributed earnings are earnings distributed to foreign parents out of current or past earnings.

Distributed earnings, like total earnings, are based on the books of the U.S. affiliate. Because they are on an accrual basis, they are reported as of the date that they are either paid to foreign parents or entered into intercompany accounts with the foreign parents. Distributed earnings are included whether they are paid in cash, through debt creation, or in kind.

Intercompany debt inflows.—Intercompany debt inflows consist of the increase in U.S. affiliates' net intercompany debt to their foreign parent groups during the year. The increase for a given period is derived by subtracting the net outstanding intercompany debt balance (that is, affiliate payables less affiliate receivables) at the end of the previous period from the net outstanding balance at the end of the current period.

When a member of a foreign parent group lends funds to a U.S. affiliate, the balance of the affiliate's payables (amounts owed) to the foreign parent group increases; subsequently, when the affiliate repays the principal owed to a member of the foreign parent group, the balance of the affiliate's payables to the group is reduced. Similarly, when a member of the foreign parent group borrows funds from a U.S. affiliate, the balance of the affiliate's receivables (amounts due) from the group increases; subsequently, when the member of the group repays the principal owed to the affiliate, the balance of the affiliate's receivables from the group is reduced.

36. As discussed in the next section, "Direct investment income," earnings exclude capital gains and losses, whether or not such gains and losses are included in net income for income statement purposes.

37. See the next section, "Direct investment income."

38. "Stock dividends" are used here to refer to essentially the same concept that is discussed in the IMF *Manual* (see footnote 8) under the heading of "bonus shares." BEA has retained its terminology because it conforms to what U.S. firms understand by the term "stock dividends."

Increases in affiliates' payables to, or reductions in affiliates' receivables from, their foreign parent groups give rise to inflows on intercompany debt accounts. Increases in affiliates' receivables from, or reductions in affiliates' payables to, their foreign parent groups give rise to outflows.

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

The net change in intercompany debt includes changes in the value of capital leases and operating leases of more than 1 year between foreign parent groups and their U.S. affiliates. When property is leased by a U.S. affiliate from its foreign parent group, the value of the leased property is recorded as an intercompany debt inflow because it increases the affiliate's payables. The subsequent payment of principal on a capital lease or the component of payments under an operating lease that reflects depreciation is a return of capital and is recorded as an intercompany debt outflow because it reduces the affiliate's payables. Similarly, when property is leased by a U.S. affiliate to its foreign parent group, the value of the leased property is recorded as an intercompany debt outflow because it increases the affiliate's receivables. The subsequent payment of principal on a capital lease or the component of rent on an operating lease that reflects depreciation is a return of capital and is recorded as an intercompany debt inflow because it reduces the affiliate's receivables.

Coverage, measurement, and presentation.—Most intercompany debt and equity capital flows result from transactions between foreign parent groups and their U.S. affiliates. However, some of these flows may result from transactions between foreign parents and unaffiliated U.S. persons; for example, a direct investment equity capital flow results from a transaction between a foreign parent and an unaffiliated U.S. person when the parent purchases an affiliate's capital stock from the unaffiliated person.

In general, direct investment capital inflows exclude transactions among members of a foreign parent group or between the members of the group and other foreigners, because foreign-to-foreign transactions are

not international transactions of the United States.³⁹ Thus, if a foreign parent purchases additional capital stock in a U.S. affiliate from another foreign person, the foreign parent's ownership interest in the U.S. affiliate will increase, but no equity capital inflow is recorded, because the transaction occurs entirely outside the United States. In addition, there is no net increase in foreign claims on the United States; instead, the foreign parent's claims have merely been substituted for the claims of the other foreign person.⁴⁰

However, if the foreign parent's original interest represented only a less-than-10-percent investment interest and if the combined interests qualify as a direct investment as a result of the purchase of an additional interest, a direct investment capital inflow equal to the value of the additional interest is recorded. In addition, a valuation adjustment is made to the direct investment position to bring the original interest into the position. If a foreign parent's interest in an affiliate falls below 10 percent, a direct investment capital outflow is recorded and a valuation adjustment is made to extinguish the remaining direct investment interest. (In both cases, offsetting adjustments would be made to the "U.S. securities other than U.S. Treasury securities" component of foreign-owned assets in the U.S., so that the reclassification would not affect the overall U.S. international investment position.)

Equity capital and intercompany debt inflows can be disaggregated into several subaccounts. Equity capital inflows, which are recorded as a net amount, can be disaggregated to show increases and decreases in equity. Intercompany debt inflows are disaggregated to show both the flows resulting from changes in U.S. affiliates' payables and the flows resulting from changes in U.S. affiliates' receivables. Certain transactions may affect two or more of these subaccounts simultaneously and by offsetting amounts. Such transactions are "grossed up"; that is, the inflows and the offsetting outflows 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 inflows. For example, the capitalization of

39. An exception to this general rule is a transaction in which one member of a U.S. affiliate's foreign parent group sells a bond or other debt instrument issued by the affiliate to a second member of the group. If the two members are located in different countries, offsetting direct investment capital flows are recorded—an outflow to the first country and an inflow from the second country.

40. If this exchange involves more than one country, offsetting valuation adjustments are made to the direct investment position, reducing the position of the seller's country and increasing the position of the purchaser's country.

intercompany debt, which gives rise to an intercompany debt outflow and an offsetting equity capital inflow, results in gross, but not net, flows.

Direct investment income

Direct investment income is the return on the foreign direct investment position in the United States; that is, it is the foreign parents' return on their debt and equity investment in their U.S. affiliates plus the return of other members of the foreign parent groups on their debt investment in U.S. affiliates. Direct investment income consists of earnings (that is, the foreign parents' share in the net income of their U.S. affiliates) plus interest on intercompany accounts of U.S. affiliates with their foreign parent groups (interest is defined as the interest paid by U.S. affiliates to their foreign parent groups net of the interest received by U.S. affiliates from their foreign parent groups). Earnings are the foreign parents' return on their equity investment, and interest is the foreign parents' return on their debt investment in U.S. affiliates. Table 14 shows direct investment income and the relationships among its components for all U.S. affiliates from the 2002 benchmark survey.

Direct investment income is reported as accrued. Direct investment income and earnings exclude currency-translation adjustments and other 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 correspond more closely to the current operating performance of affiliates as recommended by international guidelines for the compilation of balance of payments accounts.

Direct investment income is measured before deduction (that is gross) of all withholding taxes.⁴¹ This treatment views taxes as being levied upon the recipient of the distributed earnings or interest and thus as being paid across borders, even though, as an administrative convenience, the taxes actually were paid by the firm whose disbursements gave rise to them. Thus, U.S. withholding taxes on distributed earnings and on interest received by the foreign parent are recorded as if they were paid by the foreign parent, not by the U.S. affiliate. Similarly, foreign withholding taxes on interest payments by the foreign parent are recorded as if they were paid by the U.S. affiliate, not

41. Withholding taxes are taxes withheld at the source on income or other funds that are distributed or remitted.

by the foreign parent. Counterentries for these taxes are made in the U.S. international transactions accounts under "unilateral current transfers, net."

Interest is recorded on a net basis as interest paid or credited to foreign parents and other members of the foreign parent groups on debt owed to them by U.S. affiliates less interest received from, or credited by, foreign parents and other members of the foreign parent groups on debt owed by them to U.S. affiliates.⁴² Interest receipts are netted against interest payments because in the intercompany debt component of the direct investment position, debt owed by foreign parent groups to U.S. affiliates is netted against debt owed by U.S. affiliates to foreign parent groups. Like other components of direct investment income, interest is reported as accrued. It 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. affiliates and their foreign parent groups because the outstanding capitalized value of such leases is included in the intercompany debt component of the direct investment position.⁴³

Direct investment royalties and license fees

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

42. For U.S. affiliates that are depository institutions (commercial banks, savings and loan institutions, and credit unions), interest includes only payments on permanently invested debt capital in the affiliate. For nonbank affiliates that are primarily engaged in financial intermediation, all interest on intercompany debt is excluded from direct investment income payments. The treatment of interest for these two types of affiliates parallels the treatment of their debt transactions with their foreign parent groups, as described in the section "Foreign direct investment position in the United States."

43. Although the value of operating leases of more than 1 year is also included in the intercompany debt position, payments of net rent (which covers interest, administrative expenses, and profit) on such leases are recorded as charges for the use of tangible property (part of the direct investment "other private services" account) rather than as interest.

Table 14. Direct Investment Income and Its Components

[Millions of dollars]

Income without current-cost adjustment	13,359
Earnings without current-cost adjustment	-3,562
Distributed earnings	21,002
Reinvested earnings	-24,564
Interest	16,921
U.S. affiliates' payments	19,049
U.S. affiliates' receipts	2,129

manufacturing rights, and other intangible assets or proprietary rights.

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

Payments and receipts of royalties and license fees are based on the books of U.S. affiliates and are reported as accrued. When funds are not actually transferred, offsetting entries are made in the intercompany debt account.

Direct investment other private services

Transactions in other private services consist of payments by U.S. affiliates to, and receipts by U.S. affiliates from, their foreign parents or other members of their foreign parent groups for other private services, which consist of service charges, charges for the use of tangible property, and film and television tape rentals. Payments and receipts are reported as accrued and are based on the books of U.S. affiliates.

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

Service charges.—Service charges consist of fees for services—such as management, professional, or technical services—rendered between U.S. affiliates and their foreign parents or other members of their foreign parent groups. The service charges may represent sales of services or reimbursements. Sales of services are receipts for services rendered that are included in sales or gross operating revenues in the income statement of the seller. Normally, 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 provided management-consulting services to its foreign parent or foreign parent group, the resulting revenues would be 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. Typically, 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 foreign manufacturer provides management services to its U.S. manufacturing affiliate, the associated charges

normally would be recorded in its income statement under “other income” and would be 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 the U.S. affiliate by its foreign parent for R&D the parent performs and shares with its affiliate.

In the 2002 benchmark survey, as in the 1997 benchmark survey, data on service charges by type of service between U.S. affiliates and their foreign parent groups were collected. The seven types of services specified in the 2002 benchmark survey are insurance services; financial services; transportation services; computer and information services; management, consulting, and public relations services; research, development, and testing services; and “other services.”⁴⁴

The data on intercompany service charges by type of service indicate that 41 percent of U.S. affiliates' payments and 44 percent of U.S. affiliates' receipts were for “other services” (table II.N 3). These high percentages may result because survey respondents do not have the necessary information in their accounting records to provide a breakdown of their allocated expenses or of other services transactions with their foreign parent groups by type of service. The share for “other services” may also be large because “other services” includes many services that are not covered by the other six categories.

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 private 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—covering both net rent and depreciation—are included in “other private services.” Because the value of property leased to or from foreigners for 1 year or less in principle is

44. Two of these service categories—management, consulting, and public relations services and research, development, and testing services—were not included in the 1997 benchmark survey. See the footnotes to table II.N 3 for the definitions used on the 2002 benchmark survey for each category of intercompany service charges.

excluded from U.S. exports and imports of goods in the U.S. international transactions accounts, no export to or import from the foreign parent groups by U.S. affiliates is recorded in the trade in goods account; thus, there is no subsequent return of capital to or from the foreign parent groups in the form of depreciation to be recorded in the direct investment financial account. Such depreciation is instead considered part of rentals—a payment for services rendered by, rather than a return of capital to, the foreign parent groups.

Film and television tape rentals.—Film and television tape rentals are rentals that U.S. affiliates pay to, or receive from, foreign parents or other members of the foreign parent groups for the sale or use of film and

television tapes. Except for mass-produced films and tapes—such as prerecorded video cassettes, digital video disks, and compact disks (which are recorded in 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, such as entertainment and education, 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 in “other private services.”