FOREIGN DIRECT INVESTMENT IN THE UNITED STATES

1992 Benchmark Survey, Final Results

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Methodology

The 1992 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 1992. Reporting in the survey was mandatory under the International Investment and Trade in Services Survey Act.[1]

This publication presents 166 tables that contain nearly all the data collected in the benchmark survey. 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; gross product; sales of goods and services; external financial position; taxes; property, plant, and equipment; employment and employee compensation; U.S. merchandise trade; research and development activities; and U.S. land owned and leased.

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 and the U.S. international investment position and balance of payments (or "international transactions") accounts. Balance of payments data include data on direct investment capital and income flows between U.S. affiliates and their foreign parent groups and on receipts and payments of royalties, license fees, and charges for other services between U.S. affiliates and their foreign parent groups.

Data are presented for three groups of U.S. affiliates of foreign companies: (1) All affiliates, (2) nonbank affiliates, and (3) bank affiliates.[2] Most of the tables cover nonbank affiliates; bank affiliates, which report extensive data to other U.S. Government agencies, were required to report only a limited amount of data in the benchmark survey. Most of the tables for each group cover all the U.S. affiliates in the group irrespective of the degree of foreign ownership. For nonbank affiliates, however, a few tables covering only majority-owned affiliates also are provided.

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 data in this publication supersede the preliminary estimates that appeared in *Foreign Direct Investment in the United States: 1992 Benchmark Survey, Preliminary Results* and, in more summary form, in the article "Foreign Direct Investment in the United States: 1992 Benchmark Survey Results" in the July 1994 issue of the SURVEY OF CURRENT BUSINESS.

The financial and operating data for nonbank affiliates presented in this publication are comparable with BEA's universe estimates for previous benchmark years—the most recent being 1987. Estimates for nonbenchmark years from BEA's annual surveys provide similar information, but are less detailed. For information about how to obtain the earlier benchmark data and annual survey estimates, see appendix C.

To aid comparisons among the estimates for the various years, table 1 on page M–2 provides cross-references between the table numbers used in this publication and those used in the publications for other years. As it indicates, the table-numbering scheme of this publication also will be used in publications for 1993 forward.

Certain tables in this publication do not have counterparts in the earlier publications, because they cover items that were first collected in 1992. Other tables have counterparts in the earlier benchmark survey publications, but not in the annual survey publications, 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

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

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

in addition to the financial and operating data collected in the annual surveys for nonbenchmark years.

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. Establishment—or plant—level data on foreign direct investment in the United States are also available as a result of an ongoing 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.[3]

3. Publications presenting the establishment data are available for 1987–91 (see appendix C). The 1987 publication presents data on the number, employment, payroll, and shipments or sales of the establishments of U.S. affiliates in both manufacturing and nonmanufacturing industries. Summary data and an analysis appeared in "Foreign Direct Investment in the United States: Establishment Data for 1987" in the October 1992 SURVEY OF CURRENT BUSINESS. The 1988–91 publications present data on the manufacturing establishments of U.S. affiliates for most of the items covered by the Census Bureau's Annual Survey of Manufactures, including value added, shipments, employment, total employee compensation, employee benefits, hourly wage rates of production workers, cost of materials and energy used, inventories by stage of fabrication, and expenditures for new plant and equipment. Summary data for 1990 and an analysis of the data appeared in "Characteristics of Foreign-Owned U.S. Manufacturing Establishments" in the January 1994 SURVEY.

A parallel project has also linked BEA's data on foreign direct investment in the United States to Bureau of Labor Statistics (BLS) data on all U.S. businesses. That link resulted in data, released by BLS, for 1989–91 on the number, employment, and payroll of establishments of U.S. affiliates for both manufacturing and nonmanufacturing industries. In addition, BLS data are available on the occupational structure of manufacturing establishments of U.S. affiliates in 1989. For information on these data, call BLS at (202) 606–6568.

Data from the two projects differ, particularly at the most detailed industry levels, because of differences in coverage, classification, timing, and definitions.

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

Table 1.—Comparison of Tables for Nonbank U.S. Affiliates in This Publication With Those in the Publications for 1993 Forward, the 1987 Benchmark Survey Publication, and the Publications for 1988–91

Table in this publication [1]	Comparable table in annual publications for 1993 forward	Comparable table in 1987 benchmark survey publication	Comparable table in 1988–91 publications
Group A. Selected Data			
A-1–A-2	A-1–A-2	A-1–A-2	A-1–A-2
A-6	A-6		
A-7–A-9	A-7–A-9	A-6–A-8	A-6–A-8
Group B. Balance Sheet			
B-1–B-6	B-1–B-6	B-1–B-6	B-1–B-6
B-7–B-8		B-7–B-8	
B-9		B-10	
Group C. Composition of External Financial Position			
C-1	C-1	C-1	C-1
C-2–C-7		C-2–C-7	
C-8		C-9	
Group D. Property, Plant, and Equipment			
D-1–D-3	D-1–D-3	D-1–D-3	D-1–D-3
D-4–D-5		D-5–D-6	
D-6–D-7	D-6–D-7	D-8–D-9	D-8–D-9
D-8		D-7	
D-9–D-13	D-9–D-13	D-10–D-14	D-10–D-14
D-14–D-15		D-15–D-16	
D-16–D-17		D-18–D-19	
D-18–D-20	D-18–D-20	D-20–D-22	D-20–D-22
D-21–D-27	D-21–D-27	D-24–D-30	D-24–D-30
Group E. Income Statement			
E-1–E-4	E-1–E-4	E-1–E-4	E-1–E-4
E-5–E-6		E-5–E-6	
E-7–E-8	E-7–E-8	E-7–E-8	E-7–E-8
E-9		E-9	
E-10–E-15	E-10–E-15	E-10–E-15	E-10–E-15
E-16–E-17		E-16–E-17	E-16–E-17
Group F. Gross Product			
F-1–F-3	F-1–F-3		
F-4			
F-5–F-6	F-5–F-6		
Group G. Employment and Employee Compensation			
G-1–G-4	G-1–G-4	F-1–F-4	F-1–F-4
G-5		F-5	
G-6	G-6	F-6	
G-7–G-8	G-7–G-8	F-7–F-8	F-7–F-8
G-9		F-9	
G-10–G-11	G-10–G-11	F-10–F-11	F-10–F-11
G-12		F-12	
G-13	G-13	F-14	F-14
G-14		F-15	
G-15	G-15		
G-16–G-17	G-16–G-17	F-16–F-17	F-16–F-17
G-18	G-18	F-19	F-19
Group H. U.S. Merchandise Trade			
H-1–H-3	H-1–H-3	G-1–G-3	G-1–G-3
H-4	H-4	G-4	
H-5		G-5	
H-6	H-6	G-6	G-6
H-7	H-7	G-7	
H-8–H-36		G-8–G-36	
H-37	H-37		
Group I. Interest, Dividends, Taxes Other Than Income Taxes, and Research and Development Expenditures			
I-1–I-2	I-1–I-2	H-1–H-2	H-1–H-2
I-3		H-3	
I-4–I-5			
I-6	I-6	H-4	
Group J. Selected Data for Majority-Owned Affiliates			
J-1–J-3	J-1–J-3		
J-4			
J-5	J-5		

1. This publication also contains tables on the direct investment position and balance of payments data (Groups K, L, M, and N); but these tables are not listed, because they are outside the scope of the annual publications for 1993 forward and for 1988–91, which cover only financial and operating data of U.S. affiliates.

Table 2.—Selected Data for the Universe of U.S. Affiliates, by Whether or Not Reported in the Benchmark Survey

	Number of affiliates	Millions of dollars			Thousands of hectares of land owned
		Total assets	Sales	Net income	
Universe of U.S. affiliates	18,223	3,000,127	1,334,485	–20,702	5,871
U.S. affiliates that reported in the survey	12,672	2,998,593	1,333,867	–20,575	5,739
U.S. affiliates that were exempt from reporting	5,551	1,534	618	–127	132

is incorporated or an equivalent interest if the enterprise is unincorporated.

The financial and operating data cover every U.S. business enterprise that was a U.S. affiliate at the end of its 1992 fiscal year. In addition, the direct investment position and balance of payments data cover U.S. businesses that were U.S. affiliates sometime during their 1992 fiscal year but that were not affiliates at the end of the year, because the foreign parents' interest in them had been liquidated or sold. The U.S. affiliates that were liquidated or sold during the year are covered so that the coverage of the direct investment position and balance of payments data in this publication is consistent with that of the U.S. international investment position and balance of payments accounts.[4] Because these former affiliates were not required to report in the benchmark survey, estimates for them were made, based on information from other BEA surveys.

As a result of this difference in coverage, some balance of payments data items may not be fully comparable with their counterparts in the financial and operating data. For example, the total for net income shown in the financial and operating data excludes the net income of these former affiliates, but the foreign parents' shares of this income is included in the balance of payments measure of income on foreign direct investment in the United States.

In 1992, the direct investment universe consisted of 18,233 U.S. affiliates (table 2). Affiliates with total assets, sales, or net income greater than $1 million were required to complete a benchmark survey report; 12,672 affiliates were required to report. The 5,551 affiliates that did not meet these criteria were exempt from reporting, but they had to file an exemption claim on which they indicated the value of their total assets, sales, and net income and the amount of U.S. land that they owned. Of the total *number* of affiliates in the direct investment universe, affiliates that were required to report accounted for 70 percent and those that were exempt from reporting, for 30 percent. However, because only very small affiliates were exempt from reporting, affiliates that were required to report accounted for virtually all of the universe in terms of *value*.

In table 3, the data for exempt affiliates are disaggregated by country of ultimate beneficial owner. Except for tables 2 and 3, all the tables cover only U.S. affiliates that were required to complete a benchmark survey report.

Concepts and Definitions

This section gives the basic concepts and definitions used in the 1992 benchmark survey. Special mention is made of changes that were introduced in the 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.[5] 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 1992 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

4. Because these affiliates were sold or liquidated during 1992, they are excluded from the investment position at yearend 1992. However, some tables present data on the position at yearend 1991, when these affiliates were still included in the foreign direct investment universe and, hence, in the estimates.

5. See International Monetary Fund (IMF), *Balance of Payments Manual*, 5th ed. (Washington, DC: IMF, 1993); and Organisation for Economic Co-operation and Development (OECD), *Detailed Benchmark Definition of Foreign Direct Investment*, 2nd ed. (Paris: OECD, 1992).

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 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.

Table 3.—Data for U.S. Affiliates That Were Exempt From Reporting in the Benchmark Survey, by Country of UBO

	Number of affiliates	Millions of dollars			Thousands of hectares of land owned
		Total assets	Sales	Net income	
All countries	**5,551**	**1,534**	**618**	**–127**	**132**
Canada	**1,124**	**252**	**91**	**–14**	**28**
Europe	**2,234**	**627**	**286**	**–54**	**89**
Austria	31	10	2	–1	2
Belgium	43	18	8	–2	2
Denmark	19	4	3	–1	1
Finland	5	2	1	(*)	(*)
France	302	63	43	–5	7
Germany	753	213	71	–3	34
Ireland	8	2	2	1	0
Italy	95	36	14	–1	4
Liechtenstein	65	21	3	–2	2
Luxembourg	12	4	1	(*)	(*)
Netherlands	118	31	16	–5	3
Norway	15	4	3	–2	1
Spain	32	9	6	–1	(*)
Sweden	28	7	4	–2	(*)
Switzerland	283	96	38	–4	18
United Kingdom	380	96	63	–23	16
Other	45	10	7	–1	(*)
Latin America and Other Western Hemisphere	**746**	**253**	**71**	**–14**	**10**
South and Central America	548	180	53	–11	7
Brazil	34	10	6	–2	(*)
Mexico	190	62	28	–2	3
Panama	135	41	6	–4	1
Venezuela	50	18	3	–1	1
Other	139	50	10	–2	3
Other Western Hemisphere	198	73	18	–3	3
Bahamas	18	7	2	(*)	(*)
Bermuda	21	5	3	(*)	1
Netherlands Antilles	82	36	7	–1	(*)
U.K. Islands, Caribbean	58	19	5	–2	1
Other	19	6	2	(*)	(*)
Africa	**22**	**5**	**3**	**–1**	(*)
South Africa	2	1	1	(*)	(*)
Other	20	4	2	–1	(*)
Middle East	**103**	**35**	**15**	**–2**	**2**
Israel	21	8	4	(*)	0
Kuwait	13	6	3	(*)	(*)
Lebanon	4	1	(*)	(*)	(*)
Saudi Arabia	33	12	3	–1	(*)
United Arab Emirates	11	2	2	(*)	(*)
Other	21	6	3	(*)	(*)
Asia and Pacific	**1,273**	**348**	**139**	**–42**	**2**
Australia	71	17	10	–1	(*)
China	10	2	1	(*)	0
Hong Kong	72	20	11	(*)	(*)
Indonesia	4	1	(*)	(*)	(*)
Japan	992	269	101	–37	2
Korea, Republic of	21	6	2	(*)	(*)
Malaysia	4	1	(*)	(*)	(*)
New Zealand	7	1	1	(*)	0
Philippines	17	9	1	–1	(*)
Singapore	15	5	4	–1	0
Taiwan	33	13	5	–1	(*)
Other	27	5	2	(*)	(*)
United States	**49**	**14**	**13**	(*)	(*)
Addenda:					
European Communities (12)	1,771	480	228	–41	68
OPEC	132	48	12	–3	2

NOTE.—See "Notes to the Tables."

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, although comprised of two or more persons, 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 to be an associated group: (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, or (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 elsewhere.

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, or venture and the ownership of any 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. Although most are legally or functionally separable from those of the foreign person and thus are considered U.S. affiliates, 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) The unincorporated operation or activity pays 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 pays no 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 parent.

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 rather than to the foreign airline or ship operator that owns them, 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 interest. 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 ascertain the person that ultimately owns or controls and, therefore, ultimately derives the benefits from owning or controlling the U.S. affiliate.[6] 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.

The affiliate's transactions with all these persons are included in the investment income, services, and capital accounts of the U.S. balance of payments, and the direct positions in the affiliate that are held by all members of the foreign parent group, not only by its foreign parent, are included in the foreign direct investment position in the United States.[7]

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.

Foreign parent.—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.

Ultimate beneficial owner.—The 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

6. UBO's that were individuals were not required to be identified by name; however, their countries of location were required.

7. Another type of transaction—trade in goods between affiliates and members of their foreign parent groups—is also included in the U.S. balance of payments 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 on "Financial and Operating Data."

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.

Foreign parent group.—A foreign parent group consists of (1) the foreign parent, (2) any foreign person, proceeding up the 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 1992 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 the use of unique 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 1992 fiscal year was defined to be the affiliate's financial reporting year that ended in calendar year 1992.

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

The extent of the noncomparability between the benchmark survey data presented here and the direct investment estimates that will be presented in the foreign direct investment position and balance of payments accounts depends on the number and size of the U.S. affiliates whose fiscal years do not correspond to the calendar year. Figures on the number of affiliates that have fiscal years that do not correspond to the calendar year and on the portion of the benchmark survey data accounted for by these affiliates are shown in table 4.

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 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 (that is, not shown) for confidentiality reasons. A "(D)" in a cell indicates that the data were suppressed to avoid the disclosure of information on an individual company. For employment data, a letter representing a size range 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, the Foreign Direct Investment and International Financial Data Improvements Act of 1990 granted access to certain other government agencies for limited statistical purposes. For example, the act granted access to the Bureau of the Census and the Bureau of Labor Statistics for the purpose of linking BEA's enterprise-, or company-, level data for foreign direct investment to their establishment-, or plant-, level data for all U.S. companies to obtain their more detailed data, by industry and by State, for the foreign-owned enterprises that report to BEA.

Private individuals may obtain access to the data only in the capacity of experts, consultants, or contractors whose services are procured by BEA, usually on a temporary or intermittent basis, for purposes of carrying out projects under the act—for example, to perform research on 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.

Most of the data in the tables in this publication that are disaggregated by country are classified according to the country of the UBO. However, the data in tables 5 and 6 in this methodology and in table A–7 in "Part II: Nonbank U.S. Affiliates" are classified by country of foreign parent.

Classification by country of UBO usually is used for financial and operating data because the country that ultimately owns or controls, and that therefore derives benefits from owning or controlling, a U.S. affiliate generally is considered most important for analyzing these data. Except for the data in table 5, 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. balance of payments 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.

Industry classification

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 major industry group that accounted for the largest percentage of its sales.[8]

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

Table 4.—Selected Data of U.S. Affiliates, by Fiscal Year Ending Date

	Total	Fiscal year ending date: January 1 to March 31	April 1 to June 30	July 1 to September 30	October 1 to December 31	Addendum: December 31
All affiliates						
Number of affiliates	12,672	1,665	1,058	1,059	8,890	8,355
Total assets (millions of dollars)	2,998,593	701,648	79,743	103,804	2,113,399	1,989,540
Sales (millions of dollars)	1,333,867	289,347	67,589	89,107	887,824	840,019
Net income (millions of dollars)	–20,575	–4,378	–24	–1,022	–15,151	–15,021
Employee compensation (millions of dollars)	188,541	24,207	9,618	14,329	140,388	130,901
Thousands of employees	4,843.3	717.3	269.6	420.6	3,435.8	3,177.1
Foreign direct investment position in the United States (millions of dollars)	430,201	59,552	22,562	31,357	316,731	295,611
Direct investment income (millions of dollars)	133	–1,328	0	422	1,038	318
Nonbank affiliates						
Number of affiliates	12,138	1,553	1,045	1,045	8,495	7,975
Total assets (millions of dollars)	1,825,219	243,684	75,904	90,918	1,414,713	1,351,077
Sales (millions of dollars)	1,231,972	240,293	67,354	88,341	835,984	791,389
Net income (millions of dollars)	–21,331	–4,165	6	–908	–16,265	–16,129
Employee compensation (millions of dollars)	182,079	23,675	9,591	14,182	134,630	125,318
Thousands of employees	4,715.4	709.9	269.2	417.6	3,318.7	3,062.8
Foreign direct investment position in the United States (millions of dollars)	408,630	59,622	22,468	31,090	295,449	274,617
Direct investment income (millions of dollars)	405	–1,141	22	554	970	178
Bank affiliates						
Number of affiliates	534	112	13	14	395	380
Total assets (millions of dollars)	1,173,375	457,963	3,840	12,886	698,686	638,463
Sales (millions of dollars)	101,895	49,054	235	765	51,840	48,630
Net income (millions of dollars)	756	–213	–31	–114	1,114	1,108
Employee compensation (millions of dollars)	6,462	531	27	146	5,758	5,583
Thousands of employees	127.9	7.3	.4	3.0	117.2	114.3
Foreign direct investment position in the United States (millions of dollars)	21,571	–70	94	266	21,282	20,994
Direct investment income (millions of dollars)	–273	–187	–22	–132	68	140

NOTE.—See "Notes to the Tables."

Table 5.—Foreign Direct Investment Position in the United States and Direct Investment Income, by Country of UBO, Foreign Parent, and 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	
	Position	Income	Position	Income	Position	Income
All countries	**430,201**	**133**	**430,201**	**133**	**430,201**	**133**
Canada	**50,624**	**1,013**	**50,911**	**886**	**40,894**	**120**
Europe	**237,911**	**3,885**	**246,072**	**4,159**	**254,427**	**4,577**
Austria	695	–104	708	–84	678	–99
Belgium	3,218	133	2,426	137	3,991	115
Denmark	45	–99	180	–131	436	–127
Finland	2,521	–114	2,323	–101	1,812	–122
France	30,550	–1,093	27,605	–230	24,759	–290
Germany	35,912	–107	33,820	–236	30,895	–607
Ireland	(D)	(D)	1,808	44	2,484	50
Italy	4,040	–740	359	–138	1,727	–296
Liechtenstein	165	–79	163	–58	182	–58
Luxembourg	779	–41	740	–27	643	–16
Netherlands	41,433	1,344	70,347	565	68,426	1,237
Norway	(D)	–21	976	–8	1,016	–8
Spain	619	37	490	83	988	90
Sweden	8,252	–104	7,387	–35	6,654	–60
Switzerland	20,475	419	19,305	380	19,810	199
United Kingdom	86,389	4,528	77,011	4,046	89,463	4,615
Other	461	(D)	423	–49	463	–45
Bosnia and Herzegovina	–4	(*)	–4	(*)	–4	(*)
Cyprus	7	–3	0	0	2	(*)
Czechoslovakia	6	(*)	(*)	(*)	(*)	(*)
Gibraltar	0	0	8	–2	75	2
Greece	(D)	(D)	86	–28	81	–27
Hungary	7	(*)	(D)	–1	(D)	–1
Iceland	(D)	5	(D)	5	4	5
Malta	0	0	0	0	(D)	0
Poland	46	(*)	46	(*)	46	(*)
Portugal	–18	–8	–32	–8	–30	–8
Romania	(D)	–2	(D)	–2	(D)	–2
Russia	128	2	127	1	125	(*)
Serbia	9	–8	9	–8	9	–8
Slovenia	38	–5	30	–6	30	–6
Turkey	89	–1	88	–1	88	–1
Ukraine	2	(*)	2	(*)	2	(*)
Latin America and Other Western Hemisphere	**10,877**	**159**	**19,871**	**–631**	**22,129**	**–273**
South and Central America	(D)	310	7,158	518	8,258	562
Brazil	1,457	83	569	29	507	29
Mexico	1,249	–10	1,555	63	1,424	63
Panama	822	6	4,078	364	5,350	394
Venezuela	2,254	208	435	46	407	45
Other	(D)	23	521	15	570	30
Argentina	370	(D)	349	(D)	415	(D)
Bolivia	(*)	(*)	(*)	(*)	(*)	(*)
Chile	37	1	(D)	2	24	2
Colombia	147	–18	93	–21	81	–21
Costa Rica	10	2	3	(*)	–2	(*)
Ecuador	128	(*)	7	–1	7	–1
El Salvador	43	(*)	1	(*)	1	(*)
French Guiana	0	0	2	(*)	2	(*)
Guatemala	6	1	1	(*)	(*)	(*)
Guyana	0	0	0	0	(*)	0
Honduras	16	1	2	(*)	–1	(*)
Nicaragua	9	2	0	0	0	0
Paraguay	5	(*)	0	0	0	0
Peru	(D)	(D)	(D)	(D)	(D)	(D)
Suriname	(*)	(*)	(*)	(*)	(*)	(*)
Uruguay	(D)	–1	31	–1	(D)	–1
Other Western Hemisphere	(D)	–151	12,713	–1,148	13,871	–835
Bahamas	431	–77	2,038	24	903	–22
Bermuda	(D)	76	2,140	–170	1,207	–172
Netherlands Antilles	1,095	–42	4,305	–395	9,628	–192
U.K. Islands, Caribbean	554	–107	3,988	–604	1,316	–494
Other	58	–2	242	–3	817	45
Antigua and Barbuda	2	–3	32	–2	32	–2
Aruba	9	2	27	2	(D)	(D)
Barbados	(D)	–2	161	–2	390	24
Dominican Republic	24	2	2	(*)	2	(*)
French Islands, Caribbean	1	(*)	1	(*)	1	(*)
Grenada	1	(*)	1	(*)	1	(*)
Haiti	1	(*)	(*)	(*)	(*)	(*)
Jamaica	(*)	(*)	(D)	(*)	(D)	(*)
St. Kitts and Nevis	(D)	–1	(D)	–1	1	(D)
Trinidad and Tobago	5	1	(*)	(*)	1	(*)
United Kingdom Islands, Atlantic	2	(*)	0	0	0	0
Africa	(D)	**–40**	**943**	**–56**	**1,192**	**–49**
South Africa	1,211	–2	0	(*)	–16	(*)
Other	(D)	–38	943	–56	1,208	–48
Algeria	(D)	4	0	0	0	0
Congo	0	0	0	0	(D)	(*)
Egypt	26	–8	23	–8	27	–8
Ethiopia	(D)	(D)	0	0	0	0
Gabon	(D)	–1	0	0	0	0
Guinea	(*)	0	(*)	0	(*)	0
Kenya	0	0	0	0	(D)	0
Liberia	139	–27	879	–39	1,163	–31
Morocco	31	(*)	(D)	(D)	17	(D)
Namibia	2	(*)	0	0	0	0
Nigeria	(D)	(D)	(D)	(D)	12	(D)
Tanzania	0	0	0	0	(*)	0
Middle East	(D)	**–544**	**5,708**	**–210**	**5,016**	**–268**
Israel	1,588	–117	1,369	–110	1,396	–110
Kuwait	3,743	–95	1,650	–36	1,640	–29
Lebanon	166	–44	10	–1	10	–1
Saudi Arabia	4,086	–141	2,398	–30	(D)	–95
United Arab Emirates	(D)	–134	142	–31	124	–31
Other	370	–13	139	–2	(D)	–1
Bahrain	49	4	58	4	82	4
Iran	10	(D)	(*)	(D)	–1	(D)
Jordan	125	–3	55	(*)	46	–1
Oman	(D)	(D)	(D)	(D)	(D)	(D)
Qatar	8	(*)	(D)	(*)	(D)	(*)
Syria	(D)	–8	3	(*)	3	(*)
Asia and Pacific	**114,771**	**–4,638**	**106,696**	**–4,016**	**106,543**	**–3,974**
Australia	6,545	–574	6,698	–413	6,120	–508
China	(D)	(D)	186	–4	201	–4
Hong Kong	(D)	–194	808	–59	1,135	–55
Indonesia	126	–54	36	–42	37	–42
Japan	99,224	–3,226	96,764	–3,071	95,969	–2,968
Korea, Republic of	109	–270	67	–268	304	–255
Malaysia	240	–5	3	–6	68	–6
New Zealand	(D)	–75	219	–61	209	–56
Philippines	236	–1	53	–7	54	–7
Singapore	744	–29	723	–29	1,153	–18
Taiwan	2,323	–109	960	–23	1,057	–22
Other	614	(D)	177	–32	238	–33
Afghanistan	(D)	1	(D)	1	(D)	(*)
Brunei	338	–18	0	0	0	0
French Islands, Pacific	(D)	(*)	0	0	0	0
India	17	–18	17	–18	20	–17
Laos	5	(*)	5	(*)	5	(*)
Macau	0	0	0	0	3	(*)
Micronesia	0	0	0	0	–2	0
Pakistan	22	–2	17	(*)	17	(*)
Papua New Guinea	0	0	0	0	(D)	0
Sri Lanka	0	0	0	0	3	0
Thailand	216	–55	124	–11	176	–12
United Kingdom Islands, Pacific	2	(D)	(D)	–4	2	–4
Vanuatu	1	(*)	1	(*)	7	(*)
United States	**3,367**	**298**	....	....	....	....
Addenda:						
European Communities (12)	204,363	3,898	214,841	4,077	223,863	4,736
OPEC	11,624	–223	4,699	–103	3,922	–162

NOTE.—See "Notes to the Tables."

Table 6.—Selected Financial and Operating Data of U.S. Affiliates, by Country and Industry of Foreign Parent

	Millions of dollars					Thousands of employees
	Total assets	Gross property, plant, and equipment	Sales	Net income	Employee compensation	
	(1)	(2)	(3)	(4)	(5)	(6)
All countries, all industries	**2,998,593**	**670,914**	**1,333,867**	**–20,575**	**188,541**	**4,843.3**
By country						
Canada	**301,144**	**99,415**	**123,114**	**–5,711**	**22,688**	**622.1**
Europe	**1,419,626**	**360,456**	**698,133**	**–6,957**	**114,975**	**3,010.2**
Austria	7,477	333	(D)	(D)	198	4.2
Belgium	17,095	8,520	13,961	184	1,571	75.8
Denmark	6,276	1,758	3,664	–96	1,019	43.5
Finland	8,834	2,236	(D)	(D)	1,065	25.3
France	259,606	42,162	81,907	–674	12,725	299.5
Germany	163,862	53,172	119,741	–844	20,930	519.9
Ireland	(D)	2,021	(D)	(D)	(D)	J
Italy	55,062	2,833	8,460	–28	795	18.0
Liechtenstein	520	429	207	–92	60	1.9
Luxembourg	(D)	1,877	(D)	(D)	526	14.5
Netherlands	288,344	95,000	146,690	–1,681	22,070	605.1
Norway	(D)	1,382	(D)	(D)	(D)	I
Spain	54,460	1,664	4,723	466	646	20.1
Sweden	45,284	9,264	30,208	–195	5,834	152.5
Switzerland	144,246	24,918	71,353	–436	13,016	294.0
United Kingdom	338,078	112,664	196,473	–3,211	33,354	905.7
Other	5,557	224	1,212	–53	112	3.0
Latin America and Other Western Hemisphere	**172,864**	**43,984**	**66,566**	**190**	**12,571**	**317.7**
South and Central America	114,773	17,094	26,901	2,392	3,748	86.6
Brazil	5,380	(D)	1,511	27	77	1.5
Mexico	11,447	1,756	4,934	33	822	24.3
Panama	(D)	(D)	(D)	(D)	(D)	L
Venezuela	4,926	2,632	2,593	268	237	8.5
Other	(D)	82	(D)	(D)	(D)	G
Other Western Hemisphere	58,091	26,890	39,665	–2,202	8,822	231.2
Bahamas	3,584	863	1,479	–22	125	3.3
Bermuda	(D)	(D)	(D)	(D)	(D)	L
Netherlands Antilles	13,931	9,464	9,656	–487	2,089	68.2
U.K. Islands, Caribbean	28,785	11,097	18,144	–1,661	4,370	105.6
Other	(D)	(D)	(D)	(D)	(D)	G
Africa	(D)	**3,370**	(D)	(D)	**144**	**4.3**
South Africa	1	1	(D)	(*)	0	0
Other	(D)	3,369	(D)	(D)	144	4.3
Middle East	(D)	**9,595**	(D)	(D)	**814**	**17.4**
Israel	(D)	394	(D)	–89	288	5.6
Kuwait	6,168	(D)	(D)	(D)	(D)	I
Lebanon	27	13	23	–2	5	.1
Saudi Arabia	(D)	(D)	(D)	(D)	(D)	I
United Arab Emirates	222	212	28	–29	6	.2
Other	3,522	(D)	223	–10	23	.6
Asia and Pacific	**1,071,730**	**154,093**	**430,766**	**–7,718**	**37,350**	**871.6**
Australia	45,696	12,630	21,961	–219	3,853	84.1
China	(D)	(D)	(D)	(D)	(D)	G
Hong Kong	6,594	(D)	(D)	(D)	478	17.7
Indonesia	2,225	132	468	–57	51	G
Japan	976,444	133,084	386,674	–6,778	31,727	736.7
Korea, Republic of	18,055	2,101	10,468	–324	513	11.7
Malaysia	874	4	86	–8	4	.1
New Zealand	(D)	197	1,860	–63	295	6.8
Philippines	708	77	109	–8	20	.6
Singapore	2,988	1,210	652	–92	87	2.7
Taiwan	9,311	1,586	1,853	–52	194	5.5
Other	2,951	123	533	–36	(D)	G
Addenda:						
European Communities (12)	1,208,324	321,750	584,563	–5,869	94,308	2,520.6
OPEC	21,602	11,667	15,555	19	796	22.1
By industry						
Government and government-related entites	13,857	11,725	11,735	33	627	14.2
Individuals, estates, and trusts	27,433	17,698	21,043	–33	3,481	138.9
Petroleum	67,744	64,036	55,135	75	4,167	68.7
Agriculture	2,100	1,153	3,221	–67	371	10.7
Mining	22,371	18,814	15,132	–619	2,788	57.5
Construction	17,763	10,252	13,440	–1,275	2,997	67.7
Manufacturing	402,187	191,945	427,130	–3,603	72,637	1,626.8
Transportation, communication, and public utilities	29,971	13,997	19,351	–2,786	5,260	128.2
Wholesale and retail trade	83,886	27,788	204,954	–1,942	12,387	529.8
Depository institutions	1,296,990	12,358	131,422	–171	7,588	135.8
Other finance and insurance	936,524	229,882	397,420	–5,735	66,859	1,730.9
Real estate	64,890	53,660	11,777	–3,564	1,334	46.3
Services	32,878	17,606	22,106	–888	8,045	287.8

NOTE.—See "Notes to the Tables."

Second, within the major industry group, the U.S. affiliate was classified in the two-digit industry in which its sales were largest; a two-digit industry was defined to consist of all three-digit subindustries that have the same first two digits in their three-digit code. Third, within its two-digit industry, the U.S. affiliate was classified in the three-digit subindustry in which its sales were largest. This procedure ensured that the U.S. affiliate was not assigned to either a three-digit subindustry outside either its major industry or its two-digit industry. [9]

A list and a description of the codes used by BEA to classify the data from the 1992 benchmark survey are found in the *Guide to Industry and Foreign Trade Classifications for International Surveys* (see appendix B). These classifications are adapted from those in the *Standard Industrial Classification Manual 1987*. The direct investment data are collected at the enterprise level, and each enterprise is classified in a single industry on the basis of its major activity. In contrast, the Standard Industrial Classification (SIC) is designed for classifying individual establishments (or plants) within an enterprise. Because many direct investment enterprises are active in several industries, it is not meaningful to classify all their data in a single industry if that industry is defined too narrowly. Accordingly, BEA has limited the detail in which it classifies U.S. affiliates by industry to a total of about 135 industries. More detailed establishment-level data are available from the BEA-Census Bureau link project described earlier; these data are classified by industry at the four-digit SIC level.

To conform to the SIC, petroleum is not listed as a major industry group in the Guide. Instead, the three-digit subindustries within petroleum are spread among the other major industries: Crude petroleum extraction is in mining, petroleum refining is in manufacturing, gasoline service stations are in retail trade, and so on. However, for direct investment classification and publication purposes, these various subindustries are grouped together in the major industry group petroleum.

Beginning with the 1992 benchmark survey and reflecting a change in the 1987 SIC, savings institutions and credit unions are included in the industry "depository institutions," which also includes banks. Thus, the data for savings institutions and credit unions appear in the tables for "bank affiliates" rather than in those for "nonbank affiliates." Previously, these entities were classified as "nonbank affiliates," in the industry "finance, except banking."

Table A–1 presents selected financial and operating data for U.S. affiliates classified by industry of affiliate; each three-digit subindustry is shown separately and is grouped by the major industry to which it belongs. Primarily because of confidentiality requirements, many of these three-digit subindustries are not shown in the other tables in this publication. However, each industry included but not identified in an industry group shown in the other tables may be ascertained by referring to table A–1.

Each U.S. affiliate was classified in a single industry, even though many affiliates had activities in more than one industry. As a result, 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. Classification by activity was obtained in the benchmark survey for two key items—sales and employment. Each U.S. affiliate was required to distribute its sales and its employment among the three-digit subindustries in which it had sales.[10] In table A–8 of part II, 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 E–7 for sales and table G–10 for employment.) Because an affiliate that has an establishment in an industry usually also has sales in that industry, 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. However, if two establishments of an affiliate are in different industries and 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. (For example, if an affiliate operates both a metal mine and a metal manufacturing plant and if the

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

Industry code	Sales (Percentages of total)		
351	5		
352	10	30	
353	15		55
367	25		
508	45		

where industry codes 351, 352, 353, and 367 are in manufacturing and code 508 is in wholesale trade. Because 55 percent of the affiliate's sales were in manufacturing and only 45 percent were in wholesale trade, the affiliate's major industry is manufacturing. Because 30 percent of its sales within manufacturing are in two-digit industry 35 (nonelectrical machinery)—that is, the sum of the percentages in 351, 352, and 353 is 30 percent—and 25 percent are in two-digit industry 36 (electrical machinery), the affiliate's two-digit industry is 35. Finally, because its sales within industry 35 were largest in subindustry 353, the affiliate's three-digit subindustry is 353. Thus, because of the three-stage classification procedure, the affiliate was assigned to subindustry 353, even though its sales in that subindustry were smaller than its sales in either subindustries 508 or 367.

10. Specifically, large U.S. affiliates (those with total assets, sales, or net income greater than $50 million) had to specify their sales and employment in the eight industries in which their sales were largest; other affiliates had to specify their sales and employment in the three industries in which their sales were largest. Unspecified sales and employment are shown in the "unspecified" row or column in tables A–8, E–7 to E–9, and G–10 to G–12.

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.)

The UBO and foreign parent of each affiliate were also classified by industry, but 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 28 broad categories.[11] Beginning with the 1992 benchmark survey, UBOs in manufacturing are classified into 12 manufacturing subindustries; in the surveys for previous years this breakdown was not obtained.

A distribution of sales by industry was not obtained for UBO's 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 industry of the UBO or foreign parent with the largest ownership share.

The industry classification of a foreign parent may differ from that of a 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.

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.

Table A–2 presents selected financial and operating data by country of UBO; by geographic area, it shows each country in which a UBO was located in 1992. (A table A–2 is presented for all affiliates, for nonbank affiliates, and for bank affiliates.) Table 5 in this methodology 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 A–2 or table 5.

Only three tables—tables 5 and 6 in this methodology and table A–7 in part II—show data by country of foreign parent. Table 5 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 6 shows selected financial and operating data for all affiliates, classified by country of foreign parent. Table A–7 compares a few key data items classified by country of UBO and by country of foreign parent for nonbank affiliates. The data by country of foreign parent in tables A–7 and 6 are comparable with the data classified by country of foreign parent in the 1987, 1980, and 1974 benchmark survey publications.[12]

Estimation and General Validity of the Data

Nonbank affiliates with total assets, sales, or net income greater than $1 million were required to report in the benchmark survey. Depending on their size, they had to report on either a long form or a short form.[13] For the affiliates that reported on the short form, BEA estimated the items that appeared only on the long form to present financial and operating data in the same detail for all nonbank affiliates. Estimates were also made for some affiliates that failed to report in the benchmark survey but for which data could be obtained from other surveys.

The long form (BE–12(LF))—which was filed by nonbank affiliates with total assets, sales, or net income (or loss) greater than $50 million—collected detailed data. The short form (BE–12(SF))—which was filed by nonbank affiliates with total assets, sales, and net income (or loss) of $50 million or less—collected most balance of payments data items but only selected financial and operating data items. For a given short-form affiliate,

11. See the list at the bottom of page 13 of the benchmark survey form BE–12(LF), in appendix A.

12. See *Foreign Direct Investment in the United States: 1987 Benchmark Survey, Final Results; Foreign Direct Investment in the United States, 1980*; and *Foreign Direct Investment in the United States, Volume 2: Report of the Secretary of Commerce: Benchmark Survey, 1974.* (Summary data from the 1980 benchmark survey were subsequently republished, with minor corrections, in *Foreign Direct Investment in the United States: Operations of U.S. Affiliates, 1977–80*, but that publication does not contain data classified by country of foreign parent.)

13. These two forms are reprinted in appendix A. Bank affiliates reported on a third form (BE–12 Bank).

long-form items were generally estimated based on relationships among data items for the most comparable panel of long-form affiliates that could be constructed; specifically, the panel comprised affiliates that had total assets of between $50 million and $250 million and that were in the same industry group as the affiliate whose data were being estimated.

A total of 8,442 nonbank affiliates filed short forms (table 7). Although these affiliates accounted for 70 percent of all nonbank affiliates, they accounted for only a small portion of the nonbank universe in terms of value—4 percent of total assets, 5 percent of sales, and 7 percent of employment.

The largest number of short-form affiliates were in real estate, and their shares of the universe in this industry in terms of value were disproportionately high. In real estate, short-form affiliates accounted for 20 percent of total assets, 19 percent of sales, and 14 percent of employment.

BEA also made estimates of the data for some nonbank affiliates that did not file a benchmark survey report even though they met the criteria for filing. For the 762 affiliates covered by these estimates, 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 only a minor portion of the nonbank universe in terms of value—1 percent of assets and sales and 2 percent of employment (table 7).

Table 7.—Selected Data for U.S. Affiliates That Filed Reports Compared With U.S. Affiliates for Which Reports Were Estimated

	Number of affiliates	Millions of dollars		Thousands of employees
		Total assets	Sales	
Affiliates that were required to file a report	12,672	2,998,593	1,333,867	4,843.3
Banks	534	1,173,375	101,895	127.9
Nonbanks	12,138	1,825,219	1,231,972	4,715.4
Nonbank affiliates that actually filed reports	11,376	1,804,328	1,217,405	4,639.6
Affiliates that filed long forms	2,934	1,730,151	1,161,894	4,324.6
Affiliates that filed short forms	8,442	74,177	55,512	315.1
Nonbank affiliates that failed to file reports and for which reports were estimated	762	20,890	14,567	75.8
	Percent			
Addenda:				
Nonbank affiliates that filed short forms as a percent of all nonbank affiliates	69.6	4.1	4.5	6.7
Nonbank affiliates that failed to file reports and for which reports were estimated as a percent of all nonbank affiliates	6.3	1.1	1.2	1.6

NOTE.—No reports were estimated for bank affiliates.

The estimation of data for these affiliates ensured that the 1992 data were as complete as possible.

All data reported by U.S. affiliates had to pass a 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 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 U.S. Affiliates

Tables A–1 and A–2 in part II show the number of nonbank affiliates that is comparable with the number shown in previous annual survey publications; the same tables in part I show the number of all affiliates, both bank affiliates and nonbank affiliates.

The data on number of affiliates should be used cautiously because, with the exception of those shown in tables 2 and 3, they exclude very small affiliates that were exempt from filing a benchmark survey report. In addition, 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. This publication gives, in addition to the number of affiliates, the number of companies consolidated in the affiliates' reports (see tables A–1 and A–2). Because the report for one affiliate may cover many companies, the number of companies consolidated is substantially higher than the number of affiliates—39,882 compared with 12,672. For nonbank affiliates, the comparable figures are 38,646 and 12,138. Establishment data for 1991—the most recent year for which such data are available, indicate that the number of establishments of U.S. affiliates is, as would be expected, higher than either the number of affiliates or the number of companies consolidated. In 1991, there were 12,741 manufacturing establishments, compared with 2,563 manufacturing affiliates consisting of 9,330 consolidated companies.[14]

This publication includes the number of nonbank affiliates by State in the following three categories: Affiliates with either employment or property, plant, and equipment (table A–9); affiliates with employment (table G–18); and affiliates with property, plant, and equipment (tables D–20 and D–21). The number for a given State may differ among these 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.

In these tables, 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 count for 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 D–20 and 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; gross product; sales of goods and services; external financial position; taxes; property, plant, and equipment; employment and employee compensation; U.S. merchandise trade; research and development activities; and U.S. land owned and leased by affiliates. Only a few of these items were obtained for bank affiliates; 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 4 and 7 of this methodology, in table A–1 in part I, and in all of the tables in part III.

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 employees of each affiliate, including affiliates in which the foreign investor's ownership share is less than 100 percent. To help address issues for which control is relevant, a few tables—those in group J—that cover only those nonbank U.S. affiliates that are majority-owned by foreign direct investors have been included in this publication.

Most of the concepts and definitions used in reporting the financial and operating data can be found on the BE–12 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. As a result of recent changes in GAAP regarding deferred income taxes and post-retirement benefits, affiliates have made large one-time adjustments to their earnings; these adjustments substantially reduced their net income in 1992 from what it otherwise would have been.

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.

14. See Bureau of Economic Analysis and Bureau of the Census, *Foreign Direct Investment in the United States: Establishment Data for Manufacturing, 1991* (Washington, D.C.: U.S. Government Printing Office, 1994).

Gross product

Gross product is an economic accounting measure of the production of goods and services. A U.S. affiliate's gross product measures the value added by the affiliate and, thus, its contribution to U.S. gross domestic product (GDP).

For a U.S. affiliate, as for any firm, gross product can be measured as its gross output (sales or receipts and other operating income, plus inventory change) less its intermediate inputs (purchased goods and services). Alternatively, it can be measured as the sum of costs incurred (except for intermediate inputs), and profits earned, in production. The costs fall into four major categories: Employee compensation, net interest paid, indirect business taxes, and the capital consumption allowance.[15] The estimates presented in this publication were calculated as the sum of costs and profits.

Estimates of affiliate gross product are generally preferred to sales or other measures used to assess the economic impact of affiliates on the entire U.S. economy as well as on individual industries. Gross product permits more focused analysis of the impact of affiliates because it measures only the affiliates' own production, whereas sales do not distinguish between the affiliates' own production and production originating elsewhere. In addition, gross product estimates measure the value added 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 1992 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. For purposes of distributing sales into goods, services, and investment income, "services" are defined as activities characteristic of the following industries: The "services" division of the Standard Industrial Classification and BEA's International Surveys Industry Classification system; petroleum services; finance (except banking); insurance; real estate; agricultural services; mining services; and transportation, communication, and public utilities. An affiliate need not be classified in one of these industries to have sales of services.

Information on investment income was collected primarily to ensure that, if factor 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 most other industries, affiliates consider investment income an incidental revenue source and include it in the income statement in an "other income" category rather than in sales.

Employment and employee compensation

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 1992. 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 three-digit industries in which it had sales.

Data on employment, employee compensation, 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 comprise employees on the payroll of manufacturing plants in the State and employees in central administrative offices and auxiliary units that primarily serve these plants. These data are shown in table G–13.

For manufacturing, three measures of employment are available from the benchmark survey. The totals

15. In the U.S. national income and product accounts (NIPA's), 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, straight-line depreciation, 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 F–1), although it reflects some of the adjustments that determine the difference between the NIPA measures of CCA and consumption of fixed capital.

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

of employment under the three measures differ. *Employment by manufacturing affiliates* (tables G–1, G–3 to G–5, G–7, and G–10) consists of employment by affiliates *classified in manufacturing*. It includes all employees of affiliates whose primary industry is manufacturing, even though the affiliates may have activities, and thus employees, in other industries; it excludes manufacturing employees of affiliates not classified in manufacturing. *Nonbank affiliates' manufacturing employment* (table G–13) consists of employees on the payroll 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. For comparability with all-U.S. data, this measure is defined to include petroleum refining employees. (These employees are excluded from "employment by manufacturing affiliates" because, under that measure, they are considered employees of affiliates classified in petroleum, not manufacturing). *Manufacturing employment when employees are disaggregated by industry of sales* (tables G–10 to G–12) consists of employment of affiliates in each three-digit manufacturing industry in which they had sales. Unlike nonbank affiliates' manufacturing employment, it may include some nonmanufacturing employees,[16] but it excludes petroleum refining employees.

The manufacturing employment data in table G–13 give a better indication of the number of manufacturing employees in a State than the data in table G–7, which shows affiliate employment in each State classified by industry of affiliate. The manufacturing employees shown in table G–13 are those actually engaged in manufacturing in the State regardless of the industry classification of the affiliate. In table G–7, in contrast, all 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.

Although the data on employment and employee compensation from the benchmark survey can be used to compute compensation per employee and wages and salaries per employee, the rates so computed 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 employment, because a part-time employee is counted the same as a full-time employee, or by data covering only part of the year—for example, data for an affiliate that was newly established during the year.[17]

16. See the discussion of affiliate sales and employment classified by industry of sales in the section "Industry classification."

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 three broad categories—PPE used for manufacturing, for commercial property, and for all other purposes. Manufacturing PPE consists of PPE used primarily for manufacturing, including petroleum refining.[18] 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; petroleum and natural gas extraction; transportation, communication, and public utilities; and equipment used in commercial buildings.

U.S. merchandise trade

The concepts and definitions underlying the data collected in the benchmark survey on U.S. merchandise trade of U.S. affiliates are nearly identical to those used for the data on total U.S. merchandise trade compiled by the Census Bureau. The trade data were 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 problems, the affiliate trade data are not completely comparable with the Census Bureau trade data. In the benchmark survey, U.S. merchandise trade data had 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 books on a "charged" basis—that is, on the basis of when, where,

17. Employee compensation rates are better measured by hourly wage rates, which do not suffer from these shortcomings and which are available from the BEA-Census Bureau link data (see footnote 3).

18. Manufacturing PPE differs conceptually from the PPE of affiliates classified in manufacturing, because the PPE of manufacturing affiliates includes the nonmanufacturing PPE associated with their secondary, nonmanufacturing activities and excludes manufacturing PPE of affiliates classified in nonmanufacturing industries.

and to (or by) whom the goods were charged. Although the two bases are usually the same, differences between them can be substantial. 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. If the affiliate's trade data were reported on a charged basis, the purchase and sale would have appeared as a U.S. import and U.S. export, respectively. However, the goods never entered or left the United States, and on a shipped basis, they are not included in either U.S. imports or U.S. exports.

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 required using shipping department invoices rather than accounting records. If BEA determined that the data were reported on a charged basis and that these data were likely to differ materially from data reported on a shipped basis, it required revised reports to be filed. However, some cases of erroneous reporting were probably not identified.

In addition, data on trade by U.S. affiliates collected by BEA are on a fiscal year basis, whereas those on total U.S. merchandise trade collected by the Census Bureau are on a calendar year basis. This difference could be a significant source of noncomparability between the two sets of data, but the degree of such noncomparability is unknown.

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

In the 1992 benchmark survey, as in the 1980 benchmark survey, 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, capital equipment and goods for further manufacture were grouped in "other." In the future, data on goods for further manufacture will be collected annually.

Research and development

The 1992 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.

The 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 costs of production and can be used as an indicator of affiliates' use of technology. It is consistent with guidelines of the Financial Accounting Standards Board for accounting for the costs of R&D, and it is the only R&D measure collected on recent benchmark surveys and on the annual surveys. The performance measure can be used to gauge the technological capabilities of affiliates. R&D data on this basis have been collected for U.S. affiliates only once before, on the benchmark survey for 1974.

Data on the number of employees associated with research and development activities were last collected in the 1980 benchmark survey. However, they will now be collected annually, beginning with the survey for 1993.

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) total owners' equity in the affiliate held both by members of the foreign parent group and by all other persons and (2) total liabilities owed by the affiliate both to members of the foreign parent group and to all other persons.[19]

19. 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).

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. balance of payments accounts:

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

Two adjustments are made to the balance of payments data before the data are entered into the U.S. international accounts. First, two of these items—income and capital flows—are adjusted to reflect current-period prices. [20]

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 1992 benchmark survey are on a fiscal year basis. Thus, before the data are incorporated into the U.S. balance of payments accounts and the annual series on the position, 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 1992 will be extrapolated forward to derive universe estimates for calendar years after 1992, based on sample data collected in BEA's quarterly surveys for those years. In addition, the benchmark survey data will be used in revising previously published data for 1988–91, to incorporate information affecting those years that was obtained in the 1992 benchmark survey (for example, foreign direct investments that were made between 1988 and 1991 but that were not known by, or reported to, BEA until the 1992 benchmark survey).

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 BEA's direct investment surveys. It is also the only basis on which detailed estimates of the position are available by country, by industry, and by account. However, BEA does provide aggregate estimates of the position valued in current-period prices.[21]

Direct 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. In contrast, other members of the foreign parent groups can have only direct debt—not equity—positions in affiliates. (Any equity transactions between affiliates and nonparent members of their foreign parent groups are recorded as portfolio investment rather than as direct investment.)

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

20. 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 NIPA's. 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.

21. In May 1991, BEA published, for the first time, 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) for 1982–89. These estimates are updated each June 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.

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 payables," 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 property so leased to a U.S. affiliate by its foreign parent group is included in affiliates' payables, and the value of property leased by a U.S. affiliate to the foreign parent group is included in affiliates' receivables. Under a capital lease, it is anticipated that 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 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 sum of all future lease receipts. For operating leases of more than 1 year, the value is the original cost of the leased property less accumulated depreciation.

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. balance of payments 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 in the portfolio investment accounts.

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 and a U.S. affiliate each may have debt investment in the other. 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.[22] Reverse equity investment by U.S. affiliates in their foreign parents is included in the U.S. portfolio investment position abroad if the affiliate's ownership is less than 10 percent or in the U.S. direct investment position abroad if the affiliate's ownership in its foreign parent is 10 percent or more.[23]

The direct investment position at the end of the year is equal to the position at the end of the previous year plus the change in the position during the year. The change during the year is the sum of direct investment capital flows (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 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 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.[24] Valuation adjustments also include capital gains and losses and currency translation adjustments.

22. 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. In order 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 group is included in the U.S. direct investment position abroad.

23. Before 1974, BEA netted all reverse equity investments. In some instances, this practice resulted in double-counting among the various accounts of the international investment position of the United States and in the capital accounts of the U.S. balance of payments. For this reason, the current treatment for reverse equity investments was adopted in 1974.

24. 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 estimated *current* values of the affiliates.

Direct investment capital inflows

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

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 capital contributions to their 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. 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 enter into direct investment income because they are income to the foreign parent, whether they are reinvested in the affiliate or remitted to the parent.[25] 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 capital 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 balance of payments accounts.[26] Liquidating dividends are excluded because they are a return of capital rather than a remittance of earnings (liquidating dividends are included instead 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 payables 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 bal-

25. See in next section "Direct investment income."

26. "Stock dividends" are used here to refer to essentially the same concept as is discussed in the IMF *Manual* (see footnote 5) under the heading of "bonus shares." BEA has retained its terminology because it conforms to what U.S. firms understand by the term "stock dividend."

ance 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.

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 or royalty and license fee payment (an outflow) on foreign direct investment in the United States. If all or 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 of depreciation on an operating lease, is a return of capital and is recorded as an intercompany debt outflow because it reduces the affiliate's payables. When property is leased by a U.S. affiliate to its foreign parent group, the flows recorded are the reverse of the preceding.

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

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 U.S. balance of payments transactions. 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.[27]

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

In cases of reverse investment, treatment of reverse equity capital and intercompany debt flows is the same as that for the analogous accounts in the direct investment position.

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 in equity separately from decreases. Intercompany debt inflows are disaggregated to show flows resulting from changes in U.S. affiliates' payables separately from flows resulting from changes in U.S. affiliates' receivables. Certain transactions may affect two or more of these subaccounts simultaneously and by exactly 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 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

27. 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.

Table 8.—Direct Investment Income and Its Components
[Millions of dollars]

Earnings	–6,598
Distributed earnings	8,113
Reinvested earnings	–14,711
Interest	6,730
U.S. affiliates' payments	9,465
U.S. affiliates' receipts	2,735
Income	133

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, 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 (where interest is defined as interest paid by U.S. affiliates to their foreign parent groups net of 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.

Direct investment income is reported as accrued. Direct investment income and earnings exclude currency-translation adjustments and other capital gains and losses. Table 8 shows direct investment income and the relationship among its components for all U.S. affiliates from the 1992 benchmark survey.

Several changes have recently been made in the definition of direct investment income and earnings. The changes concern the treatment of capital gains and losses, currency-translation adjustments, and withholding taxes.

In June 1990, BEA began to exclude from direct investment income and earnings currency-translation adjustments—that is, gains and losses that arise because of changes, between accounting periods, in exchange rates applied in translating affiliates' foreign-currency-denominated assets and liabilities into dollars. In 1992, BEA began excluding all other capital gains and losses, whether or not such gains and losses are included in net income for income statement purposes. These changes were made in order 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.

BEA has also changed its treatment of withholding taxes.[28] Previously, direct investment income had been measured after the deduction, or net, of U.S. withholding taxes on distributed earnings received by foreign parents from their affiliates and after the deduction of foreign and U.S. withholding taxes on interest. In June 1992, direct investment income was redefined to be before deduction, or gross, of all withholding taxes.

The new treatment views withholding 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 affiliate 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 by the foreign parent. Counterentries for these taxes are made in the U.S. balance of payments accounts under unilateral transfers. This change in methodology is in line with the new international guidelines for compiling balance of payments accounts contained in the IMF *Balance of Payments Manual* (see footnote 5).

BEA collects data on withholding taxes on distributed earnings on its quarterly surveys of foreign direct investment in the United States, but withholding taxes on interest, royalties and license fees, and other private services are collected only in benchmark surveys. Withholding taxes on these items must be estimated for nonbenchmark years; the estimates are prepared, and are shown in the U.S. balance of payments accounts, only on a global basis, not disaggregated by country or industry.

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.[29] 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.

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

29. For U.S. affiliates that are depository institutions (commercial banks, savings and loan institutions, and credit unions), interest includes only net payments on permanently invested debt capital.

Direct investment royalties and license fees

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

Like income, royalties and license fees were redefined in June 1992 to be measured before the deduction, or gross, of U.S. and foreign withholding taxes. Previously, they had been presented in the U.S. balance of payments accounts after the deduction, or net, of withholding taxes. In 1992, withholding taxes on both payments and receipts of royalties and license fees were relatively small—$46 million out of gross payments of $2,980 million and $5 million out of gross receipts of $616 million.

In June 1992, BEA began recording U.S. affiliates' receipts of royalties and license fees as U.S. exports of services in the balance of payments accounts. Previously, these receipts were netted against U.S. affiliates' payments of royalties and license fees, and the net amount was shown as U.S. services imports; in effect, the receipts were deducted from imports rather than added to exports.

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.

Other direct investment services

Transactions in other direct investment 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 of service charges, of charges for the use of tangible property, and for film and television tape rentals. Payments and receipts are reported as accrued and are based on the books of U.S. affiliates.

In June 1992, payments and receipts of other direct investment services, which had been recorded in the U.S. balance of payments accounts after the deduction, or net, of withholding taxes, began to be recorded gross of withholding taxes. In 1992, withholding taxes on other direct investment services were very small—only $2 million on gross payments of $3,898 million and less than $1 million on gross receipts of $6,394 million.

In June 1992, BEA also began recording U.S. affiliate receipts for other private services as U.S. exports of services in the balance of payments accounts. Previously, these receipts were recorded as deductions from U.S. services imports.

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 provides management-consulting services to its foreign parent or foreign parent group, the resulting revenues are included in its sales.)

Reimbursements are receipts for services rendered that are normally included in "other income" rather than in sales in the income statement of the provider of the service. 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 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 research and development assessments on the U.S. affiliate by its foreign parent for R&D the parent performs and shares with its affiliate.

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

For operating leases of more than 1 year, net rent is included in "other direct investment services," and depreciation is included as an intercompany debt flow in the direct investment capital account. For operating leases of 1 year or less, total lease payments—both net rent and depreciation—are included in "other direct investment services." Because the value of property leased to or from foreigners for 1 year or less is excluded from U.S. merchandise exports and imports in the U.S. balance of payments accounts, no export or import to or from the foreign parent groups by U.S. affiliates is recorded in the merchandise trade 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 capital 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 (which are recorded in merchandise trade), 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 merchandise. This treatment is used because the value of the tapes is derived mostly from the services—entertainment, education, and so on—that they provide, not from the value of the media on which they are recorded. Thus, the cost of the film and television tapes is excluded from U.S. merchandise trade and is included instead in "other direct investment services."