Methodology

The 2004 Benchmark Survey of U.S. Direct Investment Abroad was conducted by the Bureau of Economic Analysis (BEA) to obtain complete and accurate data on U.S. direct investment abroad in 2004. Reporting in the survey was mandatory under the International Investment and Trade in Services Survey Act.[1] Benchmark surveys, which are conducted every 5 years, are BEA's most comprehensive surveys of U.S. direct investment abroad, in terms of both the coverage of companies and the amount of information that is collected; the last benchmark survey covered the year 1999.[2]

This publication presents 186 tables that contain nearly all of the data collected in the benchmark survey. Three related types of data are presented: (1) Foreign-affiliate financial and operating data, (2) U.S.-parent financial and operating data, and (3) direct investment position and balance of payments data.

The financial and operating data provide a variety of indicators of the overall operations of U.S. parent companies and their foreign affiliates, including balance sheets and income statements; property, plant, and equipment; employment and compensation of employees; U.S. trade in goods; sales of goods and services; value added; research and development activities; taxes; and external financial position.

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

The amount and type of data collected in the survey differed, depending on whether the U.S. parents or foreign affiliates were banks or nonbanks and, for nonbank affiliates, depending on whether they were majority owned or minority owned.[3] In this publication, data for foreign affiliates and for their U.S. parents are presented for five groups of affiliates: (1) all affiliates of all U.S. parents, (2) nonbank affiliates of nonbank U.S. parents, (3) majority-owned nonbank affiliates of nonbank U.S. parents, (4) nonbank affiliates of U.S. parents in banking, and (5) bank affiliates of all U.S. parents. Most of the tables cover majority-owned nonbank affiliates of nonbank U.S. parents. Bank affiliates were required to report only a limited amount of data in the benchmark survey. For nonbank affiliates, more data were collected for majority-owned affiliates than for minority-owned affiliates.

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

The financial and operating data in this publication extend annual estimates that begin with estimates for 1982 and that are derived from both annual and benchmark surveys (see table 1 on the next page).[4] The

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

2. See U.S. Bureau of Economic Analysis, U.S. Direct Investment Abroad: Final Results From the 1999 Benchmark Survey (Washington, DC: U.S. Government Printing Office, April 2004).

3. In this publication, the term "bank" is used to describe parents and affiliates that are classified under the BEA international surveys industry "depository credit intermediation," which includes bank holding companies, credit unions, and savings institutions as well as commercial banks. Beginning with the 2004 benchmark survey, the nonbank units of U.S. banks (including bank and financial holding companies) were consolidated in the reports of the banks that owned them; previously, these units were required to file separate reports.

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

financial and operating data tables in this publication that have counterparts in the benchmark survey results for 1999 and in the annual reports for 2000–2003 are shown in table 2 on pages M–3—M–5. It also provides cross-references between the table numbers used in the reports.

Some tables in this publication have counterparts in the earlier benchmark survey publications but not in the annual survey reports, because the items are collected in the benchmark surveys, but not in annual surveys. For example, the benchmark surveys collect direct investment position and balance of payments data as well as the financial and operating data collected in the annual surveys for nonbenchmark years. In addition, some items in the financial and operating data for U.S. parent companies and their foreign affiliates—such as sales by affiliates by country of destination, U.S. exports of goods by affiliates by intended use, and research and development expenditures for own use and for use by others—are collected only in benchmark surveys.

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

Coverage

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

For both the financial and operating data and balance of payments data, the data presented in this publication cover every foreign business enterprise that was a foreign affiliate at any time during its 2004 fiscal year. However, the direct investment position figures for 2004 cover only foreign businesses that remained affiliates at the end of their 2004 fiscal year.

Each benchmark survey report consisted of a Form BE–10A, which requested the data for the U.S. parent company, and one or more copies of Form BE–10B,

Table 1. Selected Financial and Operating Data of Nonbank U.S. Parents and Nonbank Foreign Affiliates, 1982–2004

	U.S. parents							Foreign affiliates						
	Millions of dollars						Thousands of employees	Millions of dollars						Thousands of employees
	Total assets	Sales	Net income	U.S. exports of goods shipped by parents	U.S. imports of goods shipped to parents	Compensation of employees		Total assets	Sales	Net income	U.S. exports of goods shipped to affiliates	U.S. imports of goods shipped by affiliates	Compensation of employees	
1982	2,741,619	2,348,388	102,044	153,792	108,651	520,383	18,704.6	751,486	935,780	31,309	56,718	51,406	111,709	6,640.2
1983	2,902,793	2,377,488	102,007	146,212	118,135	522,645	18,399.5	750,823	886,314	36,624	57,545	53,237	102,770	6,383.1
1984	3,060,031	2,508,779	117,022	159,600	135,734	533,666	18,130.9	759,994	898,558	43,022	66,343	62,975	100,700	6,417.5
1985	3,462,398	2,586,695	107,163	164,138	139,416	554,033	18,112.6	834,636	895,460	43,291	69,618	68,181	102,367	6,419.3
1986	3,792,001	2,544,439	108,219	161,160	136,829	563,627	17,831.8	931,293	928,915	48,570	71,065	65,468	117,604	6,250.2
1987	4,175,308	2,689,227	125,374	166,425	150,865	579,715	17,985.8	1,110,654	1,052,795	62,108	78,887	75,937	136,104	6,269.6
1988	4,363,441	2,828,209	156,083	199,704	163,117	591,434	17,737.6	1,206,326	1,194,733	76,787	94,881	87,291	151,461	6,403.5
1989	4,852,373	3,136,837	170,663	223,251	178,526	666,196	18,765.4	1,330,028	1,284,894	85,342	102,558	97,394	165,804	6,622.1
1990	4,951,048	3,243,721	134,229	224,944	191,507	688,545	18,429.7	1,559,038	1,493,426	84,558	106,426	102,150	184,809	6,833.9
1991	5,183,286	3,252,534	91,959	239,674	193,343	706,859	17,958.9	1,678,345	1,541,566	77,076	115,311	102,783	196,134	6,878.2
1992	5,579,798	3,330,886	39,305	249,890	205,212	724,931	17,529.6	1,761,998	1,574,069	73,723	122,024	108,357	201,537	6,660.1
1993	6,053,306	3,480,778	102,734	256,715	206,380	754,230	17,536.9	2,047,307	1,570,563	77,825	131,713	114,633	201,126	6,684.6
1994	6,718,003	3,990,013	191,154	323,331	237,519	805,372	18,565.4	2,376,902	1,757,388	93,986	159,454	134,182	224,275	7,104.6
1995	7,190,686	4,235,578	234,524	348,831	263,649	817,375	18,576.2	2,825,558	2,040,739	127,050	177,827	148,564	240,794	7,344.9
1996	7,821,047	4,478,970	304,191	373,443	298,587	846,847	18,790.0	3,091,927	2,233,698	138,962	194,029	164,773	252,601	7,544.1
1997	8,811,175	4,886,330	328,065	407,256	321,601	899,352	19,877.7	3,416,071	2,350,939	159,738	220,543	176,673	261,373	7,972.5
1998	9,614,209	4,970,138	347,718	395,834	321,325	919,532	19,819.8	3,921,467	2,369,990	148,357	206,404	183,200	263,584	8,183.8
1999	11,688,359	5,975,478	394,515	407,602	360,959	1,103,919	23,006.8	4,631,810	2,611,764	181,915	196,499	194,511	295,311	9,220.2
2000	13,086,427	6,695,166	409,820	421,436	411,777	1,176,328	23,885.2	5,350,064	2,905,538	222,087	209,311	225,389	310,755	9,713.0
2001	13,946,583	6,800,777	113,878	391,225	402,411	1,151,429	22,735.1	5,884,388	2,945,850	192,575	197,967	216,899	309,670	9,803.6
2002	14,712,968	6,337,779	18,670	367,559	399,471	1,140,928	22,117.6	6,802,399	2,945,701	228,678	178,544	215,844	311,395	9,776.0
2003	15,823,607	6,543,937	427,647	381,269	431,257	1,161,355	21,104.8	7,946,240	3,319,498	359,655	183,976	232,522	338,113	9,657.5
2004	16,141,530	7,058,957	497,052	413,127	497,610	1,239,523	21,176.5	9,373,484	3,841,409	496,964	195,710	262,135	378,591	10,068.4

Table 2. Comparison of the Numbering Schemes for the Tables in This Publication With Those in the 1999 Benchmark Survey Publication and in the Publications for 2000–2003—Continues

Table in 2004 benchmark survey	Comparable table in 1999 benchmark survey	Comparable table in 2000–2003 reports
Group I. All Affiliates of All U.S. Parents		
Group A. Selected Data		
I.A3–I.A.4	I.A3–I.A.4	n.a.
Group B. Balance Sheet		
I.B5	I.B5	n.a.
Group E. Income Statement		
I.E3, I.E6	I.E3, I.E6	n.a.
Group H. Employment and Compensation of Employees		
I.H3, I.H5	I.H3, I.H5	n.a.
Group M. Selected Data of U.S. Parents		
I.M1, I.M2	I.M1, I.M2	n.a.
Group W. Direct Investment Position		
I.W1	I.X1	n.a.
Group X. Change in the Direct Investment Position		
I.X1	I.Y1	n.a.
Group Y. Direct Investment Income		
I.Y1	I.Z1	n.a.
Group Z. Direct Investment Services		
I.Z1, I.Z3	I.AA1, I.AA3	n.a.
Group II. Nonbank Affiliates of Nonbank U.S. Parents		
Group A. Selected Data		
II.A1–II.A.2	II.A1–II.A.2	II.A1–II.A.2
Group B. Balance Sheet		
II.B1–II.B2 II.B5–II.B6 II.B7–II.B8 II.B13	II.B1–II.B2 II.B5–II.B6 II.B7–II.B8 II.B13	n.a. II.B5–II.B6 n.a. n.a.
Group D. Property, Plant, and Equipment		
II.D6, II.D7	II.D6, II.D7	n.a.
Group E. Income Statement		
II.E1 II.E3, II.E4 II.E6, II.E7 II.E9	II.E1 II.E3, II.E4 II.E6, II.E7 II.E9	n.a. II.E3, II.E4 II.E6, II.E7 II.E9
Group H. Employment and Compensation of Employees		
II.H3–II.H6 II.H10	II.H3–II.H6 II.H10	II.H3–II.H6 II.H10
Group I. U.S. Trade in Goods		
II.I1–II.I2 II.I3–II.I4 II.I11–II.I12	II.I1–II.I2 II.I5–II.I6 II.I19–II.I20	n.a. II.I5–II.I6 II.I19–II.I20
Group M. Selected Data of U.S. Parents		
II.M1	II.M1	II.M1
Group N. Balance Sheet of U.S. Parents		
II.N1–II.N2	II.N1–II.N2	n.a.
Group O. Property, Plant, and Equipment of U.S. Parents		
II.O1–II.O2	II.O1–II.O2	n.a.

Table 2. Comparison of the Numbering Schemes for the Tables in This Publication With Those in the 1999 Benchmark Survey Publication and in the Publications for 2000–2003—Continues

Table in 2004 benchmark survey	Comparable table in 1999 benchmark survey	Comparable table in 2000–2003 reports
Group P. Income Statement of U.S. Parents		
II.P1	II.P1	n.a.
Group Q. Sales by U.S. Parents		
II.Q1–II.Q2	II.Q1–II.Q2	II.Q1–II.Q2
Group R. Value Added of U.S. Parents		
II.R1	II.R1	II.R1
Group S. Employment and Compensation of Employees of U.S. Parents		
II.S1–II.S2	II.S1–II.S2	n.a.
Group T. U.S. Trade in Goods of U.S. Parents		
II.T1	II.T1	II.T1
II.T2	II.T4	II.T4
Group U. Technology of U.S. Parents		
II.U1–II.U2	II.U1–II.U2	n.a.
Group V. Other Financial and Operating Data of U.S. Parents		
II.V1	II.V1	n.a.
Group W. Direct Investment Position		
II.W1–II.W3	II.X1–II.X3	n.a.
Group X. Change in the Direct Investment Position		
II.X1–II.X2	II.Y1–II.Y2	n.a.
Group Y. Direct Investment Income		
II.Y1–II.Y3	II.Z1–II.Z3	n.a.
Group Z. Direct Investment Services		
II.Z1–II.Z6	II.AA1–II.AA6	n.a.
Group III. Majority-Owned Nonbank Affiliates of Nonbank U.S. Parents		
Group A. Selected Data		
III.A1–III.A.2	III.A1–III.A.2	III.A1–III.A.2
Group B. Balance Sheet		
III.B1–III.B2	III.B1–III.B2	III.B1–2
III.B3–III.B4	III.B3–III.B4	III.B3–4
III.B5–III.B7	III.B5–III.B7	III.B5–III.B7
III.B8–III.B10	III.B8–III.B10	n.a.
III.B11–III.B12	III.B11–III.B12	III.B11–12
III.B13	III.B13	III.B13
Group C. External Financial Position		
III.C1–III.C4	III.C1–III.C4	III.C1–III.C4
Group D. Property, Plant, and Equipment		
III.D1–III.D5	III.D1–III.D5	n.a.
III.D6–III.D8	III.D6–III.D8	III.D6–III.D8
Group E. Income Statement		
III.E1–III.E9	III.E1–III.E9	III.E1–III.E9
Group F. Sales		
III.F1–III.F4	III.F1–III.F4	III.F1–III.F4
III.F5–III.F6	III.F5–III.F6	n.a.
III.F7–III.F9	III.F7–III.F9	III.F7–III.F9
III.F10–III.F12	III.F10–III.F12	n.a.
III.F13–III.F16	III.F13–III.F16	III.F13–III.F16
III.F17	III.F17	n.a.
III.F18	III.F18	III.F18
III.F19	III.F19	n.a.
III.F20	III.F20	III.F20
III.F21	III.F21	n.a.
III.F22	III.F22	III.F22

which requested the data for each of the parent's foreign affiliates that had total assets, sales, or net income (or losses) greater than $10 million.[5] Affiliates that did not meet these criteria were exempt from being reported on Form BE–10B, but they had to be reported on a schedule that obtained identification information and information on their total assets, total liabilities, sales, net income, and number of employees. If all of the foreign affiliates of a U.S. parent were exempt from

5. All the forms used in the benchmark survey are reprinted in the appendix.

Table 2. Comparison of the Numbering Schemes for the Tables in This Publication With Those in the 1999 Benchmark Survey Publication and in the Publications for 2000–2003—Table Ends

Table in 2004 benchmark survey	Comparable table in 1999 benchmark survey	Comparable table in 2000–2003 reports
Group G. Value Added		
III.G1–III.G9	III.G1–III.G9	III.G1–III.G9
Group H. Employment and Compensation of Employees		
III.H1–III.H2	III.H1–III.H2	n.a.
III.H3–III.H6	III.H3–III.H6	III.H3–III.H6
III.H7–III.H9	III.H7–III.H9	n.a.
III.H10	III.H10	III.H10
Group I. U.S. Trade in Goods		
III.I1–III.I2	III.I1–III.I2	III.I1–III.I2
III.I3–III.I4	III.I5–III.I6	III.I5–III.I6
III.I5	III.I9	n.a.
III.I6–III.I10	III.I12–III.I16	n.a.
III.I11–III.I12	III.I19–III.I20	III.I19–III.I20
III.I13	III.I23	III.I23
Group J. Technology		
III.J1	III.J1	n.a.
III.J2	III.J2	III.J12
III.J3	III.J3	III.J3
III.J4–III.J10	III.J4–III.J10	n.a.
Group K. Other Financial and Operating Data		
III.K1–III.K2	III.K1–III.K2	III.K1–III.K2
III.K3	III.K3	n.a.
Group W. Direct Investment Position		
III.W1	III.X1	n.a.
Group X. Change in the Direct Investment Position		
III.X1	III.Y1	n.a.
Group Y. Direct Investment Income		
III.Y1	III.Z1	n.a.
Group Z. Direct Investment Services		
III.Z1, III.Z3	III.AA1, III.AA3	n.a.
Group IV. Nonbank Affiliates of U.S. Parents in Banking		
Group A. Selected Data		
IV.A3	IV.A3	n.a.
Group V. Bank Parents and Affiliates		
Group A. Selected Data		
V.A1	n.a.	n.a.
Group F. Sales		
V.F2	n.a.	n.a.
Group M. Selected Data of U.S. Parents		
V.M1	V.M1	n.a.

being reported on Form BE–10B, the U.S. parent was only required to file certain parts of Form BE–10A: Part I (to identify itself), Part II (to provide information on total assets, total liabilities, and net income), and the schedule used to identify exempt foreign affiliates and to provide selected data for them.

For the 2004 benchmark survey, BE–10B forms were filed for 25,464 affiliates, and 17,083 foreign affiliates were exempt from being reported on the BE–10B form (table 3). In terms of value, however, the data for exempt affiliates were minuscule relative to the data totals for the direct investment universe: together, they accounted for 0.3 percent of the total assets and 0.9 percent of the sales of all affiliates. Complete BE–10A forms were filed for 2,452 U.S. parents and partial BE–10A forms were filed for 1,031 U.S. parents (parents with all of their foreign affiliates exempt).

Table 3. Universe of Foreign Affiliates and Reported and Exempt Affiliates

	Number of affiliates	Millions of dollars			
		Total assets	Sales	Net income	U.S. direct investment position abroad on a historical-cost basis
Universe of foreign affiliates					
Total	42,547	12,773,895	4,012,788	519,722	2,044,992
Nonbank affiliates	42,033	10,189,971	3,938,488	511,102	1,993,143
Bank affiliates	514	2,583,924	74,300	8,620	51,849
Foreign affiliates reported					
Total	25,464	12,734,643	3,976,341	518,891	2,033,953
Nonbank affiliates	25,043	10,150,939	3,902,098	510,271	1,982,205
Bank affiliates	421	2,583,704	74,243	8,620	51,748
Exempt foreign affiliates					
Total	17,083	39,252	36,447	831	11,039
Nonbank affiliates	16,990	39,032	36,390	831	10,938
Bank affiliates	93	220	57	(*)	101
Percent of universe of affiliates reported					
Total	59.8	99.7	99.1	99.8	99.5
Nonbank affiliates	59.6	99.6	99.1	99.8	99.5
Bank affiliates	81.9	100.0	99.9	100.0	99.8

(*) Less than $500,000.

Consistent with the benchmark survey publication for 1999, the data presented in this publication include data for exempt affiliates and parents that had only exempt affiliates as well as data for affiliates and parents for which a complete benchmark survey report was required.[6] In contrast, estimates for exempt affiliates and parents that had only exempt affiliates were not included in the published data for affiliates and parents before 1999. Because the data for exempt affiliates are so small, this difference has had virtually no effect on the comparability of the data across years.

Concepts and Definitions

This section discusses the basic concepts and definitions used in the 2004 benchmark survey.

Direct investment

Direct investment implies that a person in one country has a lasting interest in, and a degree of influence over the management of, a business enterprise in another country. For the United States, in accordance with international guidelines, ownership or control by a single person of 10 percent or more of an enterprise's voting securities or the equivalent is considered evidence of such a lasting interest or degree of influence over management.[7] Thus, U.S. direct investment abroad is the ownership or control, directly or indirectly, by one U.S. person of 10 percent or more of the voting securities if the foreign business enterprise is incorporated or an equivalent interest if the foreign business enterprise is unincorporated. Only U.S. investment abroad that is direct investment was covered by the 2004 benchmark survey.

Direct investment in a foreign business enterprise can result from direct or indirect ownership by a U.S. person. In direct ownership, the U.S. person itself holds the ownership interest in the foreign business enterprise. In indirect ownership, one or more tiers of ownership exist between the foreign business enterprise and the U.S. person. For example, a foreign business enterprise may be directly owned by another foreign business enterprise that is, in turn, owned by the U.S. person. A U.S. person's percentage of indirect voting ownership in a given foreign business enterprise is equal to the direct-voting-ownership percentage of the U.S. person in the first foreign business enterprise in the ownership chain, times the first enterprise's direct-voting-ownership percentage in the second foreign 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 foreign business enterprise. If more than one ownership chain exists, the percentages of direct and indirect ownership in all the chains are summed to determine the U.S. person's ownership percentage.

Direct investment refers to ownership by a single person, not to the combined ownership of all persons

6. Except for table 3 in this methodology, the numbers of affiliates shown in the tables of this publication exclude affiliates that were exempt from being filed on a BE–10B survey form, even though data for exempt affiliates are included in the data for other items. Similarly, the number of U.S. parents shown in the tables of this publication exclude those parents that owned only exempt affiliates, even though data for such parents are included in the data for other items.

7. See International Monetary Fund, *Balance of Payments Manual*, 5th ed. (Washington, DC: International Monetary Fund, 1993); and Organisation for Economic Co-Operation and Development (OECD), *OECD Benchmark Definition of Foreign Direct Investment*, 4th ed. (Paris: OECD, 2008).

in a country. A “person” is broadly defined to include any individual, branch, partnership, associated group, estate, trust, corporation or other organization (whether organized under the laws of any state or not) and any government (including a foreign government, the U.S. government, a state or local government, and any corporation, financial institution, or other entity or instrumentality thereof, including a government-sponsored agency).

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

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

Determination of residency

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

“Foreign” means that which is situated outside the United States or 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 a U.S. investor or a foreign investor. A U.S. person is any person who resides in, or who is subject to the jurisdiction of, the United States, and a foreign person is any person who resides outside the United States or who is subject to the jurisdiction of a country other than the United States.

A person is considered a resident of, or is subject to the jurisdiction of, the country in which the person is located if the person resides or expects to reside in that country for 1 year or more. Under this rule, 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.

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

The U.S. parent

A U.S. parent is a U.S. individual that has direct investment—that is, a 10-percent-or-more direct or indirect ownership interest—in a foreign business enterprise. Because a U.S. parent is a “person” in the broad sense defined above, it may be a business enterprise, a religious, charitable, or other nonprofit organization, an individual, a government, an estate or trust, or another organization. In actuality, almost all U.S. parents are business enterprises. A business enterprise is any organization, association, branch, venture, or the ownership of any real estate that exists to make a profit or to otherwise secure economic advantage.[8]

Each U.S. parent that was an incorporated business enterprise was required to report on a fully consolidated domestic (U.S.) basis. The full consolidation includes the U.S. corporation with the direct investment ownership interest in a foreign business enterprise and all other U.S. corporations in which the parent directly or indirectly owned more than 50 percent of the

8. Ownership of real estate for profit-making purposes is defined as a business enterprise, but ownership of real estate exclusively for personal use is not.

outstanding voting interests. The consolidation excludes all other U.S. corporations and all foreign business enterprises owned by the U.S. parent.

When a U.S. individual or other nonbusiness person (such as a nonprofit organization or a government) owns more than 50 percent of a U.S. business enterprise that owns a foreign business enterprise, the U.S. business enterprise, not the individual or the other nonbusiness person, is considered the parent. This treatment ensures that financial and operating data of the U.S. business enterprise are included in the U.S.-parent data and that data on the transactions and positions of the U.S. business enterprise with the foreign business enterprise are included in the foreign-affiliate data reported to BEA. Any direct transactions or positions of the individual or other nonbusiness person with the foreign business enterprise must be reported by the U.S. business enterprise and are therefore also included in the direct investment accounts.

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

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

The foreign affiliate

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

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

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

In general, the foreign operations or activities of a U.S. person are considered to be a foreign affiliate if they are legally or functionally separable from the domestic operations or activities of the U.S. person. In most cases, it is clear whether the foreign operations or activities constitute a foreign affiliate. If an operation or activity is incorporated abroad—as most are—it is always considered a foreign affiliate.

The situation is not always so clear with unincorporated foreign operations or activities. Most are legally or functionally separable from those of the U.S. person and thus are considered foreign affiliates, but some are not clearly separable, and the determination of whether they constitute a foreign affiliate is made on a case-by-case basis, depending on the weight of the evidence. The following characteristics would indicate that the unincorporated operation or activity is probably a foreign affiliate:

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

customers for its own account for services it performs.

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

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

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

In general, each foreign affiliate was required to be reported separately. However, consolidation of affiliates in the same country was permitted if the affiliates were in the same four-digit industry or were integral parts of the same business operation.[9] (For example, if Mexican affiliate A manufactured automobile engines and a majority of its sales were to Mexican affiliate B, which assembled automobiles, then affiliates A and B could have been consolidated.) Under no circumstances were affiliates in different countries permitted to be consolidated.

A majority-owned foreign affiliate (MOFA) is a foreign affiliate in which the combined direct and indirect ownership interest of all U.S. parents exceeds 50 percent. Data for MOFAs rather than for all foreign affiliates are required in order to examine the foreign investments over which U.S. parents exert unambiguous control.[10] Additionally, some aspects of affiliate operations can only be analyzed from the perspective of MOFA operations, because the necessary data items are not collected for other affiliates.

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

Accounting Principles

Use of generally accepted accounting principle

Data in the 2004 benchmark survey were generally required to be reported as they would have been for stockholders' reports rather than for tax or other purposes. Thus, U.S. generally accepted accounting principles (GAAP) were followed unless otherwise indicated by the survey instructions. The survey instructions departed from GAAP in cases where the departure would result in data that were conceptually or analytically more useful or more appropriate for direct investment purposes. One major departure from GAAP was in the area of consolidation rules (see the preceding discussions of consolidated reporting in "The U.S. parent" and in "The foreign affiliate" in the section "Concepts and Definitions").

Currency translation

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

Under FAS 52, assets and liabilities are translated at the exchange rate on the date of the balance sheet. For revenues and expenses, weighted-average exchange rates for the period are used.

Under FAS 52, exchange-rate gains and losses resulting from remeasuring the foreign affiliates' assets and liabilities that are denominated in foreign currencies other than the affiliate's principal, or functional, currency into the functional currency at exchange rates that differ from those used in the prior period are included in affiliates' net income. However, exchange-rate gains and losses that result from translating opening balances for foreign affiliates' assets and liabilities from the functional currency into U.S. dollars at exchange rates that differ from those for closing balances

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

10. However, the U.S. parent(s) may be under the control of a foreign parent company. In 2004, U.S. parents that were ultimately controlled by foreign parents accounted for 10 percent of all U.S. parents, and they accounted for 17 percent of the assets and for 13 percent of the sales of all U.S. parents.

are taken directly to a separate component of owners' equity, termed "translation adjustment component," rather than being included in net income. The effects of translating foreign affiliates' revenues and expenses from their functional currency into U.S. dollars at exchange rates that differ from those in the prior period are reflected in net income, but they are not identified, and because they do not represent changes in the values of assets or liabilities, they are not regarded as capital gains or losses.

Valuation

The 2004 benchmark survey data are mainly valued in the prices and exchange rates of 2004. Because 2004 prices and exchange rates may differ from those of other years, changes in U.S.-parent and foreign-affiliate data over time may reflect changes in prices and exchange rates rather than real changes. In addition, the validity of comparisons of foreign affiliate data across countries may be affected if the market exchange rates used to translate foreign-affiliate data to U.S. dollars do not reflect the relative purchasing power of different currencies.[11]

In general, accumulated stock items from the benchmark survey—such as property, plant and equipment, and the direct investment position—are valued at historical cost. For these items, the values largely reflect prices at the time the asset was acquired or the investment was made rather than prices of 2004.

11. For a further discussion of valuation issues and for a description of BEA methods to remove valuation effects from its statistics on the value added by majority owned foreign affiliates, see "Real Gross Product of U.S. Companies' Majority Owned Foreign Affiliates in Manufacturing," Survey of Current Business 77 (April 1997): 8–17. The most recent statistics on real value added by foreign affiliates in manufacturing are published in "Operations of U.S. Multinational Companies in 2005," Survey 87 (November 2007): 42–64.

Fiscal Year Reporting

Data for U.S. parents and foreign affiliates were required to be reported on a fiscal year basis. The 2004 fiscal year was defined to be the parent's or the affiliate's financial-reporting year that ended in calendar year 2004. Because the fiscal year data from the benchmark survey that are presented in this publication are not identical to the calendar year data that are needed for the U.S. international transactions accounts and foreign direct investment position accounts, these data must be adjusted to a calendar year basis before they are entered into the accounts.

The extent of noncomparability between the benchmark survey data presented here and the direct investment statistics presented in these accounts depends on the number and size of, and volatility of the data for, foreign affiliates and U.S. parents whose fiscal years do not correspond to the calendar year. Selected data for foreign affiliates classified by fiscal year ending date and for U.S. parents classified by fiscal year ending date are shown in table 4. As indicated in the addenda to these tables, the fiscal year ending date corresponded exactly to the calendar year ending date for most affiliates and parents.

Confidentiality

Under the International Investment and Trade in Services Survey Act, the direct investment data collected by BEA from individual respondents are

Table 4. Selected Data by End of Fiscal Year for Foreign Affiliates and U.S. Parents

	Total	End of fiscal year				
		January 1 to March 31	April 1 to June 30	July 1 to September 30	October 1 to December 31	December 31
Foreign Affiliates						
Number of foreign affiliates	25,464	1109	1,794	1,999	20,562	18,272
Total assets	12,734,643	386,363	323,221	251,115	11,773,943	9,061,010
Sales	3,976,341	277,982	231,611	202,283	3,264,464	2,820,532
Net income	518,891	21,864	17,968	17,316	461,743	325,873
Compensation of employees	399,568	27,623	21,235	26,922	323,787	286,228
Thousands of employees	10,445.3	1,062.3	555.3	766.5	8,061.2	7,169.1
U.S. exports of goods shipped to affiliates	195,720	8,819	12,888	10,984	163,029	140,784
U.S. imports of goods shipped by affiliates	262,136	23,139	8,865	10,286	219,846	196,031
Position on a historical-cost basis	2,044,992	79,197	93,728	82,126	1,789,941	1,457,822
Direct investment income	219,007	8,981	9,174	12,113	188,738	148,657
U.S. Parents						
Number of U.S. parents	2,452	216	190	206	1,840	1,680
Total assets	22,004,224	733,947	759,856	448,690	20,061,731	18,355,452
Sales	7,522,979	761,781	463,194	332,045	5,965,957	5,549,830
Net income	581,807	32,262	40,406	23,384	485,755	445,321
Compensation of employees	1,339,500	102,928	84,698	83,093	1,068,780	973,454
Thousands of employees	22,446.2	3,177.5	1,458.3	1,346.9	16,463.5	14,800.9
U.S. exports of goods shipped by parents	413,156	19,771	39,308	25,052	329,025	302,648
U.S. imports of goods shipped to parents	497,618	68,089	14,998	14,951	399,580	382,694

confidential; thus, they cannot be published so "that the person who furnished the information 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 was entered in lieu of a "(D)."

The act further stipulates that the data must be used for statistical and analytical purposes only; the use of an individual company's data for tax, investigative, or regulatory purposes is prohibited. Access to the data is limited to officials and employees (including consultants and contractors and their employees) of government agencies designated by the President to perform functions under the act. Finally, as amended by the Foreign Direct Investment and International Financial Data Improvements Act of 1990, the act grants access to certain other government agencies for limited statistical purposes. In addition, the Confidentiality Information Protection and Statistical Efficiency Act of 2002 (Title V of Public Law 107–347) also authorizes the sharing of business confidential data (including BEA's direct investment data) between BEA, the Census Bureau, and the Bureau of Labor Statistics under specified conditions for statistical purposes.

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

Classification of Data

Both the financial and operating data and the direct investment position and balance of payments data from the benchmark survey can be classified by country of foreign affiliate, by industry of foreign affiliate, and by industry of U.S. parent.

Classification by country

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

These general rules have three exceptions. First, if a business enterprise that is incorporated in one foreign country has physical assets or operations in more than one other foreign country, an incorporated foreign affiliate is deemed to exist in the country of incorporation, even though the enterprise may have no physical assets or operations in that country. Unincorporated foreign affiliates are deemed to exist in the other foreign countries. In effect, the affiliate in the country of incorporation is considered a holding company whose assets are the equity it holds in the unincorporated affiliates in the other countries. Second, if a business enterprise that is incorporated abroad by a U.S. person conducts its operations from, and has all of its physical assets in, the United States, it is treated as an incorporated foreign affiliate in the country of incorporation, even though it has no operations or physical assets there. This treatment ensures that the foreign entity is reported to BEA. Third, affiliates that have operations spanning more than one country and that are engaged in petroleum shipping, "other water" transportation, or offshore oil and gas drilling are classified in the country of residence of the operator of the ship or the equipment.

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

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

The designation "by country" in a table title in this publication indicates that the data in the table are disaggregated by country of foreign affiliate. If a different method of country disaggregation is used, it is specified in the table title; for example, sales data could be disaggregated either by country of affiliate or by country of destination.

In table II.A1, selected data for all nonbank foreign affiliates of nonbank U.S. parents are classified by country of affiliate; each country in which U.S. direct investment in 2004 was reported is shown and is grouped by geographic area. Table III.A1 presents similar information for majority-owned foreign affiliates. Primarily because of confidentiality requirements, many countries could not be shown in the other tables in this publication. However, the countries included in a country group in the other tables may be determined, and their relative sizes assessed, by referring to table II.A1 or table III.A1.

Classification by industry

In the 2004 benchmark survey, each U.S. parent or foreign affiliate was classified by industry using the International Survey Industry (ISI) classification system, which was updated for the benchmark survey to reflect the 2002 revision to the North American Industry Classification System (NAICS). For most industries, the classifications under this system are identical to those in the NAICS-based ISI classification system used in the benchmark and annual surveys for 1999–2003.[12] The most significant change is the addition of several new industries in the information sector.

In the 2002 NAICS-based ISI classification system, there are 205 industries; in the 1997 NAICS-based ISI system, there are 197 industries. For the most part, the ISI classifications are equivalent to NAICS four-digit industries; at its most detailed level, NAICS classifies industries at a six-digit level. The ISI classification system is less detailed than NAICS because it is designed for classifying enterprises rather than establishments (or plants). Because many direct investment enterprises are active in several industries, it is not meaningful to classify all their data in a single industry if that industry is defined too narrowly. A list and a description of the NAICS-based ISI codes (and their relationship to NAICS) are presented in the Guide to Industry and Foreign Trade Classifications for International Surveys, 2002 which is reproduced at the end of this volume.

Each U.S. parent or foreign affiliate was classified by industry on the basis of its sales (or for holding companies, on the basis of its total income) in a three-step procedure. First, a given U.S. parent or foreign affiliate was classified in the NAICS sector that accounted for the largest percentage of its sales.[13] Second, within the sector, the U.S. parent or foreign affiliate was classified in the three-digit subsector in which its sales were largest; a three-digit subsector consists of all four-digit industries that have the same first three digits in their four-digit ISI code. Third, within its three-digit subsector, the U.S. parent or foreign affiliate was classified in the four-digit industry in which its sales were largest. This procedure ensured that the U.S. parent or foreign affiliate was not assigned to a four-digit industry outside either its sector or its three-digit subsector.

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

Code		Percentage of total sales
	All industries	**100**
	Manufacturing	**55**
333	Machinery	30
3331	Agriculture, construction, and mining machinery	10
3332	Industrial machinery	15
3336	Engines, turbines, and power transmission equipment	5
334	Computers and electronic products	25
3344	Semiconductors and other electronic products	25
	Wholesale trade	**45**
423	Durable goods merchant wholesalers	45
4238	Machinery, equipment, and supplies merchant wholesalers	45

12. In the surveys before 1999, the industry classification system was based on the Standard Industrial Classification (SIC). For a discussion of the differences between the NAICS-based ISI classification system introduced in 1999 and the earlier SIC-based ISI classification system, see the section on industry classification in the "Methodology" of *U.S. Direct Investment Abroad: Final Results From the 1999 Benchmark Survey.*

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

The affiliate's major industry is manufacturing because 55 percent of the affiliate's sales were in manufacturing and only 45 percent were in wholesale trade. Because the largest share of the affiliates sales in manufacturing was in the three-digit subsector 333 the affiliate's three-digit subsector is 333 (machinery). Finally, because its sales within subsector 333 were largest in industry 3332, the affiliate's four-digit industry is 3332 (industrial machinery). Thus, the affiliate was assigned to industry 3332, even though its sales in that industry were smaller than its sales in either industry 3344 or industry 4238.

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

Unless otherwise specified, the designation "by industry" in the title of a table indicates that the data in the table are disaggregated by primary industry of the U.S. parent or foreign affiliate. In some tables, for example, affiliate data are disaggregated by industry of their U.S. parent, and this information is specified in the title.

U.S. parents that are individuals, estates, or trusts were classified in the industry "nonbusiness entities, except government," which is treated as part of the ISI major industry 81 "other services." This industry is included in tables that disaggregate affiliate data by industry of U.S. parent.[14] However, it is not included in tables containing U.S.-parent data, because U.S. parents that were individuals, estates, or trusts were not required to report data on their domestic activities.

Each U.S. parent and each foreign affiliate was classified in a single industry—in the primary industry of the parent or of the affiliate. As a result, any parent or affiliate activities that take place in secondary industries are classified as activities in the primary industry. Because the benchmark survey data were collected on an enterprise basis, the reports for many parents and affiliates reflect substantial activities in secondary industries. Information on the distribution of activities within each firm was obtained in the benchmark survey for two items—sales and employment—for U.S. parents and for sales for foreign affiliates. Specifically, each U.S. parent was required to distribute its sales and employment among the 10 four-digit industries in which its sales were largest and to distribute the sales of each foreign affiliate among the 7 four-digit industries in which the affiliate's sales were largest. Unspecified sales and employment are shown in the "not specified by industry" row or column in the tables that display data by industry of sales. Because a parent or affiliate that has an establishment in an industry usually also has sales in that industry, the distribution by industry of sales roughly approximates the distribution that would result if the data were reported and classified by industry of establishment.

In table 5, U.S. parents' sales and employment disaggregated by industry of sales are compared with their sales and employment disaggregated by industry of parent, and foreign affiliates' sales disaggregated by industry of sales are compared with their sales disaggregated by industry of affiliate. (For nonbank parents of nonbank affiliates, data by industry of sales cross-classified by industry of parent are shown in table II.Q2 for sales and table II.S2 for employment; for nonbank affiliates of nonbank parents and for majority-owned nonbank affiliates of nonbank parents, sales by industry of sales cross-classified by industry of affiliate are shown in tables II.F22 and III.F22, respectively.)

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

Estimation and General Validity of the Data

A completed benchmark survey form was required for affiliates that had total assets, sales, or net income (or losses) greater than $10 million.[15] Depending on the size of the affiliate, their data had to be reported on a long form, a short form, or an abbreviated short form.

The long form (BE–10B(LF)) was filed for majority-owned nonbank foreign affiliates with total assets, sales, or net income (or losses) greater than $150 million. The short form (BE–10B(SF)) or the abbreviated short form (BE–10B Mini) was filed for majority-owned nonbank U.S. parents for nonbank foreign

14. Tables II.A2 and III.A2 show selected data for affiliates whose parents are classified in "nonbusiness entities, except government."

15. Affiliates that were too small to meet any of these criteria were reported on a schedule on the BE–10A form that provided a few major data items (including assets, sales, and employment) for each affiliate. These data are included in the data presented in this publication and were also used as a basis for estimating other items covered by the survey.

affiliates with total assets, sales, or net income (or losses) of more than $10 million but not greater than $150 million. The short form was filed for minority-owned nonbank foreign affiliates with assets, sales, or net income (or losses) of more than $25 million and for nonbank affiliates of bank U.S. parents with assets, sales, or net income (or losses) of more than $25 million. The abbreviated short form was filed for affiliates with total assets, sales, or net income (or losses) greater than $10 million but less than $25 million. For affiliates that were not required to be reported on a BE–10B form (those with total assets, sales, or net income (or losses) of $10 million or less), a schedule on the BE–10A form was completed.

In order to present direct investment data in the same detail for all majority-owned nonbank foreign affiliates, BEA estimated the items that appeared only on the long form for the affiliates that were reported on the short form, the abbreviated short form, or the BE–10A schedule. For a majority-owned foreign affiliate that filed the short form, long-form items were generally estimated on the basis of relationships among data items for a comparable panel of long-form affiliates.

For both majority-owned and minority-owned nonbank affiliates, items that appeared on the full short form but not on the abbreviated short form were estimated for the affiliates that were reported on the abbreviated short form. Estimates were also prepared for some parents and affiliates that failed to report in

Table 5. Sales by All Foreign Affiliates and Sales by, and Employment of, All U.S. Parents, by Industry of Enterprise and by Industry of Sales—Continues

	Affiliates		U.S. parents			
	Sales (millions of dollars)		Sales (millions of dollars)		Number of employees (thousands)	
	By industry of affiliate	By industry of sales	By industry of U.S. parent	By industry of sales	By industry of U.S. parent	By industry of sales [1]
All industries	**3,976,341**	**3,976,341**	**7,522,877**	**7,522,877**	**22,446**	**22,445.9**
Mining	167,307	167,087	79,267	88,234	166	159.8
Oil and gas extraction	136,353	136,000	37,667	41,945	27	23.1
Other	30,954	31,087	41,600	46,290	139	136.8
Coal mining	(D)	1,457	10,460	9,479	24	23.6
Nonmetallic mineral mining and quarrying	(D)	2,170	4,068	7,706	14	23.1
Metal ore mining	12,308	12,387	7,874	8,465	18	16.8
Iron ores	359	359	(D)	(D)	H	H
Gold and silver ores	(D)	3,153	1,266	1,700	4	H
Copper, nickel, lead, and zinc ores	(D)	7,049	(D)	4,357	J	7.3
Other metal ores	(D)	1,826	0	(D)	0	0.9
Support activities for mining	15,114	15,072	19,197	20,639	84	73.3
Support activities for oil and gas extraction	14,690	14,734	19,045	20,553	83	72.8
Support activities for mining except for oil and gas extraction	424	338	152	86	1	0.5
Utilities	**63,273**	**63,329**	**244,092**	**265,979**	**301**	**263.2**
Electric power generation, transmission, and distribution	(D)	32,189	220,583	186,497	262	210.8
Natural gas distribution	(D)	30,858	(D)	(D)	K	K
Water, sewage, and other systems	283	282	(D)	(D)	I	I
Manufacturing	**1,827,495**	**1,784,196**	**3,232,355**	**2,931,547**	**7,629**	**6,694.6**
Food	122,738	117,278	294,643	246,536	701	615.7
Animal foods	6,213	5,659	(D)	10,340	K	17.6
Grain and oilseed milling	38,861	36,618	50,064	51,518	53	62.6
Sugar and confectionery products	(D)	14,140	12,863	16,226	31	37.0
Fruit and vegetable preserving and specialty foods	10,819	9,658	30,836	27,096	79	55.7
Dairy products	3,633	3,267	20,935	30,673	41	53.5
Animal slaughtering and processing	(D)	(D)	77,168	55,355	235	219.0
Seafood product preparation and packaging	(D)	(D)	(D)	1,978	G	4.9
Bakeries and tortillas	4,270	4,469	(D)	8,762	8	16.8
Other food products	37,081	34,622	84,655	44,587	222	148.6
Beverages and tobacco products	76,964	81,234	66,028	84,733	173	177.5
Beverages	62,390	63,886	57,840	56,743	157	152.3
Tobacco products	14,574	17,348	8,188	27,990	16	25.2
Textiles, apparel, and leather products	13,242	13,136	27,633	38,807	171	219.4
Textile mills	2,100	2,092	8,538	7,624	49	44.4
Textile product mills	1,972	1,948	(D)	9,715	K	54.4
Apparel	8,287	8,199	13,791	19,538	92	114.1
Leather and allied products	883	897	(D)	1,929	H	6.5
Wood products	(D)	5,991	28,126	22,891	76	74.0
Paper	40,490	41,154	98,547	94,097	309	282.7
Pulp, paper, and paperboard mills	10,405	11,848	53,725	44,673	156	135.5
Converted paper products	30,085	29,306	44,822	49,424	153	147.2
Printing and related support activities	4,303	4,521	23,878	23,259	179	155.4
Petroleum and coal products	257,685	246,049	568,494	494,409	215	151.7
Integrated petroleum refining and extraction	(D)	(D)	446,523	403,598	M	118.5
Petroleum refining excluding oil and gas extraction	166,679	155,417	121,113	86,706	54	25.9
Asphalt and other petroleum and coal products	(D)	(D)	858	4,105	H	7.4
Chemicals	325,190	318,689	449,113	451,281	899	786.1
Basic chemicals	70,759	71,282	64,819	102,591	114	129.4
Resins and synthetic rubber, fibers, and filaments	41,209	40,645	65,455	55,315	114	92.3
Pharmaceuticals and medicines	118,621	117,015	210,002	186,148	398	321.2
Soap, cleaning compounds, and toilet preparations	41,108	35,737	54,114	43,134	119	99.1
Other	53,493	54,009	54,724	64,094	154	144.2
Pesticides, fertilizers, and other agricultural chemicals	8,653	9,047	10,874	14,211	17	22.9
Paints, coatings, and adhesives	10,050	10,799	22,816	22,286	78	61.9
Other chemical products and preparations	34,791	34,163	21,034	27,597	59	59.3

the benchmark survey but for which BEA had a basis for estimation, usually from data reported in other BEA surveys. In addition, estimates were prepared for affiliates that were reported on the BE–10A schedules.

Benchmark survey reports were filed for a total of 24,405 nonbank foreign affiliates of nonbank parents. In terms of value, these affiliates accounted for 90 percent or more of the nonbank universe for most key data items. Estimates were prepared for 16,990 nonbank affiliates for which a benchmark survey reported was not filed.

Short forms were filed for 16,610 nonbank affiliates of nonbank parents. These affiliates accounted for 68 percent of all nonbank affiliates of nonbank parents for which survey forms were filed; however, in terms of value, they accounted for less than 25 percent of the nonbank affiliate universe for most key data items.

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

Number of U.S. Parents and Foreign Affiliates

Table II.A1 shows the number of nonbank foreign affiliates by country, and table III.A2 shows the number of nonbank U.S. parents and nonbank foreign affiliates

Table 5. Sales by All Foreign Affiliates and Sales by, and Employment of, All U.S. Parents, by Industry of Enterprise and by Industry of Sales—Continues

	Affiliates		U.S. parents			
	Sales (millions of dollars)		Sales (millions of dollars)		Number of employees (thousands)	
	By industry of affiliate	By industry of sales	By industry of U.S. parent	By industry of sales	By industry of U.S. parent	By industry of sales [1]
Plastics and rubber products	40,397	40,763	64,481	64,406	270	250.4
Plastics products	21,571	22,469	32,061	41,398	140	168.4
Rubber products	18,826	18,294	32,419	23,008	129	82.0
Nonmetallic mineral products	19,127	19,918	37,808	37,054	138	125.4
Clay products and refractories	(D)	1,850	2,533	4,242	10	18.3
Glass and glass products	11,546	11,665	15,904	11,127	L	41.9
Cement and concrete products	(D)	3,259	(D)	3,851	23	13.0
Lime and gypsum products	721	645	(D)	6,045	J	16.4
Other nonmetallic mineral products	(D)	2,499	7,038	11,789	21	35.9
Primary and fabricated metals	57,768	56,848	163,217	148,670	555	474.7
Primary metals	29,788	29,046	100,176	86,909	283	213.3
Iron and steel mills and ferroalloys	3,568	3,665	45,871	36,622	96	62.7
Steel products from purchased steel	5,641	5,511	9,618	12,551	33	40.8
Alumina and aluminum production and processing	14,167	13,758	20,874	20,732	63	42.6
Nonferrous metal (except aluminum) production and processing	(D)	4,833	16,514	11,470	49	35.6
Foundries	(D)	1,279	7,298	5,534	43	31.6
Fabricated metal products	27,980	27,802	63,042	61,761	272	261.5
Forging and stamping	3,605	3,492	5,087	6,583	14	20.7
Cutlery and handtools	3,322	3,097	14,295	9,773	44	35.3
Architectural and structural metals	2,201	2,258	3,777	3,541	20	18.0
Boilers, tanks, and shipping containers	4,546	3,816	7,382	5,754	28	17.2
Hardware	842	1,349	(D)	4,592	J	16.3
Spring and wire products	(D)	909	5,697	5,665	33	31.6
Machine shops, turned products, and screws, nuts, and bolts	1,762	1,756	1,652	3,120	10	16.5
Coating, engraving, heat treating, and allied activities	(D)	399	517	1,514	2	6.3
Other fabricated metal products	10,484	10,727	(D)	21,217	M	99.6
Machinery	94,755	92,026	160,767	170,351	563	559.1
Agriculture, construction, and mining machinery	26,352	25,720	58,723	50,252	134	105.0
Industrial machinery	7,526	7,616	23,743	22,867	92	83.3
Other	60,877	58,690	78,301	97,231	337	370.8
Commercial and service industry machinery	(D)	11,757	2,450	9,343	11	37.6
Ventilation, heating, air-conditioning, and commercial refrigeration equipment	(D)	13,347	17,624	23,317	85	106.1
Metalworking machinery	2,763	2,880	3,899	3,609	18	14.2
Engines, turbines, and power transmission equipment	12697	12220	28870	38830	101.5	109.5
Other general purpose machinery	19894	18485	25459	22132	121	103.5
Computers and electronic products	235432	233571	281549	303898	823	797.5
Computers and peripheral equipment	93863	92794	71667	90823	179.2	208.9
Communications equipment	53474	51729	68193	65396	187.5	162.5
Audio and video equipment	4947	5435	(D)	9616	21.2	20
Semiconductors and other electronic components	58836	59679	86630	90327	221.3	211.8
Navigational, measuring, and other instruments	20164	20082	46184	44342	210.7	185.1
Magnetic and optical media	4147	3851	(D)	3394	3.1	9.2
Electrical equipment, appliances, and components	39883	40312	60435	67398	238.1	231.4
Electric lighting equipment	(D)	2693	8953	10783	37.2	30
Household appliances	(D)	11403	22313	19529	74	62
Electrical equipment	13460	13537	20245	18800	91.9	75.5
Other electrical equipment and components	12203	12679	8924	18287	35	63.8

by industry.

The numbers of parents and affiliates are not strictly comparable with the number shown in previous benchmark and annual survey publications because of differences in the criteria for reporting. The numbers in this publication cover affiliates that met the 2004 benchmark survey's $10 million reporting criterion for filing a survey form and cover parents that had at least one reportable affiliate. The number in earlier benchmark survey publications are based on the reporting criteria in those surveys, which differed from those in 2004. For example, the reporting threshold for foreign affiliate reports was $7 million in the 1999 benchmark survey and $3 million in the 1989 and 1994 benchmark surveys.

The number of parents and affiliates should be used

Table 5. Sales by All Foreign Affiliates and Sales by, and Employment of, All U.S. Parents, by Industry of Enterprise and by Industry of Sales—Continues

	Affiliates		U.S. parents			
	Sales (millions of dollars)		Sales (millions of dollars)		Number of employees (thousands)	
	By industry of affiliate	By industry of sales	By industry of U.S. parent	By industry of sales	By industry of U.S. parent	By industry of sales [1]
Transportation equipment	434,906	415,648	806,974	574,284	1,857.9	1,334.0
Motor vehicles, bodies and trailers, and parts	421,343	402,654	506,335	390,148	938.8	711.2
Motor vehicles	302,649	281,751	384,213	265,515	480.2	298.9
Motor vehicle bodies and trailers	308	322	6,923	5,905	30.0	24.8
Motor vehicle parts	118,387	120,581	115,198	118,728	428.6	387.5
Other	13,563	12,994	300,639	184,136	919.1	622.8
Aerospace products and parts	9,368	8,667	286,477	160,761	M	544.0
Railroad rolling stock	(D)	820	3,600	3,317	16.1	14.6
Ship and boat building	(D)	(D)	(D)	(D)	J	37.4
Other transportation equipment	(D)	(D)	(D)	(D)	14.8	26.8
Furniture and related products	6,052	5,720	22,375	17,599	124.5	102.5
Miscellaneous manufacturing	(D)	51,339	78,285	91,874	335.8	357.0
Medical equipment and supplies	37,129	37,297	58,491	61,118	251.6	218.8
Other miscellaneous manufacturing	(D)	14,042	19,794	30,756	84.2	138.3
Wholesale trade	**882,150**	**903,703**	**737,830**	**747,479**	**950.1**	**822.5**
Professional and commercial equipment and supplies	196,870	192,736	73,003	84,272	147.7	147.5
Petroleum and petroleum products	174,947	184,774	157,494	117,745	49.0	44.3
Drugs and druggists' sundries	101,489	100,583	98,634	96,179	62.8	52.6
Other	408,843	425,609	408,699	449,283	690.7	578.2
Motor vehicles and motor vehicle parts and supplies	73,093	89,871	43,552	90,971	L	96.2
Furniture and home furnishings	(D)	466	313	1,410	1.2	5.5
Lumber and other construction materials	1,338	2,307	9,042	14,079	J	33.3
Metals and minerals (except petroleum)	7,876	7,907	23,050	26,975	17.9	19.5
Electrical goods	70,288	69,473	83,449	(D)	111.8	76.9
Hardware, and plumbing and heating equipment and supplies	(D)	7,406	4,154	8,197	8.2	20.6
Machinery, equipment, and supplies	39,221	40,146	10,247	19,008	28.3	33.6
Miscellaneous durable goods	18,224	19,824	16,331	19,141	35.3	32.1
Paper and paper products	3,468	4,645	12,478	12,362	19.9	15.7
Apparel, piece goods, and notions	16,408	16,239	27,531	26,767	80.5	L
Grocery and related products	24,603	27,095	117,648	86,741	234.2	106.7
Farm product raw materials	47,037	45,983	16,703	33,085	4.0	9.0
Chemical and allied products	44,919	41,285	23,088	15,857	29.5	19.5
Beer, wine, and distilled alcoholic beverages	(D)	3,614	(D)	4,713	0.4	3.3
Miscellaneous nondurable goods	43,442	41,494	20,244	20,056	30.5	32.1
Wholesale electronic markets and agents and brokers	7,679	7,854	(D)	(D)	0.2	J
Information	**200,199**	**204,892**	**559,543**	**552,033**	**1,785.0**	**1,588.5**
Publishing industries	38,742	42,729	87,378	95,423	317.3	311.3
Newspaper, periodical, book, and database publishers	8,501	8,274	41,140	46,795	197.5	185.0
Software publishers	30,241	34,455	46,239	48,628	119.8	126.3
Motion picture and sound recording industries	16,173	16,134	11,127	42,363	38.6	79.2
Motion picture and video industries	13,042	13,003	5,116	34,666	31.1	69.5
Sound recording industries	3,130	3,130	6,011	7,697	7.4	9.8
Broadcasting (except internet) and telecommunications	119,477	119,696	410,909	361,143	1,163.5	950.1
Broadcasting (except internet)	13,754	13,667	120,042	83,446	274.2	160.5
Radio and television broadcasting	4,491	4,332	52,625	46,268	81.2	89.8
Cable networks and program distribution	9,263	9,334	67,417	37,178	193.0	70.7
Telecommunications	105,723	106,029	290,867	277,697	889.4	789.6
Wired telecommunications carriers	31,663	29,063	129,413	122,498	364.5	335.7
Wireless telecommunications carriers (except satellite)	59,508	62,536	119,518	112,325	344.0	318.7
Telecommunications resellers	1,684	1,684	2,666	5,648	6.5	8.5
Satellite telecommunications	(D)	(D)	(D)	(D)	0.1	0.8
Cable and other program distribution	(D)	(D)	(D)	(D)	171.7	117.4
Other telecommunications	422	824	1,020	5,498	2.6	8.6
Internet, data processing, and other information services	25,807	26,334	50,128	53,104	265.6	247.8
Internet publishing and broadcasting	113	143	(D)	543	0.5	2.9
Internet service providers and web search portals	(D)	3,996	(D)	10,437	7.8	13.9
Data processing, hosting, and related services	(D)	13,533	24,933	20,152	123.0	101.3
Other information services	8,225	8,662	21,147	21,972	134.3	129.7
Depository credit intermediation (banking)	**74,243**	**74,243**	**463,920**	**304,113**	**1,269.5**	**935.8**
Banks	72,147	71,836	463,920	(D)	1,269.5	M
Branches and agencies	2,096	2,408	0	(D)	0.0	F
Finance (except depository institutions) and insurance	**291,684**	**292,956**	**722,597**	**993,942**	**1,089.9**	**1,551.0**
Finance, except depository institutions	166,999	168,821	163,949	395,465	365.5	826.2
Securities, commodity contracts, and other intermediation and related activities	105,890	106,402	119,847	279,992	270.0	565.2
Securities and commodity contracts intermediation and brokerage	58,551	55,104	82,179	157,170	180.9	291.3
Other financial investment activities and exchanges	47,339	51,298	37,668	122,822	89.1	273.9
Other finance, except depository institutions	61,109	62,419	44,101	115,473	95.5	260.9

cautiously because except for those shown in table 3, they exclude the numerous very small affiliates (and parents of only very small affiliates) for which a complete benchmark survey report was not required. In addition, survey forms were not filed for some parents and affiliates that met the reporting criteria. Because of limited resources, BEA's efforts to ensure compliance with reporting requirements focused mainly on large parents and affiliates. As a result, some of the parents of small affiliates that were not aware of the reporting requirements and that were not on BEA's mailing list may not have filed reports. Although the omission of these parents and 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 parents or affiliates.

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

Table 5. Sales by All Foreign Affiliates and Sales by, and Employment of, All U.S. Parents, by Industry of Enterprise and by Industry of Sales—Continues

	Affiliates		U.S. parents			
	Sales (millions of dollars)		Sales (millions of dollars)		Number of employees (thousands)	
	By industry of affiliate	By industry of sales	By industry of U.S. parent	By industry of sales	By industry of U.S. parent	By industry of sales [1]
Nondepository credit intermediation and related services	57,974	59,292	43,079	112,114	L	251.4
Nondepository credit intermediation	50,040	51,162	31,883	98,652	L	207.4
Activities related to credit intermediation	7,934	8,130	11,196	13,462	36.9	44.1
Funds, trusts, and other financial vehicles	3,135	3,126	1,022	3,359	G	9.5
Insurance carriers and related activities	124,685	124,135	558,648	598,477	724.3	724.9
Insurance carriers, except life insurance carriers	59,965	57,327	427,332	390,529	559.7	500.8
Life insurance carriers	56,134	58,536	117,009	192,330	100.5	158.8
Agencies, brokerages, and other insurance related activities	8,586	8,272	14,307	15,617	64.2	65.2
Professional, scientific, and technical services	**113,903**	**113,196**	**223,305**	**252,769**	**1,009.3**	**1,040.9**
Architectural, engineering, and related services	10,978	10,479	37,116	29,949	153.3	124.4
Computer systems design and related services	65,155	64,271	91,960	106,827	342.2	368.8
Management, scientific, and technical consulting	12,416	12,869	11,975	23,037	63.3	104.0
Advertising and related services	10,656	10,761	19,010	22,281	87.5	88.8
Other	14,698	14,817	63,243	70,676	363.1	354.9
Legal services	2,511	2,511	19,046	19,046	65.7	58.1
Accounting, tax preparation, bookkeeping, and payroll services	860	951	28,202	21,403	151.9	101.3
Specialized design services	35	284	(D)	73	0.2	0.4
Scientific research and development services	3,664	3,616	(D)	15,007	38.3	67.8
Other professional, scientific, and technical services	7,627	7,455	8,579	15,147	107.0	127.3
Other industries	**356,087**	**371,180**	**1,259,969**	**1,355,703**	**8,246.8**	**8,532.5**
Agriculture, forestry, fishing, and hunting	4,088	4,691	7,145	12,676	50.6	67.3
Crop production	(D)	2,507	(D)	3,197	H	9.2
Animal production	1,482	1,421	(D)	7,181	K	53.8
Forestry and logging	(D)	461	6	1,425	(*)	3.1
Fishing, hunting, and trapping	(D)	8	0	(D)	0.0	(*)
Support activities for agriculture and forestry	(D)	293	0	(D)	0.0	1.1
Construction	12,997	13,162	39,096	59,092	118.0	174.1
Construction of buildings	3,520	3,576	23,575	27,517	31.3	42.4
Heavy and Civil Engineering Construction	7,820	8,233	9,367	16,602	44.6	50.7
Specialty trade contractors	1,658	1,353	6,155	14,973	42.0	81.0
Retail trade	164,561	172,188	766,471	766,108	3,969.7	3,937.2
Motor vehicle and parts dealers	5,234	6,725	28,958	27,847	40.6	42.1
Furniture and home furnishings stores	493	500	3,088	5,949	27.1	33.3
Electronics and appliance stores	(D)	3,465	37,278	39,309	179.0	174.9
Building material and garden equipment and supplies dealers	(D)	(D)	(D)	(D)	M	M
Food and beverage stores	8,698	8,826	84,149	75,129	367.9	370.6
Health and personal care stores	1,526	1,655	10,215	16,262	69.1	135.6
Gasoline stations	27,271	31,814	0	16,151	0.0	25.1
Clothing and clothing accessories stores	(D)	9,441	61,428	60,200	519.9	492.4
Sporting goods, hobby, book, and music stores	4,231	4,093	(D)	(D)	K	K
General merchandise stores	74,442	74,913	383,576	372,950	2,247.5	2,135.8
Miscellaneous store retailers	7,962	8,175	39,890	32,605	184.0	161.1
Nonstore retailers	17,969	(D)	48,213	51,523	58.5	103.7
Transportation and warehousing	57,088	58,731	171,251	188,756	944.0	957.6
Air transportation	4,235	4,373	35,255	34,858	205.5	179.9
Rail transportation	2,914	2,899	40,890	40,786	160.3	159.2
Water transportation	20,277	20,961	6,048	7,663	19.3	24.9
Petroleum tanker operations	8,484	8,875	276	933	1.2	2.1
Other water transportation	11,793	12,086	5,772	6,730	18.1	22.8
Truck transportation	(D)	1,288	25,384	27,628	112.9	131.1
Transit and ground passenger transportation	(D)	(D)	(D)	(D)	L	L
Pipeline transportation	7,452	8,220	(D)	27,670	I	15.7
Pipeline transportation of crude oil, refined petroleum products, and natural gas	7,451	8,220	(D)	(D)	I	15.6
Other pipeline transportation	(*)	(*)	(D)	(D)	0.1	0.1
Scenic and sightseeing transportation	(D)	58	(D)	(D)	0.2	H
Support activities for transportation	7,934	(D)	13,411	15,778	26.5	41.9
Couriers and messengers	9,974	9,974	(D)	(D)	M	M

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

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

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

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

Value added

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

Table 5. Sales by All Foreign Affiliates and Sales by, and Employment of, All U.S. Parents, by Industry of Enterprise and by Industry of Sales—Table Ends

	Affiliates		U.S. parents			
	Sales (millions of dollars)		Sales (millions of dollars)		Number of employees (thousands)	
	By industry of affiliate	By industry of sales	By industry of U.S. parent	By industry of sales	By industry of U.S. parent	By industry of sales [1]
Warehousing and storage	2,598	2,629	1,187	3,178	10.8	21.4
Petroleum storage for hire	503	478	(D)	448	F	2.3
Other warehousing and storage	2,094	2,151	(D)	2,730	I	19.1
Real estate and rental and leasing	29,699	32,455	47,697	69,034	277.5	281.3
Real estate	9,400	9,455	12,821	21,213	33.4	70.0
Rental and leasing (except real estate)	20,298	23,000	34,877	47,821	244.1	211.4
Automotive equipment rental and leasing	(D)	6,460	25,944	23,567	120.6	64.2
Other rental and leasing services	(D)	9,050	8,784	19,754	123.1	138.4
Lessors of nonfinancial intangible assets (except copyrighted works)	7,001	7,489	148	4,500	0.4	8.7
Management of nonbank companies and enterprises	3,322	3,418	(D)	5,356	14.5	27.4
Holding companies, except bank holding companies	(D)	0	6	0	H	4.3
Corporate, subsidiary, and regional management office	(D)	3,418	(D)	5,356	J	23.1
Administration, support, and waste management	40,664	39,574	72,762	81,122	789.2	828.0
Administrative and support services	39,211	38,082	(D)	61,723	705.2	739.6
Office administrative services	1,441	1,826	(D)	(D)	I	I
Facilities support services	1,902	1,917	(D)	3,391	J	37.1
Employment services	17,110	17,095	15,268	14,744	373.6	361.8
Business support services	9,661	7,237	24,059	23,231	110.5	118.1
Travel arrangement and reservation services	3,037	3,101	2,378	4,688	7.7	14.7
Investigation and security services	3,549	3,491	(D)	(D)	K	L
Services to buildings and dwellings	1,252	1,796	8,079	6,061	134.7	108.7
Other support services	1,259	1,618	2,021	2,763	9.0	11.4
Waste management and remediation services	1,453	1,492	(D)	19,400	84.0	88.5
Health care and social assistance	1,541	1,556	45,555	47,200	399.9	422.8
Ambulatory health care services	(D)	659	(D)	10,966	L	M
Hospitals	861	872	35,903	35,973	311.3	310.4
Nursing and residential care facilities	(D)	24	(D)	258	H	I
Social assistance	0	0	0	3	0.0	(*)
Accommodation and food services	30,964	31,098	81,123	75,728	1,344.3	1,307.5
Accommodation	6,299	6,706	35,366	35,854	469.8	460.4
Food services and drinking places	24,665	24,393	45,757	39,875	874.5	847.1
Miscellaneous services	11,162	14,307	(D)	50,631	339.2	529.2
Educational services	1,445	1,460	(D)	4,812	39.1	58.8
Arts, entertainment, and recreation	4,938	4,382	11,381	21,388	134.8	228.0
Performing arts, spectator sports, and related industries	(D)	1,700	1,658	4,531	7.6	24.2
Museums, historical sites, and similar institutions	0	0	0	0	0.0	0.0
Amusement, gambling, and recreation industries	(D)	2,682	9,722	16,857	127.3	203.8
Other services (except public administration and private households)	4,779	8,465	11,698	24,431	165.3	242.4
Repair and maintenance	(D)	6,143	2,218	13,055	14.8	89.0
Personal and laundry services	(D)	2,321	9,480	(D)	150.4	153.4
Nonbusiness entities, except government	0	1	0	(D)	0.0	(*)
Unspecified	**0**	**1,558**	**0**	**31,078**	**0.0**	**856.9**

D Suppressed to avoid disclosure of data of individual companies.

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

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

For U.S. multinational companies, as for any firm, value added can be measured as gross output (sales or receipts and other operating income plus inventory change) less intermediate inputs (purchased goods and services used in production). Alternatively, it can be measured as the sum of the costs incurred (except for intermediate inputs) and the profits earned in production. The costs fall into four major categories: compensation of employees, net interest paid, taxes on production and imports, and the cost of capital consumed in production.[16] The estimates presented in this publication were calculated as the sum of costs and profits.

Value added is generally preferred to sales or other measures to assess the economic impact of parents or affiliates on the overall economy and on individual industries. Value added permits a more focused analysis of the impact of U.S. multinational companies because it measures only the companies' contributions to economic output, whereas sales do not distinguish between the parent's or the affiliate's contribution and the value of output embodied in inputs purchased from other companies. In addition, value added measures the contribution to the economy 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 U.S. parents and majority-owned foreign affiliates, the 2004 benchmark survey collected data on sales (or gross operating revenues) that were disaggregated into sales of goods, services, and investment income. Sales were further disaggregated according to whether they were to affiliated parties or unaffiliated parties and whether the customer was in the United States, the country of the foreign affiliate, or another foreign country.

For purposes of distributing sales into goods, services, and investment income, "goods" is generally defined to be economic outputs that are tangible, and "services" is generally defined to be economic outputs that are intangible.[17] Information on investment income was collected primarily to ensure that if investment income was included in total sales (or gross operating revenues), it would not be included in sales of services. In finance and insurance, companies include investment income in sales because it is generated by a primary activity of the firm. In other industries, most companies consider investment income an incidental revenue source and include it in the income statement in an "other income" category rather than in sales.

The 2004 benchmark survey collected new data on insurance premiums earned and losses incurred for parents and affiliates with activities in insurance and new data on goods for resale without further processing for parents and affiliates with activities in wholesale or retail trade; these data (which are not presented in this publication) will provide the basis for improved estimates of insurance and distributive services by parents and affiliates.

Employment and compensation of employees

Respondents to the 2004 benchmark survey were requested to report employment as the number of full-time and part-time employees on the payroll at the end of fiscal year 2004. However, a count taken during the year was accepted if it was a reasonable proxy for the end-of-year number. In addition, if employment at the end of the year was unusually high or low because of temporary factors, such as seasonal variations or a strike, a number reflecting normal operations was requested.

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

Employment by foreign affiliates is classified both by industry of affiliate and by industry of U.S. parent. It is not classified by industry of sales because the

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

The basis used to measure depreciation does not affect the measurement of total value added; any differences between the measures of depreciation, which is a cost of production, have equal and offsetting effects on the profit-type-return component.

17. Tangible outputs are typically associated with establishments in the following six NAICS sectors: agriculture, forestry, fishing, and hunting except support activities for agriculture and forestry); mining (except support activities); construction; manufacturing; wholesale trade; and retail trade.

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

necessary data were not collected. (Earlier surveys had indicated that affiliates tend to be more specialized than their U.S. parent.)

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

U.S. trade in goods

The concepts and definitions underlying the data collected on trade in goods are nearly identical to those used for the data on total U.S. trade in goods compiled by the Census Bureau. However, because of certain reporting issues, the U.S. multinational company trade data are not completely comparable with Census Bureau trade data. In the benchmark survey, U.S. trade in goods data were requested on a "shipped" basis—that is, on the basis of when, where, and to (or by) whom the goods were shipped—in order for them to be comparable with the data on total U.S. trade. However, most survey respondents keep their accounting records on a "charged" basis—that is, on the basis of when, where, and to (or by) whom the goods were charged. The two bases are usually the same, but they can differ substantially. For example, if a U.S. parent 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 parent's books would show a purchase from country A and a sale to country B. Because the goods never entered or left the United States, on a shipped basis, they would not be recorded as either U.S. imports or U.S. exports. However, if the parent's trade data were reported on a charged basis, the purchase would appear as a U.S. import and the sale would appear as a U.S. export.

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

In addition, the data on trade by U.S. multinational companies are collected by BEA on a fiscal year basis, whereas the data on total U.S. trade in goods that are collected by the Census Bureau are on a calendar year basis.

Additional differences between the BEA trade data and the Census Bureau trade data may have resulted because the data come from different sources: the BEA data are based on company records, whereas the Census Bureau data are compiled from export and import declarations filed by the shipper 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 export and import documents.

In the 2004 benchmark survey, as in previous benchmark surveys, U.S. exports of goods shipped to majority-owned foreign affiliates were also disaggregated by intended use into three categories: capital equipment, goods for further manufacture, and goods for resale without further manufacture.

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

Research and development

The 2004 benchmark survey collected data on two technology-related items—research and development (R&D) expenditures and the number of employees engaged in R&D-related activities.

As in previous benchmark surveys, the data on R&D expenditures were collected on two bases: R&D that is performed by the parent or the affiliate for use by the parent or the affiliate or for use by others and R&D that is funded by the parent or affiliate and that was performed internally or by others. The first basis can be used to gauge the technological capabilities of U.S. multinational companies, and it is the primary basis on which National Science Foundation and Census Bureau surveys collect information on R&D from U.S.

businesses. The second basis views R&D from the perspective of the costs of production and can be used as an indicator of U.S. multinational companies' use of technology; this basis is consistent with guidelines of the Financial Accounting Standards Board for accounting for the costs of R&D.

Direct Investment Position and Balance of Payments Data

Direct investment position and direct investment balance of payments data measure the value of U.S. parents' investment positions in, and the value of their transactions with, their foreign affiliates. In contrast, the financial and operating data of U.S. multinational companies provide measures of the overall operations of those companies, including their transactions and investment positions with persons outside of the company; for example, the U.S. direct investment position in a foreign affiliate is equal to its U.S. parents' equity in, and net outstanding loans to, the affiliate. In contrast, a foreign affiliate's total assets are equal to the sum of (1) the total owners' equity in the affiliate that is held by its U.S. parents and by all other persons and (2) the total liabilities owed by the affiliate to its U.S. parents and to all other persons.[18]

For U.S. direct investment abroad, the following major items appear in the U.S. international transactions (balance of payments) accounts:

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

Two adjustments are made to the balance of payments data before they are entered into the U.S. international accounts. First, two of these items—income and capital flows—are adjusted to reflect current-period prices.[19] 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 that are collected in the 2004 benchmark survey are on a fiscal year basis. Thus, before the data are incorporated into the U.S. international 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 2004 will be extrapolated forward to derive universe estimates for calendar years after 2004 on the basis of sample data collected in BEA's quarterly surveys for those years.

U.S. direct investment position abroad

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

The 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.[20]

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

18. For example, if an affiliate is owned 80 percent by its U.S. parent and if the affiliate has total owners' equity of $50 million and total liabilities of $100 million, of which $20 million is owed to the parent, then, 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).

19. 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-cost (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 national income and product accounts. Third, expenses for mineral exploration and development are reallocated across periods to ensure that they are written off over their economic lives rather than all at once.

20. Position estimates measured at current cost and at market value for U.S. direct investment abroad (and for foreign direct investment in the United States) are published each July in an article on the U.S. international investment position in the SURVEY; see Elena L. Nguyen, "The International Investment Position of the United States at Yearend 2007," SURVEY 88 (July 2008): 9–19. 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.

in retained earnings is the U.S. parents' shares of the cumulative undistributed earnings of their incorporated foreign affiliates.

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

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

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

For foreign affiliates that are depository institutions or other financial intermediaries, the direct investment position is defined to include only their U.S. parents' permanent equity and debt investment in them; similarly, the direct investment flows that enter the U.S. international transactions accounts for these affiliates include only the transactions related to such permanent investment. All other transactions and positions—mainly claims and liabilities arising from the parents' and affiliates' normal financial intermediation business—are excluded from the direct investment accounts, but they are included with other financial claims and liabilities.[21]

21. For this purpose, a nonbank affiliate that is primarily engaged in financial intermediation is defined to be an affiliate classified in "finance (except depository institutions or insurance)" whose U.S. parent is either (1) a depository institution or (2) a company in other finance (excluding insurance).

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

The direct investment position at the end of the year is equal to the position at the end of the previous year plus the change in the position during the year (table 6). 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 foreign 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 foreign affiliates that are sold by U.S. parents. They also include currency-translation adjustments—that is, the gains and losses that arise because of changes in the exchange rates used in translating affiliates' foreign-currency-denominated assets and liabilities into U.S. dollars—and other capital gains and losses, such as revaluations of assets that result from mergers and acquisitions.

Table 6. Change in the Direct Investment Position on a Historical-Cost Basis

[Millions of dollars]

Position at yearend 2003	**1,708,902**
Change in position	336,090
Capital outflows	253,061
Equity capital	82,079
Increases	119,415
Decreases	37,336
Reinvested earnings without current-cost adjustment	130,723
Intercompany debt	22,258
Increases in U.S. parents' receivables	95,891
Increases in U.S. parents' payables	51,719
Valuation adjustments	101,030
Position at yearend 2004	**2,044,992**

Direct investment capital outflows

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

Equity capital investment. Equity capital investment is the net of U.S. parents' equity increases and decreases in their foreign affiliates. Equity capital investment excludes changes in equity that result from the reinvestment of earnings, which are recorded as a separate component of direct investment capital outflows.

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

Equity capital investments are recorded at transactions values that are based on the books of the U.S. parents rather than on the books of the foreign affiliates. The information is obtained from the books of the parents partly because some transactions—such as when a U.S. parent purchases or sells stock in an affiliate with an unaffiliated third party—are not recorded in the books of the foreign affiliate. In addition, transactions values on the parents' books reflect the actual cost of ownership interests in affiliates that are acquired or sold by U.S. parents, including any premium or discount; such values may differ from the book values recorded on the affiliates' books.

Reinvested earnings without current-cost adjustment. Reinvested earnings without current-cost adjustment of foreign affiliates are earnings less distributed earnings. Earnings are U.S. parents' shares in the net income of their foreign affiliates after the provision for foreign income taxes.[22] Earnings are from the accounting records of the foreign affiliate. A U.S. parent's share in net income is based on its directly held equity interest in the foreign affiliate. The earnings and reinvested earnings estimates in this publication are not adjusted to reflect current-period prices, because the source data needed to adjust the estimates by detailed country and industry are not available.

Earnings are entered into direct investment income because they are income to the U.S. parent whether they are reinvested in the affiliate or remitted to the parent.[23] However, because reinvested earnings are not actually transferred to the U.S. parent but increase the parent's investment in its affiliate, an entry that is equal to that made in the direct investment income account but that has the opposite sign is made in the direct investment financial account.

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

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

Intercompany debt investment. Intercompany debt investment consists of the change in U.S. parents' net intercompany debt receivables from their foreign affiliates during the year.

When a U.S. parent lends funds to its foreign affiliate, the balance of the U.S. parents' receivables

22. As discussed in the next section, "Direct investment income," earnings exclude capital gains and losses, even if they are included in net income for income statement purposes.

23. See the next section "Direct investment income."

24. "Stock dividends" here refers to essentially the same concept that is discussed in the *International Monetary Fund Balance of Payments Manual* under the heading of "bonus shares." BEA has retained its terminology because it conforms to what U.S. firms understand by the term "stock dividends."

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

Increases in U.S. parents' receivables from their foreign affiliates result in increases in parents' assets on intercompany debt accounts. Increases in U.S. parents' payables to their affiliates result in increases in parents' liabilities on intercompany debt accounts.

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

The net change in intercompany debt includes changes in the value of capital leases between U.S. parents and their foreign affiliates. When property is leased by a foreign affiliate from its U.S. parent, the value of the leased property is recorded as an intercompany asset of the parent because it increases its receivables. The subsequent payment of principal on a capital lease is recorded as a reduction in the parent's intercompany assets because it reduces its receivables. Similarly, when property is leased to a U.S. parent by its foreign affiliate, the value of the leased property is recorded as an intercompany liability of the parent because it increases the parent's payables. The parent's subsequent payment of principal on a capital lease is recorded as a reduction in intercompany liabilities because it reduces the parent's payables.

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

Table 7. Direct Investment Income Without Current-Cost Adjustment and Its Components

[Millions of dollars]

Income	219,007
Earnings	214,347
Distributed earnings	83,623
Reinvested earnings	130,723
Interest	4,660
US parents' receipts	6,898
US parents' payments	2,237

In general, direct investment capital outflows exclude transactions between two U.S. persons because U.S.-to-U.S. transactions are not international transactions of the United States. Thus, if one U.S. person purchases a direct investment interest in a foreign affiliate from another U.S. person, the U.S. parent's ownership interest in the foreign affiliate will increase, but no equity capital investment is recorded, because the transaction occurs entirely within the United States. In addition, there is no net increase in U.S. claims on foreign countries; instead, one U.S. person's claims have merely been substituted for those of another.[25]

However, if the U.S. person's original interest represented only a less-than-10-percent investment interest and if the combined interests qualify as a direct investment as a result of the purchase of an additional interest, a direct investment capital outflow that is equal to the value of the additional interest is recorded. In addition, a valuation adjustment is made to the direct investment position to bring the original interest into the position. If a U.S. parent's interest in an affiliate falls below 10 percent, a direct investment capital inflow equal to the value of the reduction in interest is recorded and a valuation adjustment to the direct investment position is made to extinguish the remaining direct investment interest.

Equity capital and intercompany debt investments can be disaggregated into several subaccounts. Equity capital investments, which are recorded as a net amount, are disaggregated to show increases and decreases in equity. Intercompany debt investments can be disaggregated to show both those resulting from changes in U.S. parents' receivables and those resulting from changes in U.S. parents' payables. Certain transactions may affect two or more of these subaccounts simultaneously and by offsetting amounts. Such transactions are "grossed up"; that is, the outflows and the offsetting inflows are recorded in the affected subaccounts rather than being netted to zero and not recorded in any subaccount. However, because such

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

gross flows are offsetting, they do not affect net capital outflows. For example, the capitalization of intercompany debt, which reduces intercompany debt investment and increases equity capital investment, results in gross, but not net, direct investment capital flows.

Direct investment income without current-cost adjustment

Direct investment income without current-cost adjustment is the return on the U.S. direct investment position abroad; that is, it is the U.S. parents' return on their debt and equity investment in foreign affiliates. Direct investment income consists of earnings (that is, U.S. parents' shares in the net income of their foreign affiliates) and interest on intercompany debt between U.S. parents and foreign affiliates (where interest is defined as interest received by U.S. parents from their foreign affiliates net of interest paid by U.S. parents to their foreign affiliates). Earnings are the U.S. parents' return on their equity investment, and interest is the U.S. parents' return on their debt investment in their foreign affiliates. Table 7 shows direct investment income and the relationships among its components for all foreign affiliates from the 2004 benchmark survey. Unlike the measure of direct investment income used in the international transactions accounts, it does not include a current-cost adjustment to earnings.

Direct investment income is recorded as accrued. Direct investment income and earnings exclude currency-translation adjustments and other capital gains and losses, whether or not these gains and losses are included in net income for income statement purposes. This treatment is intended to make income and earnings correspond more closely to the current operating performance of foreign affiliates as recommended by international guidelines for the compilation of balance of payments accounts.

Direct investment income is measured before deduction (that is, gross) of all withholding taxes.[26] This treatment views taxes as being levied on the recipient of the distributed earnings or interest and thus as being paid across borders, even though as an administrative convenience, the taxes actually were paid by the firm whose disbursement gave rise to them. Thus, foreign withholding taxes on distributed earnings and on interest received by the U.S. parent are recorded as if they were paid by the parent, not by the foreign affiliate. Similarly, U.S. withholding taxes on interest payments by the U.S. parent are recorded as if they were paid by the foreign affiliate, not by the U.S. parent. Counterentries for these taxes are made in the U.S. international transactions accounts under "unilateral current transfers, net."

Interest is recorded on a net basis as interest paid or credited to U.S. parents on debt owed to them by their foreign affiliates less interest received from, or credited by, U.S. parents on debt owed by them to their foreign affiliates.[27] Interest payments are netted against interest receipts because in the intercompany debt component of the U.S. direct investment position abroad, debt owed by U.S. parents to foreign affiliates is netted against debt owed by foreign affiliates to U.S. parents. 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. parents and foreign affiliates because the outstanding capitalized value of such leases is included in the intercompany-debt component of the direct investment position.[28]

Direct investment royalties and license fees

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

In the U.S. international transactions accounts, U.S. parents' receipts of royalties and license fees are recorded as U.S. exports of services, and U.S. parents' payments are recorded as U.S. imports of services. Both receipts and payments are measured before deduction, or gross, of (foreign or U.S.) withholding taxes. Receipts and payments of royalties and license fees are based on the books of U.S. parents and are reported as accrued. When funds are not actually transferred, offsetting entries are made in the intercompany debt account.

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

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

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

Direct investment "other private services"

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

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

Service charges. Service charges consists of fees for services—such as management, professional, or technical services—rendered between U.S. parents and their foreign affiliates. The service charges may represent sales of services or reimbursements. Sales of services are receipts for services rendered that are 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 affiliates, the resulting revenues would be included in its sales.)

Reimbursements are receipts for services rendered that are normally included in "other income" rather than in sales in the income statement of the provider of the service. Typically, the performance of the service is not a primary activity of the enterprise; however, the service may facilitate or support the conduct of the enterprise's primary activities. (For example, if a U.S. manufacturer provides management services to its foreign 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 R&D assessments on foreign affiliates by a U.S. parent for R&D that the parent performs and shares with its affiliates.

In the 2004 benchmark survey, as in the 1999 benchmark survey, data on service charges by type of service between U.S. parents and their foreign affiliates were collected. The seven types of services specified in the 2004 benchmark survey are accounting, auditing, and bookkeeping services; computer and information services; financial services; insurance services; management, consulting, and public relations services; research, development, and testing services; transportation services, and "other services." [29]

Charges for the use of tangible property. Charges for the use of tangible property includes lease payments under operating leases as well as payments for the rental of equipment.

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

29. Three of these service categories—accounting, auditing, and bookkeeping services, management, consulting, and public relations services, and research, development, and testing services—were not collected separately in the 1999 benchmark survey. See the footnotes to table II.Z6 for the definitions used on the 2004 benchmark survey for each category of intercompany service charges.