

Supporting Statement for the BE-15, Annual Survey of
Foreign Direct Investment in the United States
(OMB Control Number 0608-0034)

- Summary -

This request is for a revision of the BE-15, Annual Survey of Foreign Direct Investment in the United States, a currently approved collection. The BE-15 is a mandatory survey and is conducted by the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, under the International Investment and Trade in Services Survey Act. The survey collects sample data on the financial and operating characteristics of nonbank U.S. affiliates of foreign companies needed to update similar data for the universe of U.S. affiliates collected once every 5 years on the BE-12, Benchmark Survey of Foreign Direct Investment in the United States.

BEA maintains a continuing dialogue with respondents and with data users, including its own internal users through the Bureau's Source Data Improvement and Evaluation Program, to ensure that, as far as possible, the required data serve their intended purposes and are available from existing records, that instructions are clear, and that unreasonable burdens are not imposed. In reaching decisions on what questions to include in the survey, BEA considered the Government's need for the data, the burden imposed on respondents, the quality of the likely responses (e.g., whether the data are readily available on respondents' books), and BEA's experience in previous benchmark and related annual surveys.

Several changes to the survey are proposed by BEA but, collectively, will not affect the overall respondent burden for the survey. The changes are as follows:

1. Add a question to identify the accounting principles used to compile and report the survey data.
2. Modify question 19 on the BE-15 long form, which currently collects information on the single largest major (industrial) activity of the U.S. affiliate (based on sales), to collect information on all of the affiliate's major (industrial) activities.
3. Include a check box on the BE-15 Supplement C--Claim for Exemption from Filing a BE-15(LF), BE-15(SF), or BE-15(EZ), to determine if a U.S. affiliate is claiming an exemption based on a merger or on a consolidation; currently, a single check box covers both mergers and consolidations.
4. Clarify reporting requirements, thus making the forms easier to complete, by modifying and reformatting instructions, and provide illustrative diagrams to further clarify certain, more complex, instructions.

Overall respondent burden for the 2006 annual survey is estimated at 107,900 hours, the same number of hours currently shown in the inventory maintained by OMB.

Supporting Statement for Form BE-15
Annual Survey of Foreign Direct Investment in the United States
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A. Justification

1. The annual survey of Foreign Direct Investment in the United States is necessary to obtain accurate and up-to-date data on certain aspects of the operations of nonbank U.S. affiliates of foreign companies, such as balance sheets, income statements, employment, and trade that are needed in assessing the impact of direct investment on the U.S. economy. The survey is mandatory and is conducted under the International Investment and Trade in Services Survey Act (P.L. 94-472, 22 U.S.C. 3101-3108, as amended by P.L. 98-573 and P.L. 101-533), hereinafter "the Act." (Attachment 1.)

Section 4(a) of the Act requires that with respect to foreign direct investment in the United States, the President shall, to the extent he deems necessary and feasible, conduct a regular data collection program to secure current information on international financial flows and other information related to international investment and trade in services, including (but not limited to) such information as may be necessary for computing and analyzing the United States balance of payments, the employment and taxes of United States parents and affiliates, and the international investment and trade in services position of the United States.

In Section 3 of Executive Order 11961, the President delegated the responsibility for performing functions under the Act concerning direct investment to the Secretary of Commerce, who has redelegated it to the Bureau of Economic Analysis (BEA). The implementing regulations for the direct investment surveys conducted under the Act may be found in 15 CFR Part 806. (Attachment 2.)

2. The BE-15 survey provides a variety of measures of the overall operations of nonbank U.S. affiliates of foreign parents, including their balance sheets, income statements, property, plant and equipment, external financing, employment and employee compensation, merchandise trade, sales of goods and services, taxes, and research and development activity. The BE-15 is a sample survey that covers selected U.S. affiliates of foreign parents. The sample data are used to derive universe estimates in nonbenchmark years by extrapolating forward similar data reported in the BE-12, Benchmark Survey of Foreign Direct Investment in the United States, which is taken every five years. The data are disaggregated by industry of the U.S. affiliate, by country of foreign parent or ultimate beneficial owner, and for selected data, by State. The data from the BE-15 annual survey complement data from the BE-12, benchmark survey of foreign direct investment in the United States, as well as BEA's other ongoing surveys of Foreign Direct Investment in the United States, namely the BE-605 and BE-605 Bank quarterly survey of transactions of U.S. affiliates with their affiliated foreign groups (i.e., their foreign parents and foreign affiliates of their foreign parents), and the BE-13 survey of U.S. business enterprises newly acquired or established by foreign persons. A full understanding of foreign direct investment in the United States requires

an understanding of the overall operations of U.S. affiliates (covered in the BE-15), the acquisition and establishment of new U.S. affiliates (covered in the BE-13), and the transactions and positions between the U.S. affiliates and their affiliated foreign groups (covered in the BE-605 and BE-605 Bank). Some specific uses of the data to be collected in the BE-15 survey are discussed in greater detail below.

(a) Compile and improve the U.S. economic accounts:

BEA uses data from the BE-15 annual survey to derive estimates of value added in production by U.S. affiliates of foreign parents. These estimates are used to measure U.S. affiliates' share of U.S. gross domestic product and to evaluate affiliates' profitability and productivity.

Employment data from the BE-15 survey are used to estimate U.S.-affiliate shares of the U.S. economy, both in the aggregate and by industry.

(b) Support U.S. Government policy on direct investment:

The data are used by several U.S. Government agencies, including the Office of the U.S. Trade Representative, the International Trade Administration of the Commerce Department, the Departments of Treasury and State, the Council of Economic Advisers, and the Federal Reserve Board to support U.S. international economic policy. The annual survey provides current data on the amount, types, and financial and operating characteristics of foreign direct investment in the United States. It also provides detailed information, by country and industry, on assets, sales, employment, and other measures of U.S. affiliates' activities that the U.S. Government requires to assess their effects on the U.S. economy.

Bilateral investment treaties (BIT's) are negotiated with interested countries to facilitate and protect U.S. investment interests. During BIT negotiations, data from this and related surveys provide important, up-to-date information on the level and impact of direct investment on the U.S. economy.

The United States is a signatory to regional and multilateral commercial agreements that cover direct investment as well as cross border trade, and the data from this and related surveys provide information that can be used during negotiations and as an aid in evaluating the impact of the resulting agreements. For example, investment issues are covered both by the General Agreement on Trade in Services, which is the principal World Trade Organization agreement on trade in services, and by the North American Free Trade Agreement among the United States, Canada, and Mexico.

(c) State government uses:

The data are used by State governments in assessing the impact of foreign direct investment on individual States, in advising foreign investors seeking to invest in the United States, and in developing programs to attract foreign direct investment.

(d) Non-government uses:

International organizations and private researchers use data from the BE-15 survey in assessing the impact of foreign direct investment on the U.S. economy. International organizations that regularly make use of BEA data on foreign direct investment include the United Nations, International Monetary Fund, Organisation for Economic Co-operation and Development, and World Bank. Numerous private researchers also use the data; use by researchers affiliated with the National Bureau of Economic Research has been among the most extensive.

3. BEA will offer an electronic filing option, its Automated Survey Transmission and Retrieval (ASTAR) system, for use in reporting on the proposed Form BE-15, as an alternative to using paper forms. After the information has been entered, ASTAR directs the reporting company to transmit the data back to BEA via the Internet. ASTAR employs state-of-the-art encryption security features to protect confidential information transmitted in electronic form. BEA has offered the ASTAR system to respondents when conducting recent annual surveys; approximately 20 percent of the respondents are using it to file reports.

In addition, BEA places all its survey forms and reporting instructions on its Internet Web site (www.bea.gov), which provides an alternative and, for some, more convenient, way to access information about BEA's surveys.

The data from the annual surveys are published and analyzed in BEA's monthly journal, the Survey of Current Business. A set of detailed tables is also made available. All of these materials can be obtained from the BEA Web site.

4. Similar data collected by other Government agencies and segregated as being for nonbank foreign-owned U.S. companies are not comparable to the data collected by the BE-15 survey. For example, although the Securities and Exchange Commission (SEC) maintains information on the nationality of major stockholders in publicly traded U.S. companies, most of the foreign-owned U.S. companies in BEA's reporting universe are not publicly traded. For those that are publicly traded, the data available from the SEC are not in the form or detail required by BEA. For example, data reported to the SEC are on a worldwide consolidated basis. In contrast, data collected in the BE-15 survey are on a domestic (U.S.) consolidated basis so that they cover only U.S. companies' domestic operations

For tax purposes, the Internal Revenue Service (IRS) collects information on foreign-owned U.S. companies, but it covers only "foreign-controlled" companies--those owned at least 50 percent by foreigners. BEA's data are based on a 10-percent ownership criterion--the current international standard for defining direct investment. Consolidation rules also differ significantly. Corporate tax returns of foreign corporations' U.S. subsidiaries are often filed with the IRS at a much more deconsolidated level than are reports by U.S. affiliates to BEA. One result is that for items such as total assets and

sales, for which intracompany transactions and positions can be significant, there is duplication in the IRS data that is not present in the more highly consolidated BEA data.

BEA has examined information on foreign direct investment available from these and other agencies and, because the information is narrower in scope and purpose than that collected by BEA, has not identified significant duplication.

Some duplication does occur between the data reported once a year in BEA's quarterly BE-605 survey and the BE-15, annual survey, for such items as the foreign parent's direct equity in the U.S. affiliate's annual net income (loss) and the foreign parent's equity interest in the U.S. affiliate. However, the data collected in the BE-15 survey reflect the interest of all owners of the affiliate, whereas data collected in the BE-605 cover only the foreign parent's share of the given item. The only case in which duplication of the annual data reported in the BE-15 and BE-605 may occur is when the U.S. affiliate is wholly owned by a single foreign parent. However, such duplication is minor. The data are used to check for consistency between the two surveys, and could not be eliminated without compromising the integrated structure of the form.

5. Few small U.S. business enterprises are subject to the reporting requirements of this survey. The smallest U.S. affiliates--those with total assets, sales or gross operating revenues, and net income of \$30 million or less (positive or negative)--are specifically exempted from the survey. Such entities need only file a BE-15, Supplement C--Claim for Exemption from Filing a BE-15(LF), BE-15(SF), or BE-15(EZ).

6. The objectives stated in A.2. above could not be accomplished if the collection were conducted less frequently. Measures of the operations of foreign-owned U.S. companies on an annual basis are essential to understanding the impact of foreign direct investment on the U.S. economy over time. There can be wide swings in the data caused by changes in foreign ownership, new entrants to the universe, mergers and acquisitions, divestitures, and other economic phenomena. Monitoring these changes, assessing their impact, and formulating the appropriate government response would not be possible if data were collected less frequently.

7. No aspects of the proposed BE-15 data collection require a special justification.

8. The public notice soliciting comments on the information collection prior to its submission to OMB appeared on page 32507 (Vol. 71, No. 108) of the June 6, 2006 issue of the Federal Register (Attachment 3). BEA received no comments.

BEA maintains a continuing dialogue with survey respondents and data users, including its own internal users through the Bureau's Source Data Improvement and Evaluation Program, to ensure that, as much as possible, the required data serve their intended purposes and are available from existing records, that instructions are clear, and that unreasonable burdens are not imposed. BEA last conducted consultations with a broad group of Government and non-Government data users during the design of the 2002 BE-12 benchmark survey. More recently, BEA initiated a project with the Census

Bureau to perform a cognitive review of its surveys covering foreign direct investment in the United States. This review focused primarily on the BE-605 quarterly survey, but did include elements of BE-15 annual survey forms and instructions. Meetings were held with survey respondents to obtain a better understanding of how they complete the forms, their interpretation of the instructions and definitions, and the general availability of the data within their recordkeeping systems. Many of the proposed changes to the BE-15 survey forms and instructions result directly from this review. By modifying and reformatting instructions and using illustrative diagrams to further clarify certain, more complex, instructions the proposed changes will serve to clarify the reporting requirements, thus making the forms easier to complete.

In reaching decisions on what questions to include in the survey, BEA considered the Government's need for the data, the burden imposed on respondents, the quality of the likely responses (e.g., whether the data are readily available on respondents' books), and BEA's experience in previous benchmark and related annual surveys.

9. No payments or gifts to respondents are made.

10. Section 5(c) of the Act (22 U.S.C. 3104) provides that the information collected may be used only for analytical and statistical purposes and access to the information shall be available only to officials and employees (including consultants and contractors and their employees) of agencies designated by the President to perform functions under the Act. The President may authorize the exchange of information between agencies or officials designated to perform functions under the Act, but only for analytical and statistical purposes. No official or employee (including consultants and contractors and their employees) shall publish or make available any information collected under the Act in such a manner that the person to whom the information relates can be specifically identified. Reports and copies of reports prepared pursuant to the Act are confidential, and their submission or disclosure shall not be compelled by any person without the prior written permission of the person filing the report and the customer of such person, where the information supplied is identifiable as being derived from the records of such customer.

11. No questions of a sensitive nature are asked.

12. The BE-15 survey as proposed is expected to result in the filing of approximately 4,950 reports. About 2,000 U.S. affiliates are expected to file on the BE-15(LF) long form; 2,250 on the BE-15(SF) short form; and 400 on the BE-15(EZ) form. Affiliates filing on the EZ form will be required to report only a limited number of data items. An additional 300 U.S. affiliates are expected to file on the BE-15 Supplement C, which is used to claim exemption from filing on the BE-15(LF) long form, BE-15(SF) short form, and BE-15(EZ) form. The following criteria are applied to determine which form a respondent must file:

BE-15(LF), the long form—Report for nonbank majority-owned U.S. affiliates with assets, sales or gross operating revenues, or net income greater than \$125 million (positive or negative);

BE-15(SF), the short form—Report for nonbank majority-owned U.S. affiliates with total assets, sales or gross operating revenues, or net income greater than \$30 million, but not greater than \$125 million (positive or negative), and nonbank minority-owned U.S. affiliates with total assets, sales or gross operating revenues, or net income greater than \$30 million (positive or negative);

BE-15(EZ) form—Report for a nonbank U.S. affiliate that is selected by BEA to file this form in lieu of filing the BE-15(LF) long form or BE-15(SF) short form (see B.1. below for details).

BE-15 Supplement C—Report for claiming exemption from filing a BE-15(LF) long form, BE-15(SF) short form, or BE-15(EZ) form.

For purposes of calculating the number of respondents and burden per respondent, the “respondent” is deemed to be the U.S. affiliate of a foreign parent. The average response time, including affiliates filing the BE-15 Supplement C form, is estimated at 21.8 hours, producing an estimated overall respondent burden of 107,900 hours for the survey, the same number of hours currently shown in the inventory maintained by OMB. Respondent burden is estimated based on the estimated burden in the last BE-15 annual survey and other (related) BEA surveys. Burden is expected to vary considerably among respondents because of differences in company size and complexity. The range of estimated burden is from 20 minutes for the smallest and least complex company reporting on the BE-15 Supplement C form to 550 hours for the largest and most complex company reporting on the BE-15(LF) long form.

BEA estimates that the burden on Form BE-15(LF) long form ranges from 4 hours for a single U.S. affiliate with activities in only a limited number of States to 550 hours for a fully-consolidated U.S. affiliate with 10 or more subsidiaries included in the full consolidation and with activities in many States. The average burden is estimated at 49 hours, the same as the average burden estimate on the 2005 annual survey. The total burden for the 2,000 Forms BE-15(LF) that BEA expects to be filed is estimated at 98,000 hours.

BEA estimates that the burden on the BE-15 (SF) short form ranges from 1½ hours for the smallest U.S. affiliate filing only a limited number of data items to 10 hours for a U.S. affiliate having several subsidiaries included in the full consolidation, and with activities in more than five States. The average burden is estimated at 4 hours, the same as the average burden estimate on the 2005 annual survey. The total burden for the 2,250 Forms BE-15(SF) that BEA expects to be filed is estimated at 9,000 hours.

BEA estimates that the burden on the BE-15(EZ) ranges from 1 hour to 3 hours, with an average burden of 1½ hours, the same as the average burden estimate on the 2005

annual survey. The total burden for the 400 Forms BE-15(EZ) that BEA expects to receive is estimated at 600 hours.

Respondents that initially fall below the \$30 million reporting threshold for the annual survey are required to file a BE-15 Supplement C form to claim exemption from filing a BE-15(LF) long form, BE-15(SF) short form, or BE-15(EZ) form. BEA estimates that the burden on the Supplement C will range from 20 minutes to 75 minutes, with an average burden of 1 hour, the same as the average burden estimate on the 2005 annual survey. Approximately 300 U.S. affiliates are expected to file on the Supplement C form, producing an estimated total burden of 300 hours.

The 98,000 burden hours for the BE-15(LF) long form, the 9,000 hours for the BE-15(SF) short form, the 600 hours for the BE-15(EZ) form, and the 300 hours for the BE-15 Supplement C form give a total burden estimate of 107,900 hours.

The estimated annual cost to respondents is \$4,316,000, based on the estimated reporting burden of 107,900 hours and an estimated hourly cost of \$40.

13. Other than respondent cost associated with the estimated burden of 107,900 hours (see A.12 above), the total additional annual cost burden to respondents is expected to be negligible. Total capital and start-up costs are insignificant, because new technology or capital equipment would not be needed by respondents in order to prepare their responses to the survey. As a consequence, the total cost of operating and maintaining the technology and capital equipment will also be insignificant. Purchases of services to complete the information collection are also expected to be insignificant.

14. The project cost to the Federal Government for this survey is estimated at \$2,500,000, which consists of \$1,650,000 for salaries and related overhead, and \$850,000 for equipment, supplies, forms design, mailing, printing, and computer processing.

15. This request is for a revision of a currently approved collection. There is no change to the overall respondent burden of 107,900 hours currently shown in the inventory maintained by OMB.

16. The printed annual survey forms will be mailed to respondents in mid-March of each year. A completed report on Form BE-15(LF) long form, BE-15(SF) short form, BE-15(EZ) form, or BE-15 Supplement C form is due to be filed with BEA not later than May 31. Thus, respondents will have over 2 months to file a report. Summary preliminary data will be published in articles in the Survey of Current Business 15 months after the reports are due; more detailed preliminary data will be published in a separate annual survey publication. Final data will be published about a year later. Both the articles and data publications are placed on BEA's Web site (www.bea.gov).

17. The OMB expiration data will be displayed on the forms.

18. The BE-15 information collection is consistent with the certification in all aspects.

Attachments

1. International Investment and Trade in services Survey Act (22 U.S.C. 3101 through 3108).
2. Implementing rules and regulations, 15 CFR part 806.
3. Public notice soliciting comments on the information collection.