

Statistical bulletin

# Foreign direct investment involving UK companies: 2013

Investment of UK companies abroad (outward) and foreign companies into the UK (inward), including investment flows, positions and earnings, by country, component and industry.



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# 1 . Main points

- Net flows of Foreign Direct Investment (FDI) abroad (outward investment) decreased from £27.4 billion in 2012 to £17.2 billion in 2013
- The UK international investment position abroad (outward Investment) fell from £1,043 billion in 2012 to £1,035 billion in 2013, the second consecutive fall from a peak of £1,091 billion in 2011
- Net earnings from direct investment abroad by UK companies (outwards earnings) fell from £79.9 billion in 2012 to £68.7 billion in 2013
- New flows of FDI into the UK (inward investment) fell from £44.6 billion in 2012 to £43.7 billion in 2013
- The international investment position held by foreign companies in the UK (inward investment) increased from £960 billion in 2012 to £975.4 billion in 2013. This has increased consistently since 2004, when the international investment position held by foreign companies was £363.4 billion
- Net earnings from direct investment in the UK (inward investment) increased from £48.9 billion in 2012 to £54.3 billion in 2013, and have been on an upward trend since the 2008-09 economic downturn

## 2 . Your views matter

We are constantly aiming to improve this release and its associated commentary. We would welcome any feedback you might have and would be particularly interested in knowing how you make use of these data to inform our work. For further information please contact us via email: [fdi@ons.gsi.gov.uk](mailto:fdi@ons.gsi.gov.uk) or telephone Michael Hardie on +44 (0)1633 455923.

## 3 . Overview

Data on Foreign Direct Investment (FDI) flows, positions and earnings involving UK companies are presented in this release. The investment figures are published on a net basis, that is, they consist of investments minus disinvestments. Investments can include acquisitions of assets or shares and disinvestments can include the disposal of assets or shares.

Estimates are published for 2003 to 2013 – the 2012 estimates are revised and 2013 published for the first time. In previous years this information has been published separately – Foreign Direct Investment (December) and Foreign Direct Investment MA4 (February). The latter being a repeat publication with an additional industry and component breakdown.

The Office for National Statistics (ONS) recently implemented changes to the Balance of Payments (BoP) and International Investment Position (IIP), which are required to meet new international standards and guidelines as a result of the implementation of the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6). A summary of these are outlined in [Methodological changes to the measurement of the Balance of Payments as a result of the introduction of BPM6](#).

This statistical bulletin includes information on a direction principle (2003-2013) for continuity of presentation, in response to user feedback. These data are based on the Annual Foreign Direct Investment Survey.

Data on an asset liability principle (2012-2013) will be published alongside the Balance of Payments (30 June). These data, which are also based on the Annual Foreign Direct Investment Survey, will be used to benchmark the data currently published for 2013, which are based on the Quarterly FDI Survey. This benchmarking process will be carried out alongside the release of the 2013 asset/liability data in June.

This approach has been taken to provide users with the longest time series possible for the detailed industry and country breakdowns, which will only be available for 2012 and 2013 when the asset/liability data are published in June. Also to remain coherent with the Balance of Payments benchmarking process, this will be undertaken at the same time.

ONS will consult regarding the publication of asset/liability and directional data over the next year, with a view to amend the next Annual Foreign Direct Investment publication.

## **FDI net investment flows (Table 1.1)**

The net flow of direct investment abroad by UK companies decreased from £27.4 billion in 2012 to £17.2 billion in 2013, the lowest flow recorded since before 2004. Investment peaked at £159.1 billion in 2007 before falling notably in 2008 (£99.3 billion) and 2009 (£25.1 billion), since then the flow of investment abroad by UK companies has remained broadly stable, with average annual investment of £31.1 billion over the period.

Net investment flows into the UK decreased slightly from £44.6 billion in 2012 to £43.7 billion in 2013. These figures are higher than inward investment in 2010 (£32.1 billion) and 2011 (£28.9 billion), but below the average annual investment between 2005 and 2009 (£74.5 billion).

## **FDI net international investment positions (IIP) (Table 1.2)**

The net position of international investment held abroad by UK companies decreased from £1,043.4 billion in 2012 to £1,035 billion in 2013, the lowest net position of direct investment abroad since 2009 (£981 billion).

The net position of direct investment held in the UK by overseas companies at the end of 2013 was estimated at £975.4 billion, an increase compared with £960.1 billion reported in 2012. The level of inward investment has increased considerably since 2004, when direct investment in the UK by overseas companies was £363 billion.

## **FDI net investment earnings (Table 1.3)**

Net earnings from direct investment by UK companies abroad decreased from £79.9 billion in 2012 to £68.7 billion in 2013. This was the lowest level of earnings since 2009, when earnings from direct investment held abroad was £67.9 billion.

Net earnings from FDI in the UK increased from £48.9 billion in 2012 to £54.3 billion in 2013. Net earnings have followed an upward trend since the 2008-09 economic downturn, when net earnings from FDI in the UK fell dramatically to £3.1 billion in 2008 from £45.1 billion in 2007.

## **Foreign direct investment abroad by geography and industry (Table 3.2)**

In 2013 just under three-quarters (74.4%) of the international investment position held abroad by UK companies was in Europe and USA. This grew in the USA from £190.4 billion in 2012 to £241.2 billion in 2013, but fell in Europe from £572.3 billion in 2012 to £528.9 billion in 2013. The investment position held by UK companies in Asia and Australasia & Oceania increased, while there was a small fall in the UK's investment position in Africa.

The 2013 increase in investment position in the Americas was supported by a positive investment flow of £28.3 billion and the fall in Europe by a negative investment flow of £17.6 billion. The former reflects a £10.1 billion investment in the Financial Services industry. There was a positive investment flow of £6.9 billion to Australasia & Oceania, but the investment position only increased by £2.2 billion, suggesting that the stock of assets held by UK companies fell in value. There was also a disinvestment of £1.1 billion in Asia; however the investment position increased by £6.9 billion, due to an increase in value of the assets held by UK companies.

Net earnings from the direct investment held by UK companies abroad varied noticeably by region. In Europe, earnings fell slightly by £0.7 billion to £26.7 billion between 2012 and 2013; a notable fall in financial services was partially offset by mainly smaller gains elsewhere. Earnings in The Americas and Asia both fell from £24.1 billion to £19.3 billion and £17.0 billion to £14.0 billion respectively. The latter reflects a fall in earnings in the petroleum, chemicals, pharmaceuticals, rubber, plastic products industry, where earnings fell from £2.0 billion in 2012 to negative £1.9 billion in 2013.

## **Foreign direct investment in the UK by geography and industry**

The net position of direct investment in the UK by overseas companies has increased consistently since 2003, with all regions contributing, albeit at different rates. The most notable contributions came from Europe and the Americas; together these accounted for nearly 90% of the inward investment position in the UK in 2013. The European investment position, however, did fall slightly from £553.8 billion in 2012 to £547.7 billion in 2013, while the investment position held by the Americas increased from £305.1 billion in 2012 to £319.3 billion in 2013. The inward investment position from Asia remained broadly stable, while there were increases in the investment position held by companies from Australasia & Oceania and Africa.

Despite the investment position in Europe falling, there remained a positive investment flow in 2013 of £12.5 billion, suggesting that the value of the assets held by European companies in the UK fell compared with 2012. In contrast the increase in the investment position in the Americas was supported by an investment flow of £14.3 billion in 2013. The flow of investment from Asian into UK companies decreased from the previous year but remained positive, which when analysed alongside the broadly stable investment position shows that some assets held have fallen in value.

Earnings received by foreign investors in the UK increased from £48.9 billion in 2012 to £54.3 billion in 2013. The largest contribution came from Europe (£24.0 billion in 2012 to £31.5 billion in 2013).

## **Rate of return analysis**

Another useful Foreign Direct Investment indicator is the rate of return, which is calculated as earnings divided by positions.

Overall, the implied rate of return for outward direct investment abroad by UK companies fell between 2012 (7.7%) and 2013 (6.6%), and has only been lower on one occasion (2008 – 6.5%) since 2004. In contrast, the rate of return for foreign companies investing in the UK increased between 2012 (5.1%) and 2013 (5.6%). This compares favourably with the rate of return experienced during the 2008-09 economic downturn, but not favourably to the rate of return prior to this period.

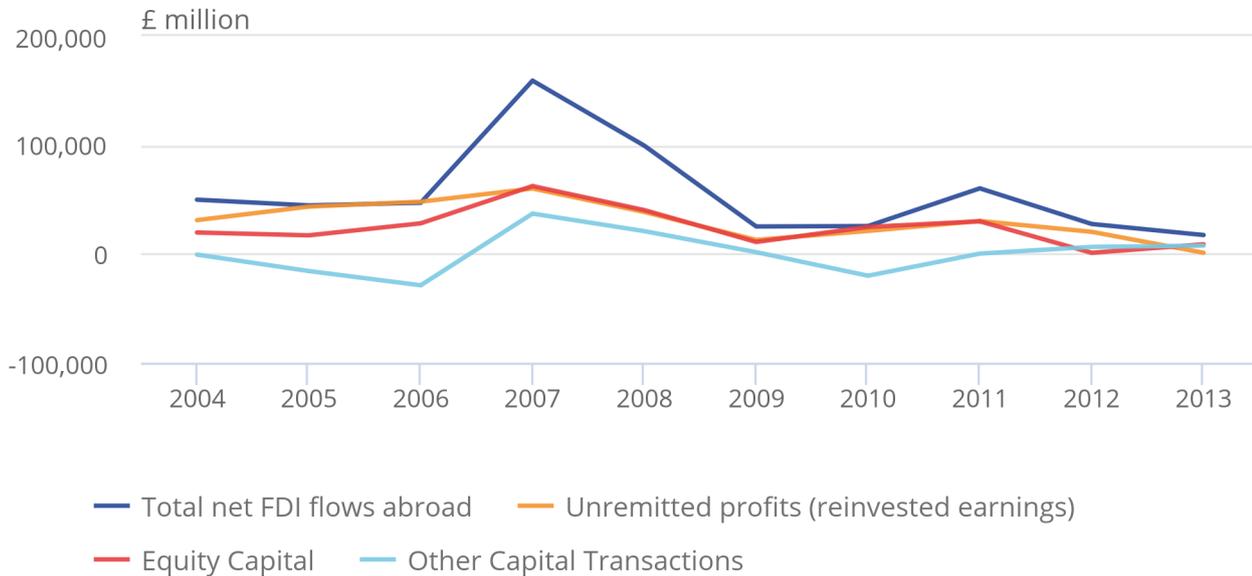
# **4 . Net FDI flows abroad by component and industry**

## **Component analysis (Table 1.1 and Table 2.2)**

Net FDI flows are made up of three primary components: reinvested earnings (sometimes known as unremitted profits); equity capital transactions (including mergers, acquisitions and disposals); and other capital transactions (including inter-company loans).

Figure 1: FDI net flows abroad by UK companies (outward)

Figure 1: FDI net flows abroad by UK companies (outward)



Source: Office for National Statistics

## Summary

Figure 1 shows total net direct investment abroad decreased from £27.4 billion in 2012 to £17.2 billion in 2013, which reflects a fall in reinvested earnings, which fell from £20.2 billion in 2012 to just under £1 billion in 2013. This was partially offset by other capital transactions, which increased from £6.3 billion in 2012 to £7.5 billion in 2013.

## Services

UK net investment abroad involving services industry companies increased in 2013 with the largest contributions coming from Europe and the Americas. In Europe, investment decreased most notably in the retail & wholesale trade, repair of motor vehicles & motor cycles and professional, scientific & technical services industries. There was also an increase in investment in the financial services industry, from a disinvestment of £4.8 billion to an investment of £0.8 billion, which reflects increased investment by Luxembourg (+£5.9 billion), Sweden (+£2.1 billion), and the Netherlands (+£1.2 billion). However, this was partially offset by a disinvestment in the financial services industry in France (-£7.2 billion), Switzerland (-£3.3 billion), and Ireland (-£1.4 billion).

## **Production**

UK net investment abroad to the production industry fell for the third consecutive year, from £22.0 billion in 2011 and £14.7 billion in 2012, to a disinvestment of £10.8 billion in 2013. The disinvestment in 2013 was mainly due to the petroleum, chemicals, pharmaceuticals, rubber, and plastic products industry (£11.7 billion) in Europe. Other notable disinvestments occurred in the mining & quarrying industry in Russia (£10.1 billion) and the Near and Middle East Countries (£5.9 billion).

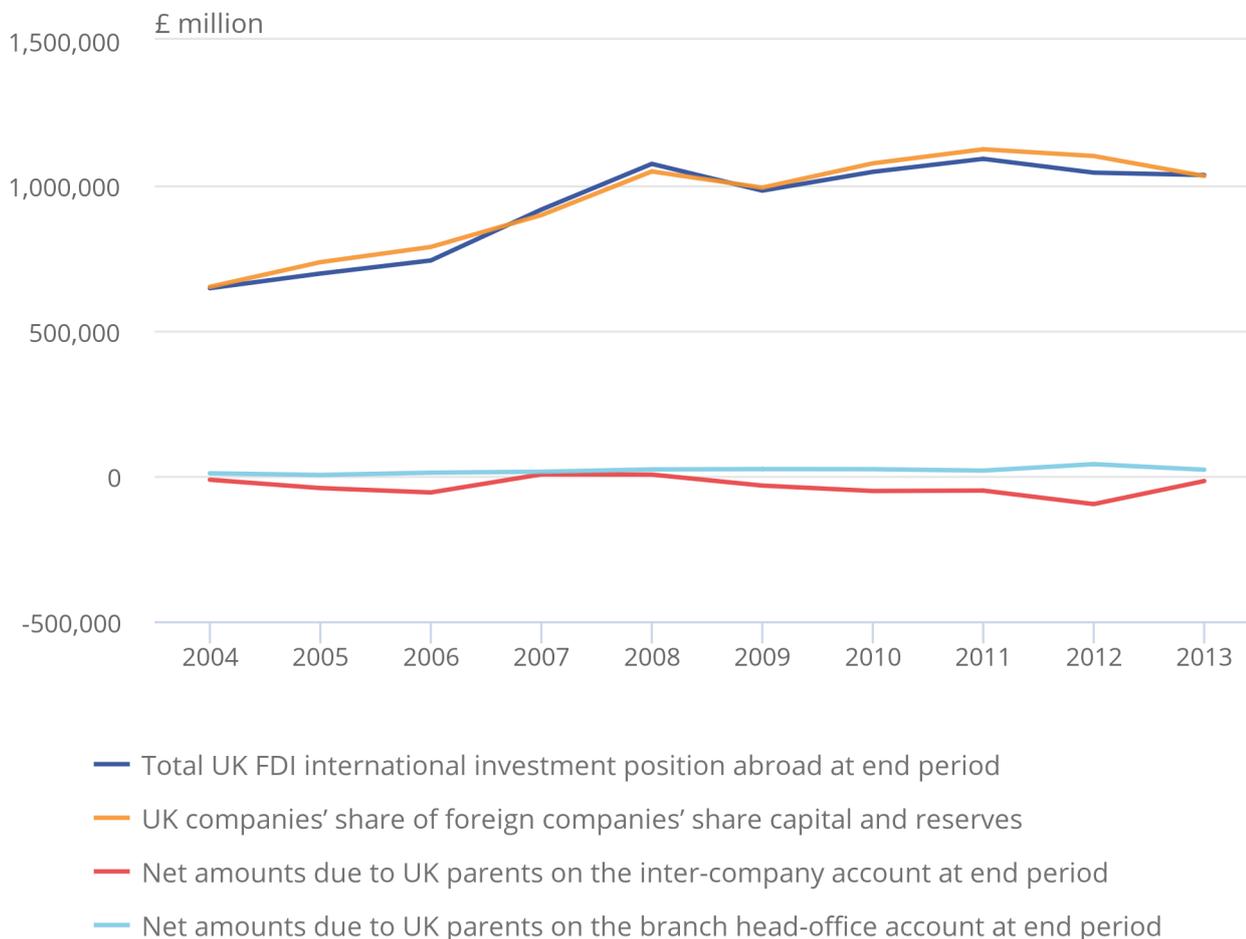
## **5 . Net FDI international investment positions abroad by component and industry**

### **Component analysis (Table 1.2)**

FDI international investment positions are made up of three primary components: UK companies share of their foreign companies' affiliates share capital and reserves, inter-company account balances and foreign branch head-office account movements to the UK parent.

**Figure 2: FDI net international investment positions abroad by component and industry**

Figure 2: FDI net international investment positions abroad by component and industry



**Source: Office for National Statistics**

The net international investment position decreased from £1,043 billion in 2012 to £1,035 billion in 2013, the second consecutive fall from a peak of £1,091 billion in 2011. This change reflects a fall in share capital and reserves, which decreased from £1,101.6 billion in 2012 to £1,031.9 billion in 2013. This was partially due to the net amount due to UK parents on the inter-company account, which continued to be negative for the fifth consecutive year. In addition to this, the net amount due to UK parents on the branch head-office account at the end of the period decreased from £40.1 billion to £21.1 billion, but nevertheless had a positive impact on the UK investment position.

## Services

The services industry accounted for 46.4% of the UK's investment position held abroad in 2013, down from 50.6% in 2012. Within the services industries, financial services accounted for £263.5 billion at the end of 2013, compared with £294.5 billion at the end of 2012; Netherlands, Switzerland, France, and Luxembourg were the largest contributors to this change. Information & communication services accounted for £94.6 billion at the end of 2013, compared with £114.0 billion at the end of 2012; again the largest changes were in Europe.

## **Production**

The UK outward net position for the production industry increased from £357.8 billion in 2012 to £376.8 billion in 2013. The mining & quarrying industry accounted for £198.7 billion of the investment position held abroad by UK companies in 2013, increasing from £177.8 billion in 2012. The majority of which is held in Europe (£62.1 billion), followed by Asia (£24.5 billion). Other important production industries include the food products, beverages & tobacco products and the petroleum, chemicals, pharmaceuticals, rubber & plastic products, which accounted for £54.5 billion and £62.9 billion of the total investment position respectively in 2013.

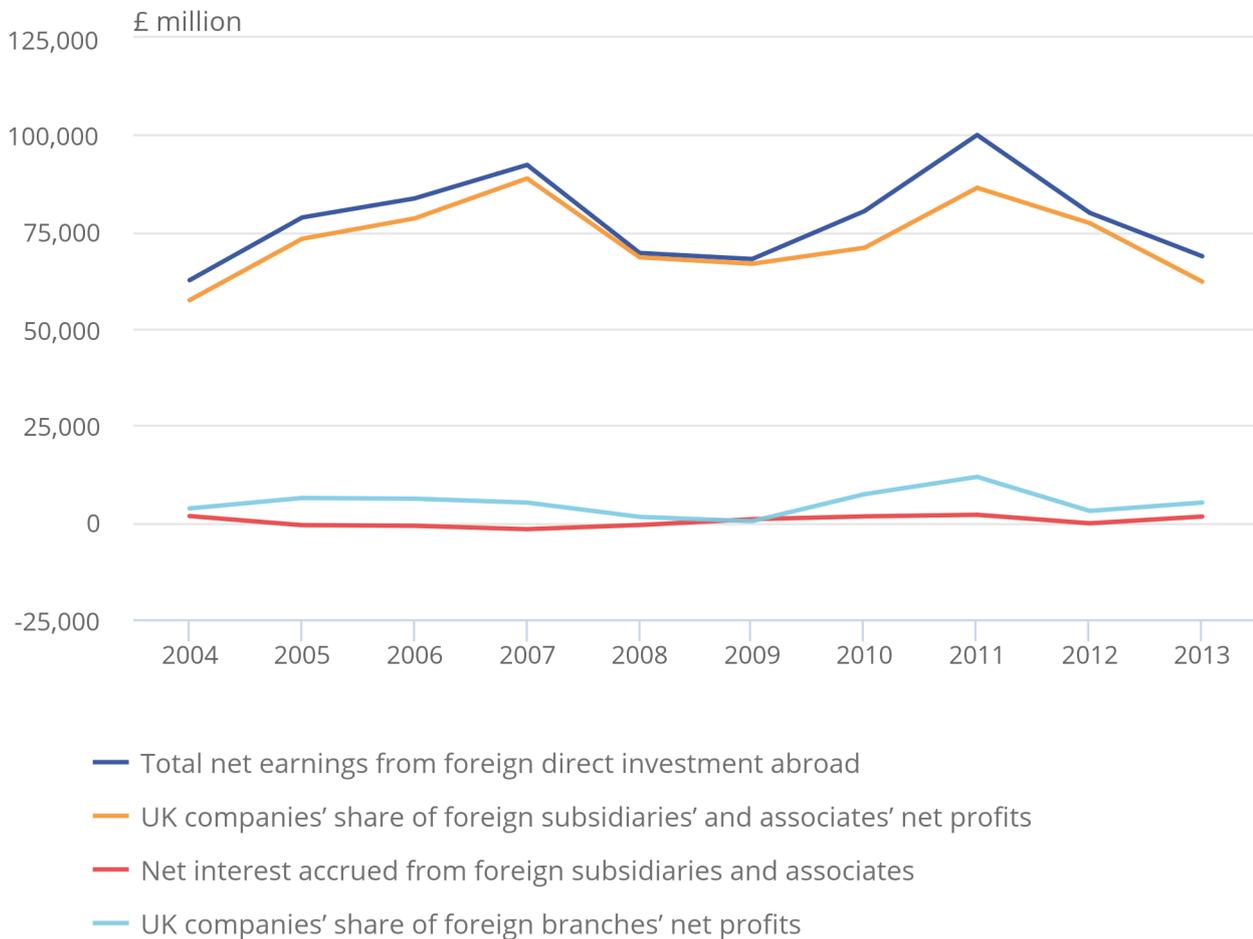
## **6 . Net earnings from FDI investment abroad by component and industry.**

### **Component analysis (Table 1.3)**

Net FDI earnings abroad by UK companies are made up of three primary components. These include net subsidiaries profit, net interest incurred by UK companies and net branch profits.

**Figure 3: FDI net earnings abroad by UK companies (outward)**

Figure 3: FDI net earnings abroad by UK companies (outward)



Source: Office for National Statistics

In 2013, net FDI earnings abroad decreased when compared with 2012, falling from £79.9 billion to £68.7 billion. This is a return to levels experienced during the 2008-09 economic downturn.

## Services

Total earnings from direct investment in the services industry decreased slightly in 2013 by £2.7 billion to £25.5 billion, mainly due to a notable decrease in earnings from the financial services industry, particularly in Europe, and falls in Luxembourg and Switzerland. Other industries remained largely consistent, with several slight increases, partially offsetting the decline in financial services earnings.

## **Production**

Earnings from UK investment in the production industry abroad decreased to £32.1 billion in 2013, compared with £39.5 billion in 2012. This reflects fully in the mining & quarrying, petroleum, chemicals, pharmaceuticals, rubber & plastic products and transport equipment industries. Earnings within petroleum and chemicals industries underwent a notable decline in Asia, from a £2.0 billion investment to a disinvestment of £1.9 billion in 2013. Food products, beverages and tobacco products was the production industry where earnings increased notably, from £3.8 billion in 2012 to £5.6 billion in 2013.

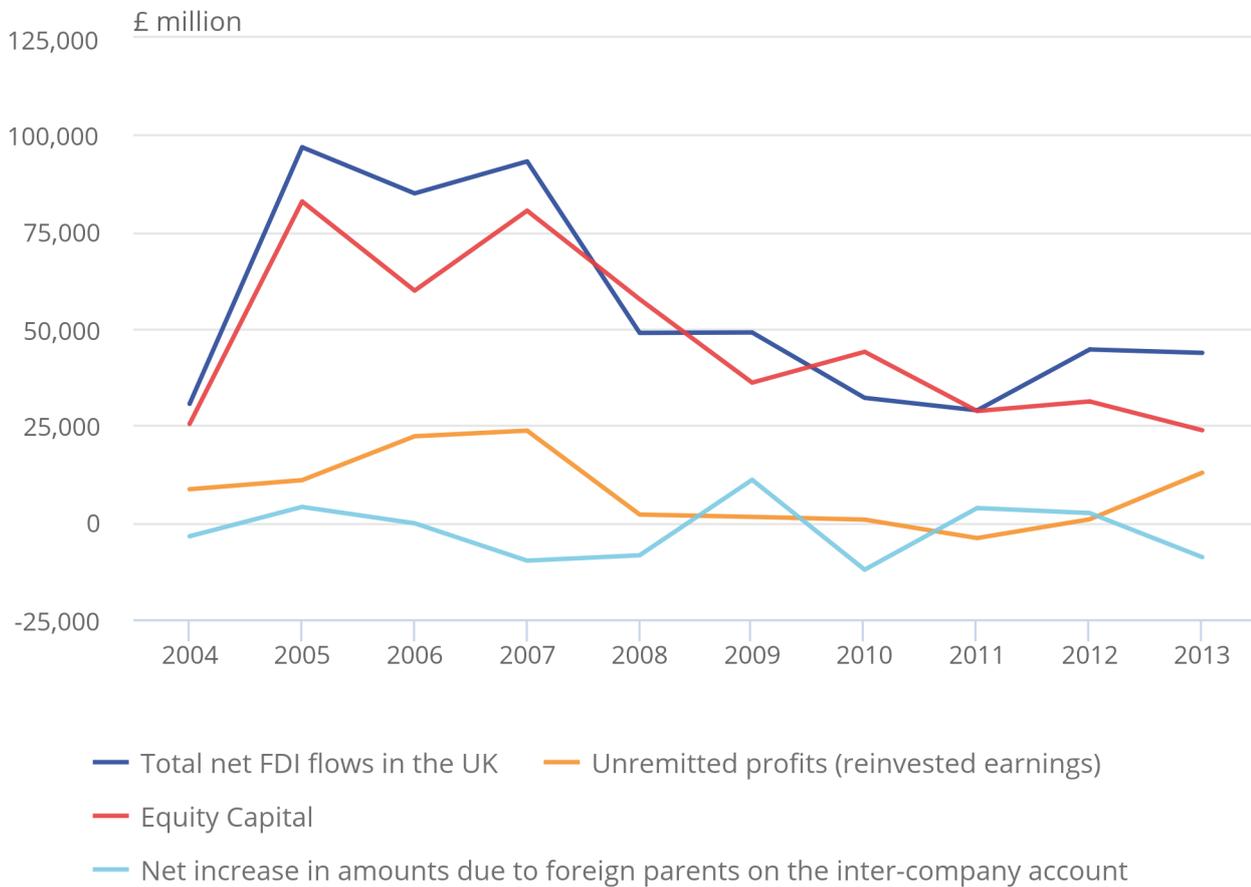
## **7 . Net FDI flows into the UK (inward) by component and industry**

### **Component analysis (Table 1.1)**

Net FDI flows are made up of three primary components: reinvested earnings (sometimes known as unremitted profits); equity capital transactions (including mergers, acquisitions and disposals); and other capital transactions (including inter-company loans).

**Figure 4: FDI flows into the UK (inward) by component and industry**

Figure 4: FDI flows into the UK (inward) by component and industry



Source: Office for National Statistics

Total net FDI flows in the UK decreased from £44.6 billion in 2012 to £43.7 billion in 2013. This was considerably lower than the peak of £96.8 billion reported in 2005. Equity capital, which is net acquisitions and disposals of UK companies involved in FDI, has been the main contributor of total net FDI flows since 2004. This fell from £31.2 billion in 2012 to £23.8 billion in 2013, and has been on a broad downward trend since 2007. In contrast, unremitted branch profits have been on an upward trend since 2011, and increased from £0.8 billion in 2012 to £12.8 billion in 2013. Inter-company movements, contributed negatively by £9.0 billion, following positive contributions of £3.7 billion and £2.4 billion in 2011 and 2012 respectively.

## Services

Net investment into the services industry decreased slightly from £36.2 billion in 2012 to £31.6 billion in 2013. This reflects a decrease in the investment flows from Europe which fell to £10.5 billion in 2013, down from £23.0 billion. The professional, scientific & technical services industry was the main driving force behind the fall in flows from Europe, with a decrease of £3.0 billion reported within this industry in 2013. However, the financial services reported a decrease in investment flows from £13.9 billion to £12.2 billion. This decrease was most prominent in Europe where an increase of £4.9 billion was reported between 2012 and 2013.

## Production

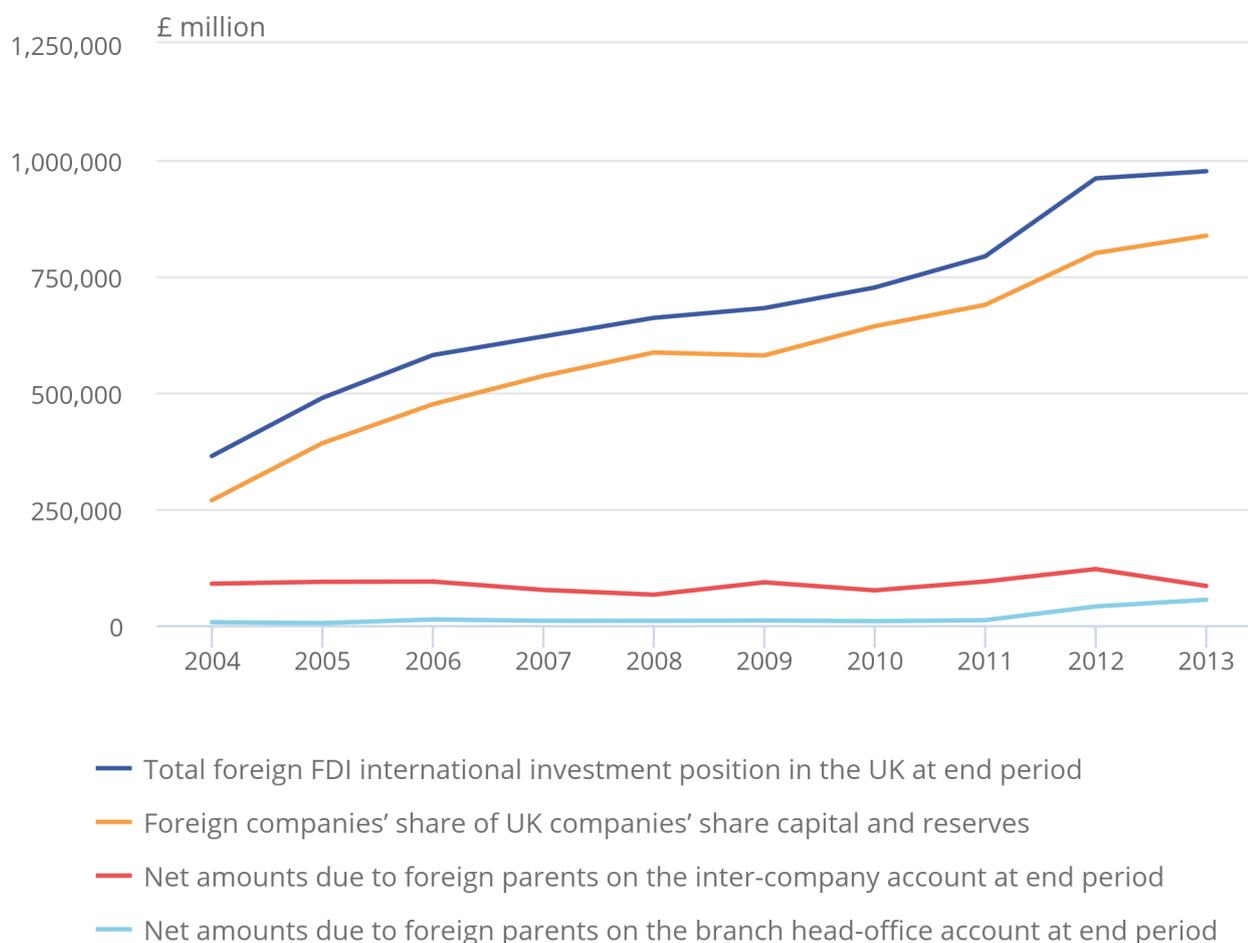
Net investment into the production industry improved from £5.9 billion in 2012 to £9.4 billion in 2013. This reflects a change from a disinvestment of £3.7 billion in 2012 to an investment of £4.2 billion in 2013 in the mining & quarrying industry – United States of America (£4.8 billion). Five out of nine production industries reported an increase in investment in 2013, however a disinvestment of £1.7 billion was observed in the petroleum, chemicals, pharmaceuticals, rubber and plastic products industry, from a disinvestment of £0.3 billion.

## 8 . Net FDI international investment positions in the UK (Inward) by component and industry

FDI international investment positions are made up of three primary components: UK companies share of their foreign companies' affiliates share capital and reserves, inter-company account balances and foreign branch head-office account movements to the UK parent.

**Figure 5: FDI net international investment positions in the UK held by foreign companies (inward)**

Figure 5: FDI net international investment positions in the UK held by foreign companies (inward)



Source: Office for National Statistics

Foreign companies' share of UK companies share capital and reserves increased from £799.6 billion in 2012 to £836.8 billion in 2013. This has been increasing consistently on an annual basis since 2004, with the exception of 2009. The other two components are comparably small and stable: net amounts due to foreign parents on the inter company account – decreased from £120.4 billion in 2012 to £84.1 billion in 2013 and the net amount due to foreign parents on the branch head office account increased from £40.1 billion in 2012 to £54.5 billion in 2013.

## **Services**

The UK inward net positions within the services industry increased from £595.4 billion in 2012 to £632.4 billion in 2013, and accounted for 64.8% of the total UK inward position at the end of 2013, a slight increase from 62.0% in 2012. This increase was mainly due to Europe and the United States, where positions increased by £15.1 billion and £8.4 billion respectively in 2013. While the majority of the services industries within Europe have increased between 2012 and 2013, the industry which provided the largest contribution was financial services, which increased by £10.3 billion.

## **Production**

Within the production industry, the investment position decreased in 2013 for the first time since 2010, down from £323.1 billion in 2012 to £299.1 billion. The mining & quarrying industry remained broadly stable, £84.8 billion in 2012 to £84.6 billion in 2013, whereas there was a decrease in the investment position of the petroleum, chemicals, plastic and fuel products, from £37.3 billion in 2012 to £30.8 billion in 2013. A decrease was also observed in other manufacturing products which was £35.4 billion in 2013, down from £42.3 billion in 2012.

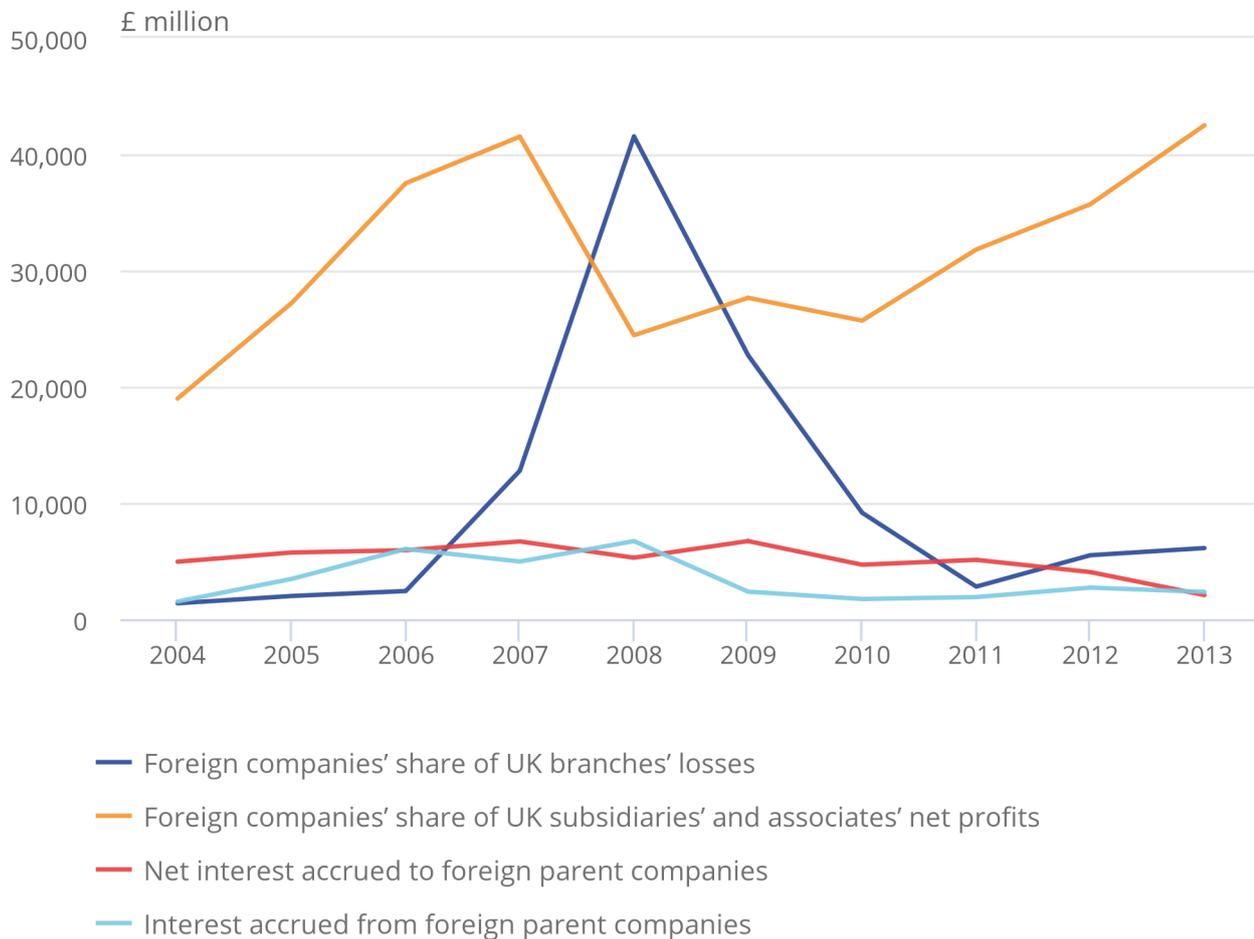
# **9 . Net earnings from FDI investment in the UK (inward) by component and industry**

## **Component Analysis (Table 1.3)**

Net earnings from FDI in the UK are made up of three primary components. These include net subsidiaries profit, net interest incurred by UK companies and net branch profits.

**Figure 6: FDI net earnings into the UK by foreign companies (inward)**

Figure 6: FDI net earnings into the UK by foreign companies (inward)



Source: Office for National Statistics

Net profits, or reinvested earnings, have been on a broad upward trend since 2008 and have been the main contributor to FDI earnings since 2004. Net profits increased from £35.7 billion in 2012 to £42.5 billion in 2013. The remaining components: net interest accrued to foreign parent companies and foreign companies share of UK branches net profits have been broadly stable since 2010, having taken different paths in the pre-2010 years.

## Services

Earnings in the services industry increased from £25.9 billion in 2012 to £34.5 billion in 2013. This was mainly due to Europe, where earnings almost doubled, from £11.3 billion in 2012 to £19.1 billion in 2013. This is partly attributed to the financial services industry, where earnings increased from £3.6 billion in 2012 to £7.3 billion in 2013.

## Production

Earnings from foreign direct investment within the production industry decreased from £18.8 billion in 2012 to £14.3 billion in 2013. This was mainly due to the United States which recorded figures of £3.4 billion in 2013, down from £6.1 billion in 2012, indicating that earnings from foreign direct investment in the UK's production industry almost halved for American investors. While a downward change was observed across every manufacturing industry with the exception of transport equipment, the main negative change for the United States was the mining & quarrying industry where earnings fell from £2.4 billion in 2012 to £1.2 billion in 2013.

## 10 . FDI economic commentary

The UK experienced better economic conditions in 2013 as annual GDP growth increased to 1.7% from 0.7% in 2012. The UK also remained one of the most active countries for outward and inward FDI in the world. Data from the [OECD](#) suggest that 6.3% of the total world inward FDI position was due to the UK in 2013, with the UK holding the same proportion of the total world outward FDI position too. This is smaller than that of the United States (19.1% and 25.1% of the world inward and outward positions respectively) but higher than the proportions held by the other G7 nations.

Global economic activity was largely maintained in 2013. The latest [International Monetary Fund \(IMF\)](#) data estimated that world real GDP grew by 3.3% in 2013 after growing by 3.4% in 2012. The advanced economies grew by 1.4% in 2013, compared with growth of 1.2% in 2012. This is partly reflecting the continuing economic adjustments in some economies following the 2008-09 economic downturn. Meanwhile, growth in the rest of the world slowed to 4.7% compared with 5.1% in 2012. The IMF found that a number of emerging markets now have lower potential growth rates than in earlier years.

## 11. Background notes

### 1. Basic quality information

The [Quality and Methods Information document \(QMI\) \(629.3 Kb Pdf\)](#) for Foreign Direct Investment (FDI) describes, in detail, the intended uses of the statistics presented in this publication, their general quality and the methods used to produce them.

### 2. Key issues specific to this release

The estimates in this statistical bulletin are based on annual FDI surveys for 2013.

A summary of these results, by geography, was previously released as an Office for National Statistics (ONS) Statistical Bulletin for Foreign Direct Investment involving UK companies in early December, with another statistical bulletin published in February, Foreign Direct Investment Involving UK Companies (MA4), which contained a more comprehensive breakdown. This year however these publications have been merged together, into this statistical bulletin. Provisional estimates for 2013, derived from quarterly surveys, have also been published in the quarterly Balance of Payments Statistical Bulletins however the annual surveys provide firmer and more detailed figures. The aggregates for 2013 are included in the Q3 2014 Balance of Payments Statistical Bulletin published on 23 December 2014.

### 3. Key concepts and definitions

**Affiliate:** An affiliate is an umbrella term that covers both subsidiaries and associates where the investor holds more than 10% of the equity share capital.

**Table A: Affiliate**

FDI relationship	Minimum Investment	Maximum Investment
Affiliate	10%	100%
Associate	10%	Less than 50%
Subsidiary	Greater than 50%	100%

Source: Office for National Statistics

**Branch:** A branch is a permanent establishment as defined for UK corporation tax and double taxation relief purposes. This is not a separate legal entity. Such establishments should either have a complete set of accounts or be able to compile a meaningful set of accounts, from both an economic and legal viewpoint.

**Direct investment:** Foreign Direct Investment (FDI) refers to investment that adds to, deducts from or acquires a lasting interest in an enterprise operating in an economy other than that of the investor where the investor's purpose is to have an effective voice in the management of the enterprise.

For the purposes of FDI statistics, an effective voice is taken as equivalent to holding 10% or more of the equity share capital in the direct investment enterprise. Other investments, in which the investor does not have an effective voice in the management of the enterprise, are mainly portfolio investments and these are not covered in this release.

From the 2005 FDI survey, cross-border investment by public corporations and private property investments are included, as in the Balance of Payments data. Direct investment is a financial concept and is not the same as capital expenditure on fixed assets. It covers only the money invested in a related enterprise by the parent company with the enterprise having the discretion on how to use it.

A related enterprise may also raise money locally without reference to the parent company. The investment figures are published on a net basis, that is, they consist of investments net of disinvestments by a company into its subsidiaries.

**Direct investment earnings:** Direct investment earnings (a part of the income account) provide information on the earnings of direct investors. These can arise from both equity and debt.

**Direct investment flows:** Direct investment flows (or transactions) show the net inward and outward investments made during any given reference period. FDI flows comprise of:

- acquisitions/disposals of equity capital
- reinvestment of earnings
- inter-company debt

FDI inward flows provide a useful indicator in relation to the attractiveness of economies but such interpretations require additional information on which to base sound conclusions.

**Direct investment positions:** Direct investment positions (also known as levels or stocks) provide information on the total level of investment made abroad/received from abroad for a given reference date.

**Inward direct investment:** From a UK perspective, inward direct investment is investment in a UK resident affiliate (subsidiary or associate) or branch by a non-UK parent company or head office. This can also be referred to as direct investment into the UK.

**Outward direct investment:** From a UK perspective, outward direct investment is investment by a UK resident company in a non-UK affiliate (subsidiary or associate) or branch. This can also be referred to as direct investment abroad.

**Reinvested earnings:** Reinvestment of earnings, or reinvested earnings, refer to earnings on equity accruing to direct investors less the value of distributed earnings. Reinvested earnings are included in direct investment income because the earnings of the subsidiary, associate or branch are deemed to be the income of the direct investor (proportionate to the direct investor's holding of equity), whether they are reinvested in the enterprise or remitted to the direct investor. Reinvested earnings are also treated as a flow of direct investment from the direct investor to their overseas enterprise.

**Special Purpose Entities (SPEs):** The term SPE is used to refer to entities such as financing subsidiaries, shell companies and conduits, which typically do not conduct any notable operations in the country in which they are resident other than to pass-through investments from their parent company to an affiliate in another country.

#### 4. Relevance to users

The UK's FDI statistics are produced according to the agreed international standards set out in the third edition of the OECD's Benchmark Definition of FDI (BD3) and the fifth edition of the IMF's Balance of Payments Manual (BPM5). The definitions and standards set out in BD3 and BPM5 were adopted in 1997. The changes made since 1997 are detailed in the Quality and Methods Information document linked in background note 2 above. Complying with these standards ensures that the FDI statistics produced by the UK are comparable with those from other countries, something that is critical to many users of these estimates.

The OECD and IMF have recently released new versions of their manuals concerning FDI statistics (BD4 and BPM6). These revised manuals reflect the changes that have occurred in international finance since the previous updates. Along with other countries, the UK is currently implementing these manuals, and this is the first edition of this publication to reflect the changes, and as such is fully BD4 and BPM6 compliant.

For more detail on these changes see the guidance and methodology section of the ONS website.

ONS makes every effort to provide informative commentary on the data in this release. As part of the quality assurance process, individual businesses are contacted in an attempt to capture reasons for large period-on-period data movements. It can prove difficult to gather detailed reasons from some businesses to help inform the commentary. Frequently, reasons given for data movements refer to a 'change in market conditions' or a 'restructure of the company'. Consequently, it's not possible for all data movements to be fully explained.

ONS are aware that a number of users make use of these data for modelling or forecasting purposes. In doing so, it is important that users make note of our revisions policy (see note 7 in the background notes) and that all time series are on a 'current price' basis, which means that the values are as they were at the time of measurement and not adjusted for inflation.

One question often asked of the FDI release is 'why are there high levels of investment to and from countries such as Luxembourg and Jersey where there are relatively low levels of economic activity?' The reason is that ONS figures record transactions between the UK and the first port of call. Some companies are structured such that the first destination is used to pass through investments to a second country in

order to take advantage of certain business conditions, such as low tax regimes. This can lead to distortions within the figures.

In line with the Code of Practice for Official Statistics, the Office for National Statistics (ONS) will consult fully with data providers and users of the statistics regarding any changes that occur as a result of the adoption of the new manuals.

FDI estimates are essential for measuring the UK’s Balance of Payments and the UK’s international investment position. FDI earnings figures feed into the Balance of Payments current account, while FDI flows form an integral part of the financial account. FDI statistics are also of great interest in their own right. By its very nature, FDI is seen as promoting stable and long-lasting economic links between countries. It is generally believed that FDI can assist host countries in developing local enterprises, promote international trade through access to markets and contributes to the transfer of technology and know-how. FDI can also have an impact on the development of labour and financial markets. Regular analysis of FDI trends and developments is therefore an integral part of most macro-economic and cross-border financial analysis. Identifying partner countries and industries is central to most such analysis.

Within the UK, FDI estimates are used by a large number of government departments for briefing and policy purposes. These include HMRC, Cabinet Office, HM Treasury, UK Trade and Investment, the Bank of England, the Department for Business, Innovation and Skills and the Department for International Development.

UK FDI figures are also extensively used for policy, analysis and negotiations by international organisations, including Eurostat, UNCTAD, OECD and IMF, as well as a number of foreign embassies. More widely the FDI estimates are utilised by commercial companies, academics and independent researchers.

**Your views matter**

We are constantly aiming to improve this release and its associated commentary. We would welcome any feedback you might have and would be particularly interested in knowing how you make use of these data to inform our work. Please contact us via email: [fdi@ons.gsi.gov.uk](mailto:fdi@ons.gsi.gov.uk) or telephone Michael Hardie on +44 (0) 1633 455923.

**5. Guidance on interpreting foreign direct investment statistics and making international comparisons**

**Exchange rates:** Enterprises are asked to returns values in sterling, as entered in their accounts, rounded to the nearest £0.1 million. Where conversion from a foreign currency is involved, they are asked to use the same rate of exchange as in their own accounts. The effect of exchange rates should not be underestimated as these can also have a large impact on the differences between positions figures when making comparisons with other countries.

**Valuation of equity:** Enterprises are asked to return market values and book values where possible. Enterprises are asked to refrain from using any other valuation method such as historical cost. Book values are likely to be notably different from current market values as book values tend to reflect values at earlier periods when assets were acquired or subsequently re-valued. The effect of using different valuation methods should not be underestimated as these can also have a large impact on the differences between positions figures when making comparisons with other countries.

**SPEs (Special Purpose Entities):** These companies, that have been set up for pass-through investment purposes, are very difficult to identify and as a consequence there can be huge discrepancies in data with countries such as Luxembourg and the Netherlands. Current methodology stipulates that we measure cross-border transactions only but merely identify whether the partner country is an SPE or not. We do not ask where the next destination is and this can show distortions in the figures.

**Table B: Definitions of geographic and economic areas**

Europe			
EU			
Austria	Belgium	Bulgaria	Cyprus
Cyprus	Czech Republic	Denmark	Estonia
Finland	France	Germany	Greece
Hungary	Irish Republic	Italy	Latvia

Lithuania	Luxembourg	Malta	Netherlands
Poland	Portugal	Romania	Slovakia
Slovenia	Spain	Sweden	
EFTA			
Iceland	Liechtenstein	Norway	Switzerland
Other European Countries			
Albania	Andorra	Belarus	Bosnia and Herzegovina
Faroe Islands	Gibraltar	Macedonia, the Former Yugoslav Republic of	Moldova
Montenegro	Russian Federation	San Marino	Serbia
Turkey	UK Offshore Islands (Guernsey, Jersey, other Channel Islands & Isle of Man)	Ukraine	Vatican City State
The Americas			
Anguilla	Antigua & Barbuda	Argentina	Aruba
Bahamas	Barbados	Belize	Bermuda
Bolivia	Bonaire, Sint Eustatius & Saba	Brazil	British Virgin Islands
Canada	Cayman Islands	Chile	Colombia
Costa Rica	Cuba	Curacao	Dominica
Dominican Republic	Ecuador	El Salvador	Falkland Islands
Greenland	Grenada	Guatemala	Guyana
Haiti	Honduras	Jamaica	Mexico
Montserrat	Nicaragua	Panama	Paraguay
Peru	St Kitts & Nevis	Saint Lucia	Sint Maarten
St Vincent & the Grenadines	Suriname	Trinidad & Tobago	Turks & Caicos Islands
Uruguay	US Virgin Islands	USA	Venezuela
Asia			
Near & Middle East Countries			
Armenia	Azerbaijan	Palestinian Territory	Georgia
Iran	Israel	Jordan	Lebanon
Syria			
Gulf Arabian Countries			
Bahrain	Iraq	Kuwait	Oman
Qatar	Saudi Arabia	United Arab Emirates	Yemen
Other Asian Countries			
Afghanistan	Bangladesh	Bhutan	Brunei Darussalam
Burma/Myanmar	Cambodia	China	Hong Kong
India	Indonesia	Iran	Japan
Kazakhstan	Kyrgyzstan	Laos	Macao
Malaysia	Maldives	Mongolia	Nepal

North Korea	Pakistan	Philippines	Singapore
South Korea	Sri Lanka	Taiwan	Tajikistan
Thailand	Timor - Leste	Turkmenistan	Uzbekistan
Viet Nam			
<hr/>			
Australasia & Oceania			
American Samoa	Antarctica	Australia	Bouvet Island
Christmas Island	Cocos (Keeling) Islands	Cook Islands	French Polynesia
French Southern & Antarctic Lands	Fiji	Guam	Heard Island & Macdonald Islands
Kiribati	Marshall Islands	Micronesia, Federated States of	Nauru
New Caledonia	New Zealand	Niue	Norfolk Island
Northern Mariana Islands	Palau	Papua New Guinea	Pitcairn
Samoa	Solomon Islands	South Georgia & South Sandwich Islands	Tokelau
Tonga	Tuvalu	US Minor Outlying Islands	Vanuatu
Wallis & Futuna			
<hr/>			
Africa			
Algeria	Angola	Benin	Botswana
British Indian Ocean Territory	Burkina Faso	Burundi	Cameroon
Cape Verde	Central African Republic	Chad	Comoros
Congo	Democratic Republic of the Congo (Zaire)	Djibouti	Egypt
Equatorial Guinea	Eritrea	Ethiopia	Gabon
Gambia	Ghana	Guinea	Guinea Bissau
Ivory Coast (Cote d'Ivoire)	Kenya	Lesotho	Liberia
Libya	Madagascar	Malawi	Mali
Mauritania	Mauritius	Morocco	Mozambique
Namibia	Niger	Nigeria	Rwanda
Sao Tome & Principe	Senegal	Seychelles	Sierra Leone
Somalia	South Africa	South Sudan	St Helena, Ascension & Tristan da Cunha
Sudan	Swaziland	Tanzania	Togo
Tunisia	Uganda	Zambia	Zimbabwe
<hr/>			
OECD			
Australia	Austria	Belgium	Canada
Chile	Czech Republic	Denmark	Estonia
Finland	France	Germany	Greece
Hungary	Iceland	Irish Republic	Israel

Italy	Japan	Luxembourg	Mexico
Netherlands	New Zealand	Norway	Poland
Portugal	Slovakia	Solvenia	South Korea
Spain	Sweden	Switzerland	Turkey
USA			
<hr/>			
Central & Eastern Europe			
<hr/>			
Albania	Bosnia & Herzegovina	Croatia	Macedonia, former Yugoslav Republic of
Montenegro	Serbia		
<hr/>			

Source: Office for National Statistics

### Industry allocation:

The analysis of UK FDI abroad (outward) is based on the industry of the foreign affiliate. Similarly the analysis of FDI in the UK (inward) is based on the industry of the UK affiliate.

### Table B2: SIC 2007 code and description

Resource industries
Agriculture, forestry & fishing
10 Crop & Animal & Production, hunting & related services activities
20 Forestry & Logging
30 Fishing & Aquaculture
Mining & quarrying (including oil & gas production)
50 Mining of coal & lignite
60 Extraction of crude petroleum & natural gas
70 Mining of metal ores (ferrous & non ferrous incl. Uranium & Thorium)
80 Mining & Quarrying - other
90 Mining & oil gas extraction - support service activities daily
Manufacturing Industries
Food products, Beverages & Tobacco products
100 Manufacture of food products
110 Manufacture of beverages
120 Manufacture of tobacco products
Textiles & wood activities
130 Manufacture of textiles
140 Manufacture of wearing apparel
160 Manufacture of wood & wood products (except furniture), straw articles & plaiting materials
170 Manufacture of paper & paper products
180 Printing & reproduction of recorded media
Petroleum, chemicals, pharmaceutical rubber and plastic products
190 Manufacture of coke &, refined petroleum products
200 Manufacture of chemicals & chemical products (non pharmaceutical)
210 Manufacture of basic pharmaceuticals products & pharmaceutical preparations

220 Manufacture of rubber & plastic products

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Metal & machinery products

240 Manufacture of basic metals (incl. first processing, e.g. tubes, pipes, hollow profiles etc)

250 Manufacture of fabricated metal products (excl machinery & equipment)

280 Manufacture of machinery not elsewhere classified

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Computer, electronic & optical products

260 Manufacture of computer, consumer electronic & optical products

261 Manufacture of electronic components

262 Manufacture of loaded electronic boards

263 Manufacture of communication equipment

264 Manufacture of consumer electronics

265 Manufacture of instruments and appliances for measuring, testing and navigation: watches and clocks

266 Manufacture of irradiation, electro medical & electrotherapeutic equipment

267 Manufacture of optical instruments & photographic equipment

268 Manufacture of magnetic & optical media

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Transport Equipment

290 Manufacture of motor vehicles, trailers and semi trailers

300 Manufacture of other transport equipment

301 Building & shipping & boats

302 Manufacture of railway locomotives & rolling stock machinery

303 Manufacture of air & spacecraft & related

304 Manufacture of military

309 Manufacture of transport equipment not fighting vehicles elsewhere classified

---

Other manufacturing

150 Manufacture of leather & other related products

230 Manufacture of other non metallic mineral products

270 Manufacture electrical equipment (incl. domestic appliances)

310 Manufacture of furniture (domestic & non domestic)

320 Manufacturing of other articles not elsewhere specified (toys, jewellery, musical instruments, sports goods, dental supplies, brooms & brushes)

330 Repair, maintenance & installation of machinery & equipment

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Services Industries

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Electricity, Gas, Water & waste

350 Supply of electricity, gas, steam & air conditioning

360 Water collection, treatment & supply services

370 Sewerage services

380 Waste collection, treatment, disposal recycling services

390 Remediation & other waste management services not elsewhere specified

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Construction

410 Construction of buildings (residential, non residential, commercial, development of building projects

420 Civil engineering (roads, railways, utilities & water projects, other civil engineering projects)

430

Specialised construction activities (demolition & site preparation, wet and dry trade activities, other construction activities)

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Retail and wholesale trade, repair of motor vehicles & motorcycles

450 Wholesale & retail trade, repair of motor vehicles & motorcycles and accessories

460 Wholesale trades (excl motor vehicles & motorcycles)

470 Retail trade (excl motor vehicles & motorcycles)

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Transportation & storage

490 Transport on land (incl.pipelines)

500 Transport on water (sea, coastal & inland)

510 Transport in the air (passenger & freight)

520 Transport support activities (warehousing, operation of terminals & stations, cargo handling)

530 Postal & courier activities

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Information & communication

580 Publishing activities (books, newspapers, periodicals directories, software)

590 Motion picture, video & TV production, sound recording & publishing activities

600 Programming & broadcasting activities of radio & TV (over air or via satellite, cable or internet)

610 Telecommunications activities (wired, wireless, satellite & other telecommunications activities)

620 Computer programming, consultancy & related activities (games, software development, programming, computer facilities management)

630 Information services activities (data processing & hosting, web portals, news agencies, other information activities)

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Financial services

641 Banks (64.11 & 64.191)

642 Building societies (64.192)

643 Non Financial holding companies only (64.201/4)

644 Financial holding companies only (64.205)

645 Other financial services trusts & funds

651 Life insurance only (65.11)

652 General insurance, reinsurance & pensions funding (65.12, 65.2, 65.3)

661 Security dealing for others only (66.12)

662 Financial services (services auxiliary to financial services & insurance activities excl security dealing)

663 Fund managers

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Professional, scientific & technical activities

691 Legal activities

692 Accounting activities

701 Head office activities

702 Management consultancy activities (public relations, financial management, consultancy & management activities)

710 Architectural & engineering activities (architecture, urban planning, engineering consultancy, testing and analysis)

720 Scientific research & development (biotechnology, natural sciences, engineering, social sciences and humanities)

731 Advertising

732 Market research (market research, opinion polls, media representation)

740 Design, photography, translation & other professional, scientific & technical services

750 Veterinary activities

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Administration & support service activities

770 Rental & leasing activities (motor vehicles, personal & household goods, intellectual property - excl copyrighted works)

780 Employment activities (employment agencies, entertainment castings, other human resources activities)

790 Travel agencies, tour operators, other reservation service activities

800 Security & investigation activities (investigation, private security, security systems)

810 Services to buildings & landscape activities (facilities support, cleaning, disinfection & extermination, landscaping)

820 Office administrations, support & other business support activities (document preparation, call centres, conference organisers, collection agencies, packaging, other support activities)

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Other Services

550 Accommodation (hotels, holiday accommodation, hostels, camping, other)

560 Food & beverage service activities (restaurants, take aways, catering, pubs, clubs, other food service activities not elsewhere specified)

680 Real estate activities

840 Public administration, compulsory social security

850 Education (primary, secondary & higher education, driving schools, sports education, cultural education, educational support)

860 Human health defence, activities (hospitals, nursing homes, general & specialist medical practice, dental practice)

870 Residential care activities

880 Social work activities without accommodations (elderly, children, other social work activities)

900 Creative arts & entertainment activities (performing arts, operation of arts facilities, artistic creation, support of performing arts)

910 Libraries, archives, museums and other cultural activities (botanical, zoological nature reserve sites, historical buildings & sites)

920 Gambling & betting activities

930 Sports, amusement & recreation activities (sports facilities, racehorse owners, fitness facilities, amusement parks & other recreational activities)

940 Activities of membership organisations (business organisations, trade unions, other membership organisations)

950 Repair of computers, personal & household goods

960 Other personal service activities (washing and dry cleaning, hairdressers, funerals, physical well being, other activities)

970 Activities of households as employers of domestic personnel

980 Undifferentiated goods and services producing activities of private households for own use

990 Activities of extraterritorial organisations and bodies

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Source: Office for National Statistics

## 6. Accuracy

**Sampling and non-sampling error:** Sampling error is the error caused by observing a sample instead of the whole population. While each sample is designed to produce the 'best' estimate of the true population value, a number of equal-sized samples covering the population would generally produce varying population estimates.

Sample surveys are employed rather than censuses, because the census process is too lengthy and costly to be viable for these surveys. Standard errors are an estimate of the sampling error and provide a measure of the precision of the estimate. A lower standard error indicates a more precise estimate.

Due to a change in the estimation methodology for 2012, the standard error calculations are currently under review. Standard errors for the FDI 2012 annual data will be available in a supplementary paper, to be published in spring.

**Non-sampling error:** In addition to sampling errors, there is also the potential for non-sampling error. This cannot be easily quantified. One potential source of non-sampling error is from non-response, which relates to the failure to obtain data from the sample. Low response rates may introduce bias if respondents are not fully representative of those selected in the sample. Various efforts are made to minimise non-response. Written reminders are sent to non-responding businesses and these are followed up with telephone, fax and email reminders. In addition, there is the possibility of using the legal powers of the Statistics of Trade Act to enforce a response, though ONS prefers to work together with businesses to produce the necessary information.

The response rates for the 2013 annual surveys are shown below:

**Table C: Response rates 2013**

	Outward FDI	Inward FDI
Selected Sample Size	1,830	3,336
Numbers co-operating fully or partially	1,419	2,806
Non-responders	411	530
Overall response rate (%)	78	84

Source: Office for National Statistics

Non-response bias is a potential issue for all statistical surveys. Non-response bias occurs when the answers of respondents differ from the potential answers of those who did not respond. The risk of non-response bias is minimised by efforts to maximise response rates and the use of estimation techniques that can attempt to correct for any bias that may be present. Despite this, it is not easily possible, on any survey, to quantify the extent to which non-response bias remains a problem. However, there is no evidence to suggest that non-response bias presents a particular issue for the FDI surveys.

Imputation methods are used to estimate values for all business in the sample who did not return data. Estimation methods are used to estimate values for all non-sampled business within the population, in order produce an estimate for the population.

The proportion of the imputed and estimated values are shown below:

**Table D: Imputed proportion of final published FDI figures**

	FDI Investment Flows	FDI International Investment Positions	FDI Earnings
FDI Outward	8.0%	3.3%	1.7%
FDI Inward	16.0%	5.0%	9.0%

Source: Office for National Statistics

## 7. Revisions

Data for 2012 have been revised in this statistical bulletin and will not be revised any further. Data for 2013 will remain provisional until December 2015, when the next FDI statistical bulletin will be released.

ONS will not be providing a revisions analysis this year due to the discontinuity in the time series as a result of moving to BPM6. However this analysis will be provided in next year's bulletin.

## 8. Notes to tables

The sum of the constituent items in tables may not always agree exactly with the totals shown due to rounding of the figures.

## 9. Office for National Statistics

The Office for National Statistics (ONS) is the executive office of the UK Statistics Authority, a non-ministerial department which reports directly to Parliament. ONS is the UK government's single largest statistical producer. It compiles information about the UK's society and economy, and provides the evidence-base for policy and decision-making, the allocation of resources, and public accountability. The Director General of ONS reports directly to the National Statistician who is the Authority's Chief Executive and the Head of the Government Statistical Service.

The UK Statistics Authority has reviewed this publication in its report: "Assessment of compliance with the Code of Practice for Official Statistics": Statistics of International Transactions, which was published on 8 December 2011.

This review recommended that the Foreign Direct Investment Involving UK Companies estimates be designated as a National Statistic, subject to ONS carrying out certain requirements. ONS met all of these requirements on 3 May 2013.

Designation can be broadly interpreted to mean that the statistics:

- meet identified user needs
- are well explained and readily accessible
- are produced according to sound methods
- are managed impartially and objectively in the public interest

Once statistics have been designated as National Statistics it is a statutory requirement that the Code of Practice shall continue to be observed.

## 10. Social media

Follow ONS on [Twitter](#) and receive up to date information about our statistics.

Like ONS on [Facebook](#) to receive our updates in your newsfeed and to post comments on our page.

## 11. The Government Statistical Service (GSS)

The Government Statistical Service is a network of professional statisticians and their staff operating both within the Office for National Statistics and across more than 30 other government departments and agencies.

## 12. National Statistics

National Statistics are produced to high professional standards set out in the Code of Practice for Official Statistics. They undergo regular quality assurance reviews to ensure that they meet customer needs. They are produced free from any political interference.

### 13. **Government Statistical Service (GSS) business statistics**

To find out about other official business statistics, and choose the right data for your needs, use the [GSS Business Statistics Interactive User Guide](#). By selecting your topics of interest, the tool will pinpoint publications that should be of interest to you, and provide you with links to more detailed information and the relevant statistical releases. It also offers guidance on which statistics are appropriate for different uses.

### 14. **Discussing ONS business statistics online**

There is a [Business and Trade Statistics](#) community on the [StatsUserNet](#) website. StatsUserNet is the Royal Statistical Society's interactive site for users of official statistics. The community objectives are to promote dialogue and share information between users and producers of official business and trade statistics about the structure, content and performance of businesses within the UK. Anyone can join the discussions by registering via either of the links above

### 15. **Special events**

ONS has published commentary, analysis and policy on 'Special Events' which may affect statistical outputs. For full details visit the [Special Events](#) page on the ONS website.

### 16. **Release policy**

A list of those given [pre-publication access](#) to the contents of this release is available on the ONS website.

17. Details of the policy governing the release of new data are available by visiting [www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html](http://www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html) or from the Media Relations Office email: [media.relations@ons.gsi.gov.uk](mailto:media.relations@ons.gsi.gov.uk)

These National Statistics are produced to high professional standards and released according to the arrangements approved by the UK Statistics Authority.