



Industry
Canada

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Investment Canada Act



Annual Report
2013–14

Canada 

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Message from the Director of Investments to the Minister of Industry

Dear Minister:

I am pleased to present this annual report on the *Investment Canada Act* for fiscal year 2013–14. As Director of Investments, I am required to submit to you annual reports on the administration of the Act.

Over the course of 2013–14, 11 applications were approved and 655 notifications were filed under the Act. Taken together, the Canadian businesses acquired in these transactions represented \$53.98 billion in total assets.¹ Of this, applications reviewed by the Minister accounted for \$15.42 billion and transactions requiring notification represented \$38.56 billion.

The resource sector attracted the largest share of investment: 97 investments involving companies with combined assets of \$31.54 billion. The business sector continued to attract the greatest number of investments: 230 investments totalling \$4.75 billion.

The United States continued to lead in terms of the highest level of investment: 350 investments, representing over half of the total number of investments, worth over \$18 billion. The European Union had the second-highest share with 194 investments totalling nearly \$6 billion in asset value.

During 2013–14, the Government of Canada modernized the Act, introducing amendments to implement the measures announced in December 2012. These measures clarify how proposed investments in Canada by foreign state-owned enterprises and other World Trade Organization investors are assessed.

I trust that this annual report provides a useful overview of the administration of the Act. The data show that Canada has a globally connected, sophisticated economy and a proven track record of welcoming investors from all over the world.

I look forward to continuing to support you in administering the *Investment Canada Act*.

Yours sincerely,

John Knubley
Director of Investments

Overview

In a competitive and globalized world, foreign investment is an important factor in Canada's economic success, leading to higher living standards through better paying jobs, new technologies and international trade. As such, Canada has a broad framework in place to promote trade and investments that are in its interests.

The *Investment Canada Act* (ICA or the Act) is the primary mechanism for reviewing foreign investment in Canada. Its purpose is twofold: to review significant foreign investments to determine if they are likely to be of net benefit to Canada and to review investments that could injure national security.

Under the Act, a foreign investor seeking to acquire control of a Canadian business with assets equal to or above the established threshold must apply for a review, which is an assessment of the investment's likely net benefit to Canada. In 2013, the threshold for investors from World Trade Organization (WTO) member countries was \$344 million in asset value, and in 2014 it was \$354 million. For investments where the value of the assets of the Canadian business falls below the established threshold, investors must file a notification.²

As part of the review process, the Minister of Industry considers whether the proposed investment is likely to be of net benefit to Canada. To determine net benefit, the following six factors come into play: the investment's effect on the level and nature of economic activity in Canada, including employment, resource processing, and the utilization of parts, components and services; the degree and significance of participation by Canadians in the Canadian business; the investment's effect on productivity, industrial efficiency, technological development, and product innovation and variety; the investment's effect on competition; its compatibility with industrial, economic and cultural policies; and its contribution to Canada's ability to compete in world markets. The complete factors are clearly laid out in section 20 of the Act. Together they provide predictable guidance for investors while maintaining the flexibility required to protect Canada's interests.

Where the investor is owned, controlled or influenced by a foreign state, the Minister also considers the guidelines on investments by state-owned enterprises (SOE) as part of the review, taking into account the investor's adherence to free enterprise principles, the state's degree of influence over the investor and the likely commercial orientation of the Canadian business.

Summary of Activity in 2013–14

In 2013–14, the Minister of Industry approved 11 applications under the ICA and 655 notifications were filed.

The resource sector attracted the largest share of investment: a total of 97 investments involving companies with combined assets of \$31.54 billion.

The United States again led in terms of the amount of investment: 350 investments, representing just over half of the total number of investments, worth over \$18 billion. The European Union was second with 194 investments totalling nearly \$6 billion in asset value.

Policy Developments

In response to globalization and a changing investment environment, the Government has taken steps in recent years to keep the investment review framework up to date. These included releasing SOE guidelines in 2007, introducing amendments for national security reviews in 2009, ushering in changes to increase transparency while continuing to protect confidentiality in 2009 and 2012, and clarifying its approach to SOE investments and updating the SOE guidelines in 2012.

To implement the measures announced in December 2012, amendments to the ICA were introduced in *Economic Action Plan 2013 Act, No. 1*, which received Royal Assent on June 26, 2013.

The amendments include the following:

- introducing a definition for "state-owned enterprise";
- creating a distinct net benefit threshold for private sector WTO investors based on enterprise value while maintaining the asset value based threshold for SOE investors;
- permitting the extension of timelines for national security reviews; and
- permitting the Minister of Industry to determine or declare that an entity is controlled in fact by an SOE.

Regulations are required to bring into force the extension of timelines for national security reviews and the new enterprise value threshold for private enterprises.

There were no other policy or legislative developments in 2013–14.

Conclusion

In general, the 2013–14 fiscal year saw significant activity under the Act, particularly notifications, which tripled in value from the previous year. The four largest notifications totalled approximately \$21 billion in assets. On the other hand, the total number of applications under the Act and the related asset values were down from the previous year, reflecting the variability of investment activity from year to year.

The Government of Canada continues to encourage investment that benefits Canada. Therefore, after rigorous review, the majority of investment proposals are approved.

Statistical Information: 2013–14 ³

Total Investments

In 2013–14, 11 applications for review were approved by the Minister of Industry and 655 notifications were filed with Industry Canada under the Act, compared to 18 applications approved and 664 notifications filed in 2012–13 ([Figure 1](#) and [Figure 2](#)). There were 177 notifications filed in 2013–14 establishing new businesses in Canada, compared to 179 in 2012–13.

Review Time

On average, the time taken to review an application and for the Minister of Industry to make a net benefit determination in 2013–14 was 71.5 days.

Investment by Asset Value

The total asset value of all applications for review and notifications in 2013–14 was \$53.98 billion ([Figure 1](#) and [Figure 2](#)), compared to \$56.21 billion in 2012–13, a slight decrease of 4 percent.

The total asset value of approved applications for review in 2013–14 was \$15.42 billion, compared to \$43.10 billion in 2012–13, a decrease of 64 percent. It should be noted that the value for 2012–13 included two large transactions: China National Offshore Oil Corporation's (CNOOC) acquisition of Nexen and the purchase of Progress Energy by Petronas. There were seven fewer reviewed investments in 2013–14 than in 2012–13. The number of reviewed investments is expected to vary from year to year.

The total asset value for notifications filed in 2013–14 was \$38.56 billion, which is almost three times the 2012–13 level of \$13.11 billion. The four largest notifications received in 2013–14 totalled approximately \$21 billion in assets. These investments involved indirect acquisitions of Canadian businesses.

There were eight transactions subject to the Act where the Canadian business had assets of more than \$1 billion, five of which were reviewable applications. The three other investments were not reviewable because an indirect investment involving an investor from a WTO member country only requires notification under the Act.

In 2013–14, the average asset value of applications for review was \$1.40 billion and \$58.87 million for notifications, compared to \$2.39 billion and \$19.75 million respectively in 2012–13. Values vary from year to year.

Figure 1: Applications

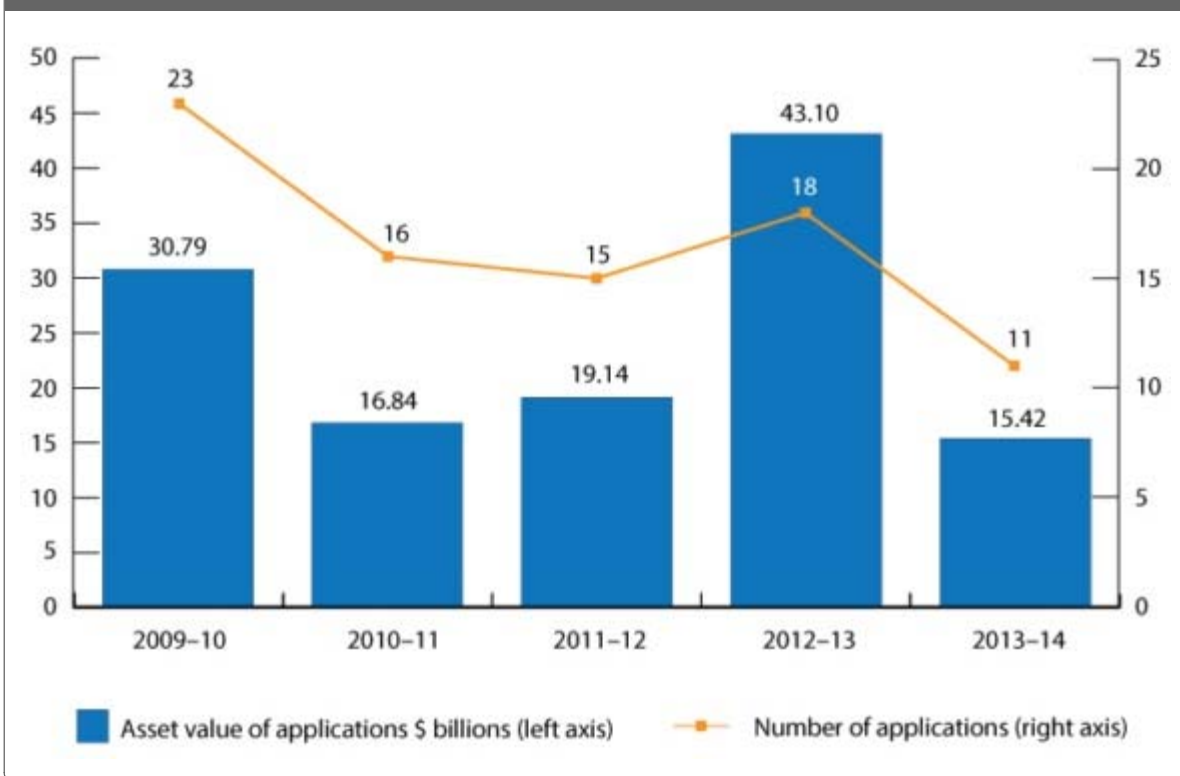
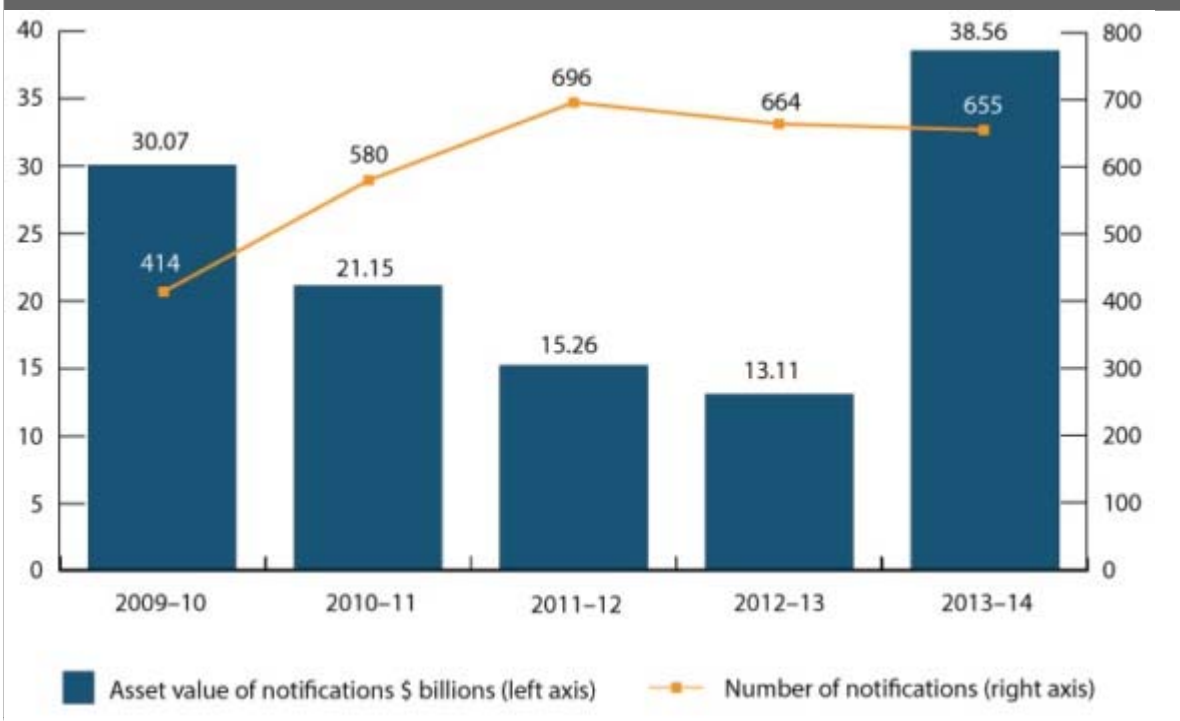


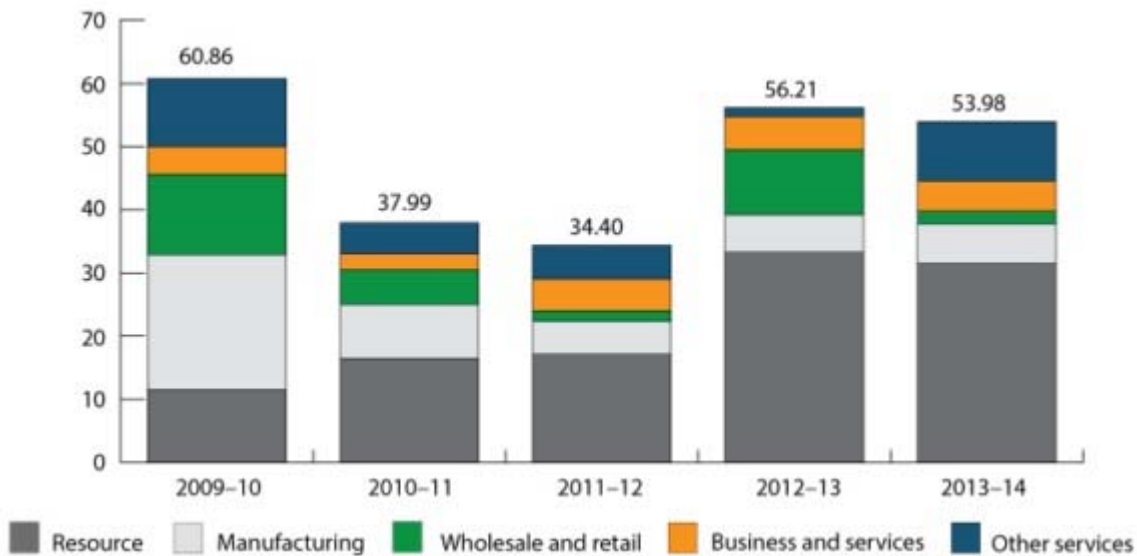
Figure 2: Notifications



Investment by Sector

- **Resource:** 97 investments. This sector had the largest share of investments by asset value at \$31.54 billion, with an average value of \$325.17 million.
- **Manufacturing:** 128 investments. The total asset value was \$6.26 billion, with an average value of \$48.91 million.
- **Wholesale and retail:** 104 investments. The total asset value was \$1.96 billion, with an average value of \$18.82 million.
- **Business and services:** 230 investments. The total asset value was \$4.75 billion, with an average value of \$20.66 million. This sector continued to receive the largest number of investments under the Act.
- **Other services:** 107 investments. The total asset value was \$9.47 billion, with an average value of \$88.54 million. [4](#)

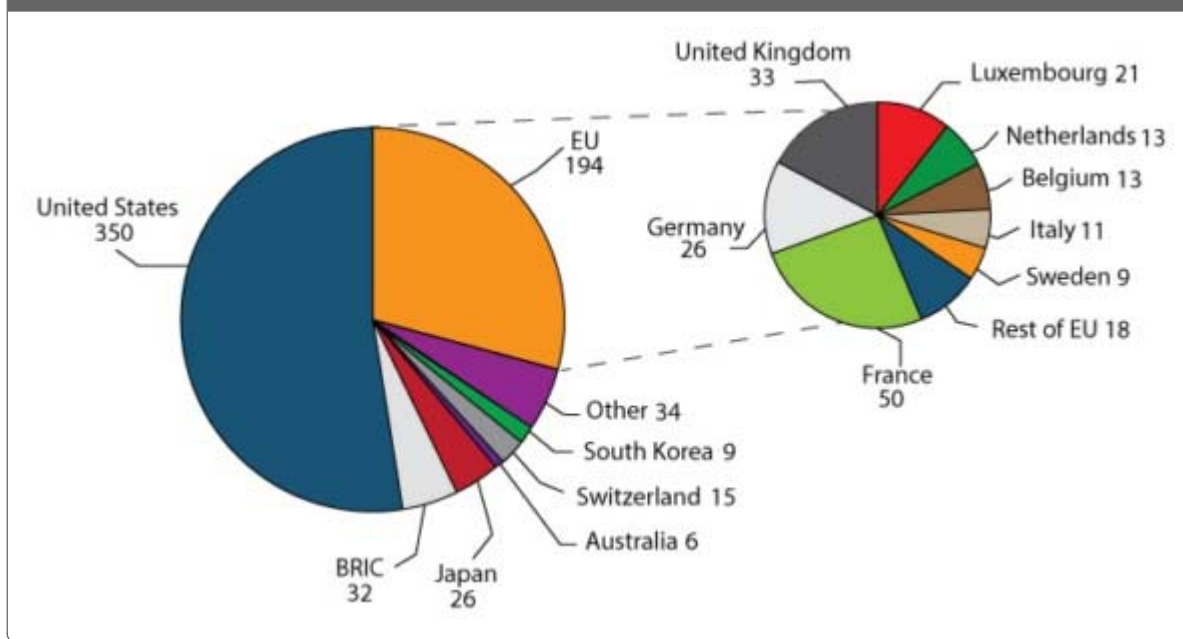
Figure 3: Asset Value by Sector (\$ billions)



Investment by Country or Region of Origin

In 2013–14, the United States was the number one source of investments with 350 investments totalling \$18.18 billion in asset value. Investments from the United States accounted for 52.6 percent of the total number of investments and 33.7 percent of the total asset value. Investors from the European Union (EU) made 194 investments totalling \$5.95 billion, which represented 29.1 percent of the total number of investments and 11.0 percent of the total asset value.

Figure 4: Investment by Country or Region of Origin



Among the EU member states, the following had the highest level of investment:

- United Kingdom—\$3.3 billion
- France—\$1.2 billion
- Luxembourg—\$555 million
- Sweden—\$123 million
- Netherlands—\$93 million
- Germany—\$50 million
- Italy—\$22 million
- Belgium—\$8 million

The BRIC countries (Brazil, Russia, India and China) made 32 investments in 2013–14, which totalled \$1.3 billion.

Other countries of note in terms of the level of investment in 2013–14 are as follows:

- Switzerland—\$18.4 billion
- Japan—\$3.1 billion
- Australia—\$48 million
- South Korea—\$28 million

Appendix

Interpretive Notes

- All references to the 2013–14 fiscal year in data, tables, charts and explanations mean from April 1, 2013, to March 31, 2014.
- Acquisitions are recorded by the asset value of the Canadian business to be acquired, based on its most recent audited financial statements, not by the purchase price. The value of a new business proposal is recorded on the basis of the planned amount of investment over the first two years.
- The actual number and value of acquisitions and new business starts by international investors may not be wholly reflected for the following reasons:
 - From time to time, two or more investors may submit applications for review to acquire the same Canadian business. In such cases, each proposal is recorded as a separate transaction.
 - In June 1999, responsibility under the Act for investments related to cultural activities listed in [Schedule IV](#) of the *Investment Canada Regulations* was transferred to Canadian Heritage. Accordingly, our statistics since that time do not include foreign investments in Canadian businesses engaged strictly in activities listed in Schedule IV.
 - Most notifications and applications are submitted to Industry Canada at the proposal stage and processed promptly under the terms of the ICA. However, for commercial or other reasons, the investor may subsequently choose not to implement the investment or to implement it at a later time.

Data Comparison with Other Statistical Sources

The principal purpose of the ICA is the regulation of investment activity by foreign investors. Industry Canada data on the value of foreign investments for a given period therefore reflect operations under the ICA. Only data on new business proposals and acquisitions of control by foreign investors are collected. The value of "planned investment" is tabulated from new business notifications and the book value of "assets acquired" from transactions requiring notification or review. Aggregated figures are published quarterly.

Industry Canada data cannot be compared with either the foreign direct investment flows or stock figures published by Statistics Canada because the data represent a portion of the value of foreign investment in Canada. For example, the value of major plant expansions by established foreign investors in Canada is not captured.

- 1 Acquisitions are recorded by the asset value of the Canadian business to be acquired, based on its most recent audited financial statements.
- 2 The WTO asset value review threshold is adjusted annually to reflect the change in nominal gross domestic product in the previous year. In 2013, the Government of Canada introduced amendments to the ICA to raise the threshold for review to \$1 billion and to make enterprise value the basis of the threshold, with the exception of its application to state-owned enterprises. However, at the time of publication of this report, these changes were not yet in effect. The Government also announced a further increase to \$1.5 billion for European Union investors as part of the Canada–European Union Comprehensive Economic and Trade Agreement. The threshold for non-WTO investors is \$5 million for direct and \$50 million for indirect acquisitions (asset value). Indirect investments by WTO investors are not subject to review, but the investor must file a notification. An indirect acquisition is an acquisition of a foreign company that has Canadian subsidiaries. Also, in cases where a foreign investor starts a new business, the investor must file a notification.
- 3 Information provided by investors is confidential and made public only under certain circumstances. Consequently, this report does not provide information on individual transactions. To protect investor identity, data on less than four investments are not reported if doing so could jeopardize confidential information. Note that the asset value of Canadian businesses acquired or newly established is in nominal dollar terms and is not adjusted for asset value changes over time.
- 4 The five sectors are based on Standard Industrial Classification codes, with each sector composed of subsectors. The business sector mainly includes service-providing businesses, such as computer services, engineering services, employment agencies and advertising agencies. The manufacturing sector includes businesses that produce or manufacture different types of goods, such as machinery, equipment, parts, food, beverages, etc. The resource sector includes agriculture and related services, oil, mining and quarrying industries, crude petroleum and natural gas industries, etc. Wholesale trade includes the sale of different types of equipment, machinery, supplies and chemicals. Retail trade includes clothing, prescription drugs, automobiles and other consumer goods. The other services sector includes businesses in the finance and insurance industries, real estate operators, insurance agent industries, communications, and transportation and storage.