



Industry  
Canada

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# Investment Canada Act



Annual Report  
2014–15

Canada 

# Message from the Director of Investments to the Minister of Industry

Dear Minister:

I am pleased to present to you the annual report on the *Investment Canada Act* (ICA or the Act) for fiscal year 2014–15. This report relates to investments in “non-cultural” Canadian businesses, as the responsibility for the review of foreign investment proposals in cultural businesses was transferred to the Minister of Canadian Heritage in 1999.

During fiscal year 2014–15, 15 applications were reviewed and approved and 704 notifications were filed under the Act. The value of the Canadian businesses acquired or established in these 719 investment transactions was \$42.36 billion in total assets, with applications reviewed accounting for \$21.78 billion and investments requiring notification representing \$20.58 billion of this total.

The business and services sector continued to attract the majority of investments: 266 investments, totalling \$7.58 billion in asset value. The manufacturing sector saw 139 investments (\$7.49 billion) and there were 98 investments in the resources sector (\$13.22 billion).

The United States continued to lead all countries with 399 investments implemented, representing 55 percent of the total number of investments and totalling \$25.6 billion in asset value. The European Union had the second-highest share with 185 investments, totalling \$4.56 billion in asset value.

The Government of Canada continued to update the foreign investment review framework in 2014-15 to reflect changing economic trends, particularly the international investment environment. These measures, elaborated on below in the Policy Development section of this report, included amendments to the Act which were contained the *Economic Action Plan 2014 Act, No. 2*, as well as amendments to the *Investment Canada Regulations* and the *National Security Review of Investments Regulations*.

I trust that this report provides an overview of the administration of the Act. The data on investments subject to the Act show that the Canadian economy is globally integrated and open to investment from around the world.

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

Yours sincerely,

John Knubley  
Director of Investments

## Overview

In today's interconnected world, foreign investment is one of the factors that positively influence Canada's economic success and long-term prosperity. It can lead to higher living standards through better paying jobs, innovation and increased trade resulting from enhanced global supply chains. Canada has a multifaceted framework approach to promote investment and trade.

The ICA is the primary mechanism for reviewing foreign investments in Canada. Its purpose is twofold: to review significant foreign investments to determine if they are likely to be of economic benefit to Canada and to review investments that could be injurious to national security.

Under the Act, a foreign investor seeking to acquire control of a Canadian business valued at or above an established threshold must apply for review of that acquisition, which is an assessment of the investment's likely net benefit to Canada. In 2014, the threshold for investors from World Trade Organization (WTO) member countries was \$354 million in asset value, and in 2015 it was \$369 million<sup>1</sup>. For investments valued below the established threshold, investors must file a notification, which means the investment is not reviewable. A notification also has to be filed when an investor from a WTO member country indirectly acquires control of an existing Canadian business and when a foreign investor establishes a new business in Canada.

In examining the likely net benefit of a proposed investment, the Minister considers six factors that provide predictable guidance for investors while maintaining the flexibility required to protect Canada's economic interests<sup>2</sup>:

- 1) 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;
- 2) the degree and significance of participation by Canadians in the Canadian business;
- 3) the investment's effect on productivity, industrial efficiency, technological development, and product innovation and variety;
- 4) the investment's effect on competition;
- 5) its compatibility with industrial, economic and cultural policies; and
- 6) its contribution to Canada's ability to compete in world markets.

Where an investor is owned, controlled or influenced by a foreign state, the Minister also considers the guidelines on investments by state-owned enterprises<sup>3</sup> (SOE) as part of the net benefit review process. Pursuant to the guidelines, the Minister takes into account the investor's adherence to free enterprise principles, the foreign state's degree of influence over the investor and the likely commercial orientation of the Canadian business.

## Policy Developments

Since 2007, to keep Canada's investment review framework up to date in the changing global investment environment, the Government made important changes to the ICA. For example, in

2009, a national security review mechanism was introduced to enable the Government to safeguard Canada's national security interests. In 2012-2013, the Government clarified how investments by foreign state-owned enterprises (SOEs) are assessed under the Act by adding a definition of SOE to the Act and through updates to the 2007 SOE Guidelines.

During the period covered by this report, the Government, on October 23, 2014, introduced amendments to the ICA in the *Economic Action Plan 2014 Act, No. 2*<sup>4</sup>. These amendments, which received Royal Assent on December 16, 2014:

- 1) provide the Government with the discretion to allow public disclosure of certain information related to notices sent to the parties at each stage of a national security review;
- 2) require foreign investors to file a notification whenever they acquire a Canadian business through the realization of security for a loan or other financial assistance, unless the transaction is subject to approval under another statute; and,
- 3) as a housekeeping measure, repealed an unneeded provision that was not yet in force, which would have allowed for an extension to the period in which the Governor-in-Council decides to take measures to protect national security.

On March 25, 2015, the Government delivered on its commitment to progressively increase the net benefit review threshold for investments in Canadian businesses involving WTO, private-sector foreign investors from \$369 million in asset value to \$1 billion in enterprise value, over a four-year period. On April 24, 2015, the net benefit review threshold increased to \$600 million in enterprise value and will remain at that level for the next two years. It will then increase to \$800 million for the following two years, after which it will go up to \$1 billion<sup>5</sup>. The Government has also previously announced this threshold will increase to \$1.5 billion for European Union investors as part of the Canada–European Union Comprehensive Economic and Trade Agreement and will come into force when the Agreement is implemented.

The change to enterprise value captures the increasing importance of people, know-how, intellectual property and other intangible assets in the valuation of modern, knowledge-intensive businesses. The review threshold remains unchanged for acquisitions of control by foreign SOEs or foreign acquisitions of control of Canadian cultural businesses. Changes to the net benefit threshold will focus the Government's reviews on the most significant transactions, while helping to attract beneficial foreign investment to the Canadian economy.

In addition, the *National Security Review of Investments Regulations*<sup>6</sup> were amended in March 2015 to increase the length of certain time periods to carry out national security reviews and give the Minister the flexibility to extend reviews, when necessary, to address complicated national security concerns.

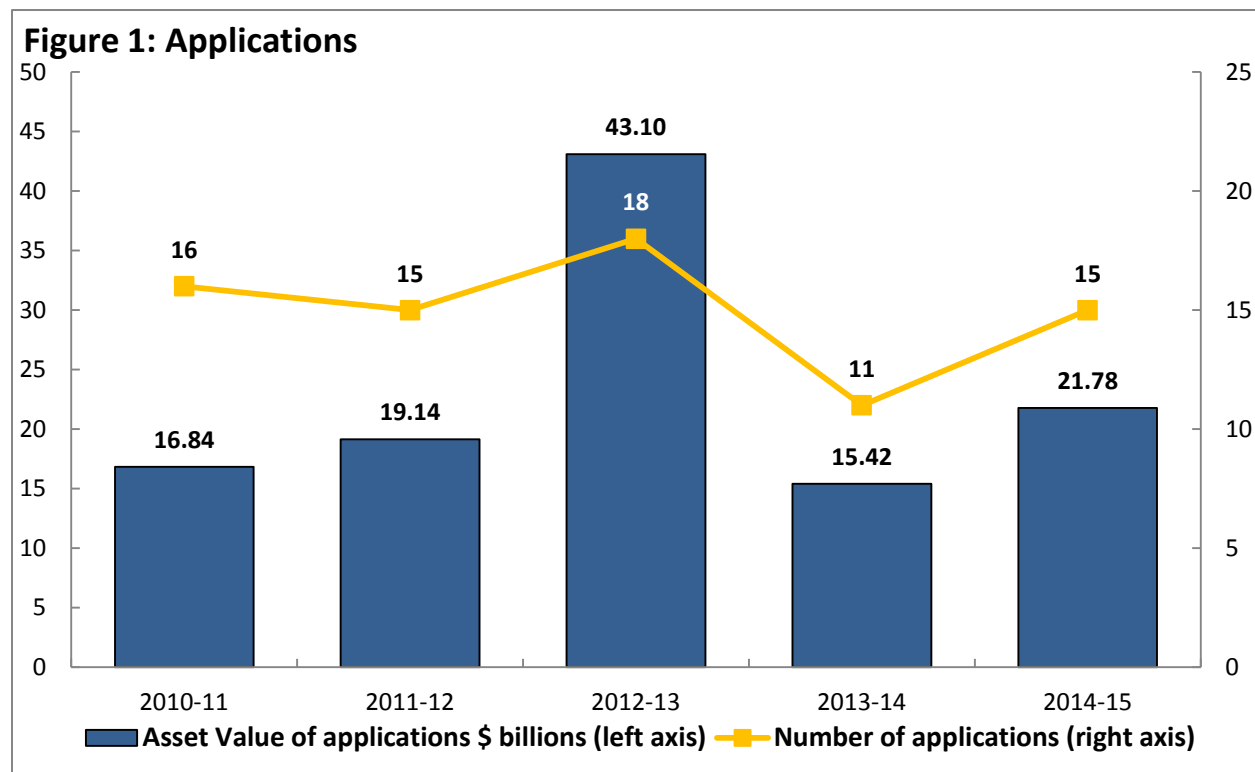
## Statistical Information: 2014–15<sup>7</sup>

### Summary of Activity

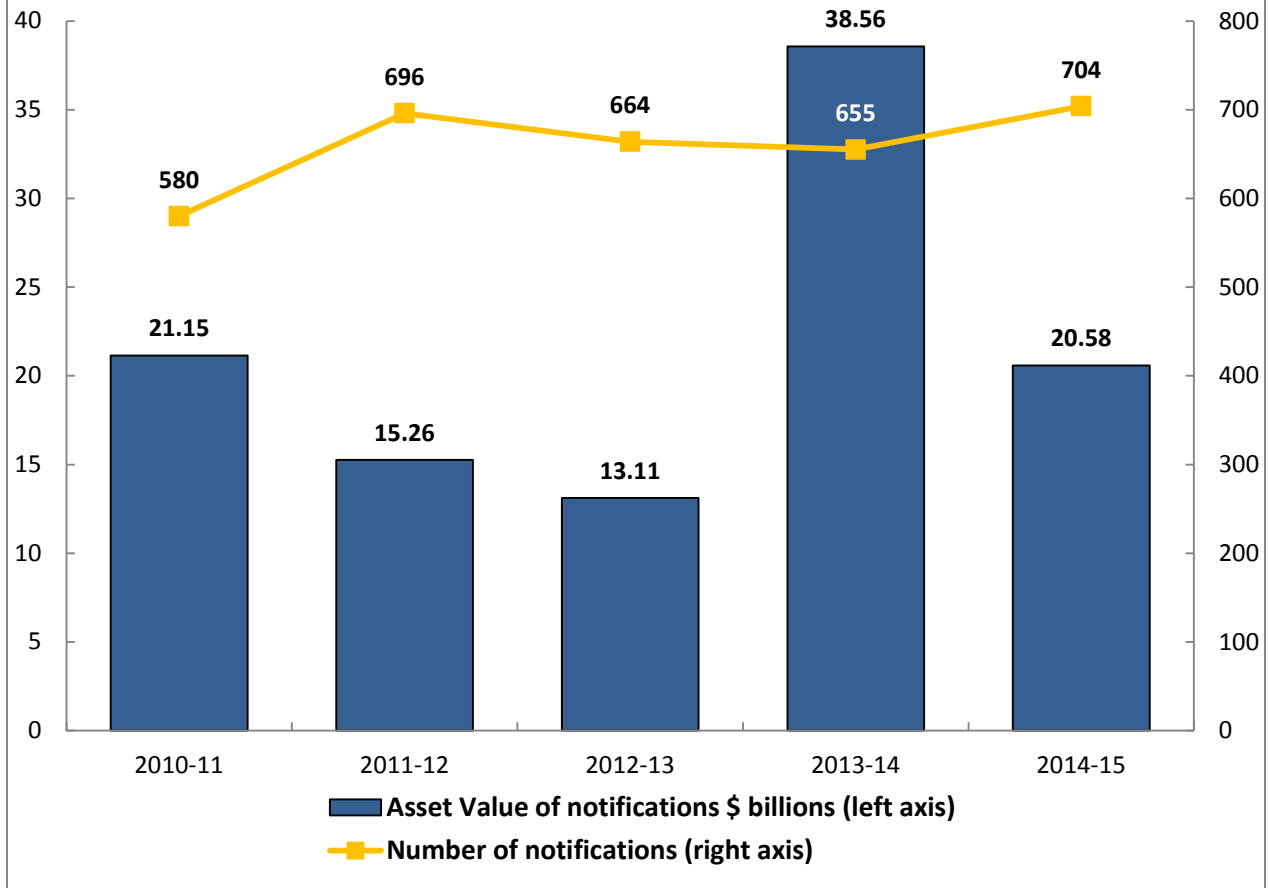
In fiscal year 2014–15, there was significant activity under the Act, with 719 investments processed having a total of \$42.36 billion in asset value<sup>8</sup>. There were 15 reviewed and approved applications, up from 11 in 2013–14. These investments totalled \$21.78 billion in asset value, an increase of 41.2 percent compared to 2013–14. While the total number of notifications filed was 704, up from 655 in 2013–14, the value of these investments fell by almost half from the previous fiscal year. Investors from the United States made 399 investments, totalling \$25.61 billion in asset value. Once again, the business and services sector continued to attract the majority of investments: 266 investments totalling \$7.58 billion in asset value.

### Total Investments

In 2014–15, 15 applications for review were approved by the Minister of Industry and 704 notifications were certified by Industry Canada under the Act, compared to 11 approved applications for review and 665 notifications filed in 2013–14 (Figure 1 and Figure 2). Of the 704 notifications, 180 related to the establishment of a new business by non-Canadian investors, compared to 177 in 2013–14.



**Figure 2: Notifications**



## Review Time

On average, in 2014–15, the time taken for a net benefit determination to be made was 75.3 days, up from 71.5 days in 2013-14.

## Investment by Asset Value

The total asset value of all applications for review and notifications in 2014–15 was \$42.36 billion (Figure 1 and Figure 2), compared to \$53.98 billion in 2013–14, a decrease of 21.5 percent. The decrease was entirely attributable to the decrease in total asset value from investment transactions requiring notification.

### Applications for Review

The total asset value of approved applications for review in 2014–15 was \$21.78 billion, compared to \$15.42 billion in 2013–14, an increase of 41.2 percent. The mean asset value of approved applications was \$1.45 billion in 2014-15, compared to \$1.40 billion in 2013-14. The five largest applications for review in 2014–15 totalled approximately \$13.87 billion in assets,

compared to \$11.98 billion in 2013-14. The asset value, as well as the number, of reviewed investments can be expected to vary from year to year.

### Notifications

The total asset value for notifications filed in 2014–15 was \$20.58 billion, which is almost half (46.6% lower) the 2013–14 level of \$38.56 billion. The mean asset value of notifications filed in 2014-15 was \$29.23 million, compared to \$58.87 million in 2013-14. The five largest notifications received in 2014–15 totalled approximately \$3.31 billion in assets, compared to \$21.83 billion in 2013-14. The asset value, as well as the number, of notifications filed under the Act can be expected to vary from year to year.

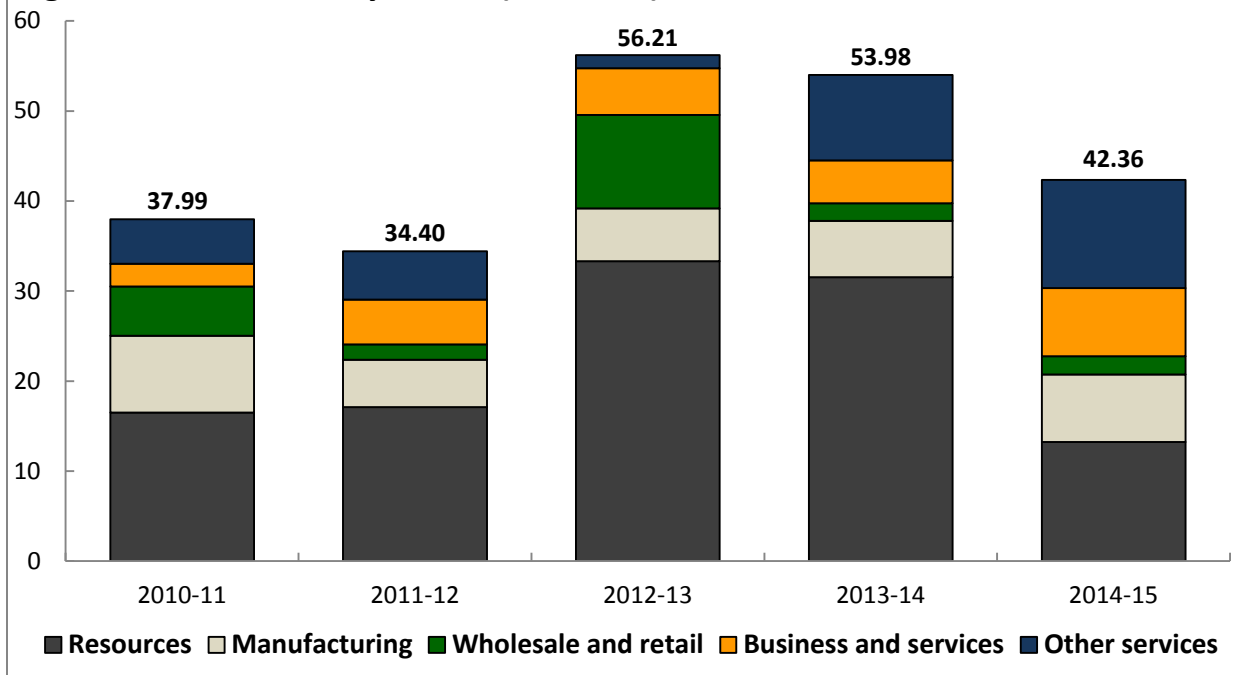
There were eight investment transactions subject to the Act in 2014-15 where the Canadian business had assets valued at more than \$1 billion, seven of these were reviewable applications. The other investment was not reviewable because it was an indirect investment involving an investor from a WTO member country and therefore only required notification under the Act.

### **Investment by Sector**

For confidentiality reasons, investments subject to the Act are characterized as belonging to one of five broad sectors<sup>9</sup>. The five sectors, outlined below, are based on Standard Industrial Classification codes and are comprised of numerous subsectors.

- **Resources:** 98 investments involving Canadian businesses with asset values totalling \$13.22 billion, with a mean asset value of \$134.94 million. This sector had the largest share of investments by asset value.
- **Manufacturing:** 139 investments involving Canadian businesses with asset values totalling \$7.49 billion, with a mean asset value of \$53.88 million.
- **Wholesale and retail:** 101 investments involving Canadian businesses with asset values totalling \$2.04 billion, with a mean asset value of \$20.15 million.
- **Business and services:** 266 investments involving Canadian businesses with asset values totalling \$7.58 billion, with a mean asset value of \$28.51 million. This sector continued to receive the largest number of investments.
- **Other services:** 115 investments involving Canadian businesses with asset values totalling \$12.03 billion, with a mean asset value of \$104.57 million.

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

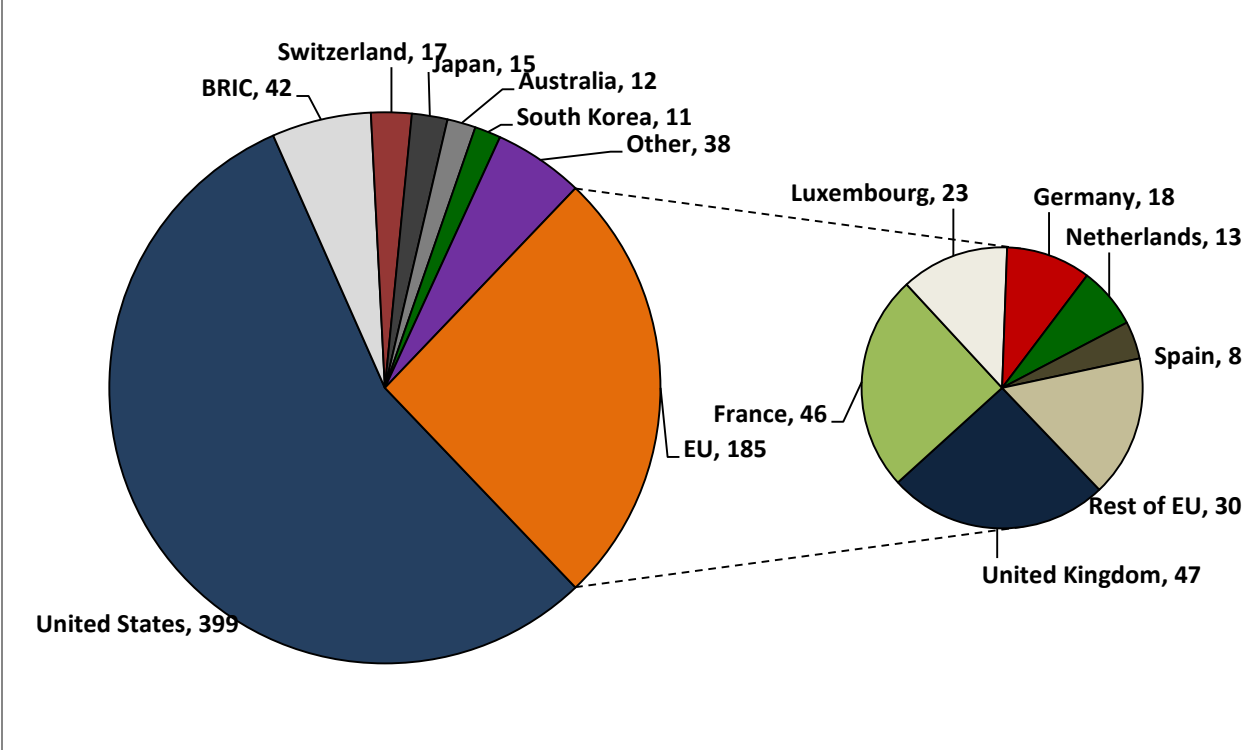


### **Investment by Country or Region of Origin**

In 2014–15, the United States was the number one source of investments with 399 investments totalling \$25.61 billion in asset value. Investments from the United States accounted for 55.5 percent of the total number of investments and 60.5 percent of the total asset value. Investors from the European Union (EU) made 185 investments totalling \$4.56 billion in asset value, which represented 25.7 percent of the total number of investments and 10.8 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:

- France—\$1.37 billion
- Luxembourg—\$738 million
- Germany—\$636 million
- United Kingdom—\$597 million
- Spain—\$275 million
- Netherlands—\$229 million

The BRIC countries (Brazil, Russia, India and China) made 42 investments in 2014–15, which totalled \$3.99 billion.

Other countries of note in terms of the level of investment in 2014–15 are as follows:

- Switzerland—17 investments valued at \$2.88 billion.
- Japan—15 investments valued at \$943 million.
- Australia—12 investments valued at \$409 million.
- South Korea—11 investments valued at \$288 million.

# Appendix

## Interpretive Notes

- All references to the 2014–15 fiscal year in data, tables, charts and explanations mean from April 1, 2014, to March 31, 2015.
- 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.

# Endnotes

## Endnote 1

The WTO asset value review threshold is adjusted annually to reflect the change in nominal gross domestic product in the previous year. 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.

## Endnote 2

<http://laws-lois.justice.gc.ca/eng/acts/I-21.8/page-6.html#docCont>

## Endnote 3

<http://www.ic.gc.ca/eic/site/ica-lic.nsf/eng/lk00064.html#p2>

## Endnote 4

<http://www.parl.gc.ca/LegisInfo/BillDetails.aspx?Language=E&Mode=1&billId=6732518>

## Endnote 5

<http://www.gazette.gc.ca/rp-pr/p2/2015/2015-03-25/html/index-eng.php>.

## Endnote 6

Ibid.

## Endnote 7

Information provided by investors is confidential and made public only under certain circumstances. Consequently, this report does not provide information on individual investments. 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.

## Endnote 8

Acquisitions are recorded by the asset value of the Canadian business to be acquired, based on its most recent audited financial statements.

## Endnote 9

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.