



ANNUAL REPORT

Investment Canada Act

2015–16

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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 2015–16. This report relates to investments in “non-cultural” Canadian businesses. The Minister of Canadian Heritage is responsible for, and separately reports on, the review of foreign investment proposals in cultural businesses.

This report includes two firsts under the Act:

On April 24, 2015, the basis for the monetary threshold triggering net benefit reviews for non-state-owned, WTO investors was changed from “asset value” to “enterprise value”. As the change was implemented part way through the reporting year and certain other investments will still be measured by asset value, this and subsequent reports will include measures of both asset value as well as enterprise value; and,

In a demonstration of this Government’s commitment to transparency and accountability to Canadians, information regarding the administration of the national security provisions is provided.

During fiscal year 2015–16, 15 applications for review were approved and 626 notifications were certified under the Act. The value of the Canadian businesses acquired or established in these 641 investment transactions was \$30.51 billion in asset value plus \$26.20 billion in enterprise value. Of that total, applications accounted for \$18.02 billion in asset value and \$8.86 billion in enterprise value, while investments requiring notification represented \$12.49 billion in asset value and \$17.34 billion in enterprise value.

The most investments were in the: business and services sector, 191 investments (\$10.64 billion in asset value and \$4.89 billion in enterprise value); manufacturing sector, 142 investments (\$8.74 billion in asset value and \$13.24 billion in enterprise value); and, resources sector, 65 investments (\$6.55 billion in asset value and \$1.41 billion in enterprise value).

The United States led all countries with 386 investments, representing 60 percent of the total number of investments and totalling \$19.86 billion in asset value and \$18.69 billion in enterprise value. The European Union had the second-highest share with 136 investments, totalling \$7.41 billion in asset value and \$3.16 billion in enterprise value.

Since the introduction of the national security provisions in 2009, thousands of notifications and applications, as well as non-notifiable investments by non-Canadians in Canada, have been screened for national security as provided for under the Act. To date, eight national security reviews have been ordered by the Governor-in-Council resulting in seven Orders-in-Council. The Orders, to protect Canada’s national security, have imposed a range of measures, from

disallowing an investment to the unwinding of an investment to permitting an investment with specified conditions.

Publishing the information in this Report and our continued transparency in administering the Act, while protecting confidentiality, contributes to the friendliness and predictability of our regulatory environment for foreign investment. Foreign investment – which brings access to capital, new ideas, technologies and know-how – will be a key part of Canada’s innovation landscape and to continued prosperity for Canadians.

I look forward to continuing to support you in administering the Act in a manner that encourages investment, economic growth and employment opportunities in Canada.

Yours sincerely,

John Knuble
Director of Investments

Overview

In a world of increasing economic interconnections, driven by rapid technological advancement, foreign investment continues to be a key factor in Canada's economic success and long-term prosperity. Foreign investment can improve living standards by creating better quality jobs, developing and attracting talent and capital to support growth, allowing the full benefits of trade to be realized and bringing access to global value chains. Foreign investment also fosters innovation; foreign-owned companies are responsible for a third of R&D spending by businesses in Canada. For these reasons, 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 the relevant established threshold must apply for review of that acquisition, which is an assessment of the investment's likely net benefit to Canada. In 2015-16, the threshold for investors from World Trade Organization (WTO) member countries was \$369 million in asset value until April 24, 2015, at which point it was raised to \$600 million in enterprise value.¹ For investments valued below the established threshold, investors must file a notification, but the investment is not reviewable under the net benefit provisions. 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 set out in the Act that provide predictable guidance for investors while maintaining the flexibility required to ensure economic benefit to Canada²:

- 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 Enterprises³ (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 if acquired.

Statistical Information: 2015–16⁴

Asset Value and Enterprise Value

On April 24, 2015, amendments to the Act came into force which introduced the concept of “enterprise value”. The amendments were first proposed by the Competition Policy Review Panel, chaired by L.R. Wilson, in its 2008 report “Compete to Win”. The use of the “enterprise value” measure better reflects the increasing importance in modern economies of service and knowledge-based industries in which much of the value of an enterprise is not recorded on its balance sheet because it resides in people, know-how, intellectual property and other intangible assets.

As a result of the amendments, direct investments resulting in the acquisition of control of a Canadian business by non-state-owned, WTO investors are measured by enterprise value. In contrast, establishments of new businesses, direct investments resulting in the acquisition of control of a Canadian business by state-owned or non-WTO investors, and indirect investments by any investor are measured in asset value. This report distinguishes between enterprise and asset value. Asset value is based on the value of the assets according to the business’ financial statements (book value). Enterprise value is a calculation that takes into account market value, debt and cash.

Summary of Activity

In fiscal year 2015–16, there continued to be significant activity under the Act, with 641 investments processed with a total value of \$30.51 billion in asset value plus \$26.20 billion in enterprise value.⁵

There were 15 applications for review approved, the same as in 2014-15. These investments totalled \$18.02 billion in asset value (8 investments) plus \$8.86 billion in enterprise value (7 investments). By comparison, the 15 applications for review in 2014-15 totalled \$21.78 billion in asset value. The total number of notifications filed was 626, down from 704 notifications for 2014-15, and the value of these investments was \$12.49 billion in asset value (273 investments) plus \$17.34 billion in enterprise value (353 investments). By comparison, 2014-15 investments subject to notification totalled \$20.58 billion in asset value.

Investors from the United States made 386 investments, totalling \$19.86 billion in asset value plus \$18.69 billion in enterprise value. Once again, the business and services sector continued to attract a plurality of the number of investments: 191 investments (down from 266 in 2014-15) totalling \$10.64 billion in asset value plus \$4.89 billion in enterprise value. The manufacturing sector, while fewer in terms of number of investments (142), saw the highest total value in investments (aggregating asset value and enterprise value investments), totalling \$8.74 billion in asset value plus \$13.24 billion in enterprise value.

Total Investments

In 2015–16, 15 applications for review were approved and 626 notifications were certified under the Act (Figure 1 and Figure 2). Of the 626 notifications, 128 related to the establishment of a new business by non-Canadian investors.

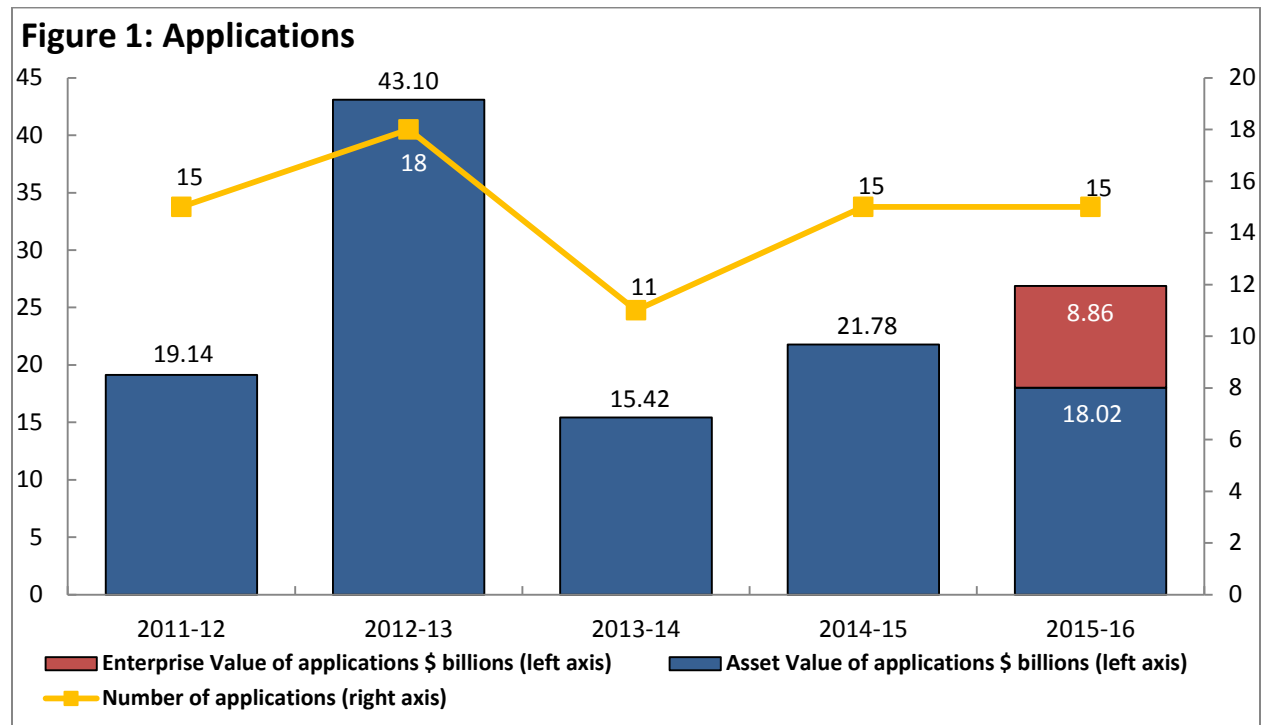
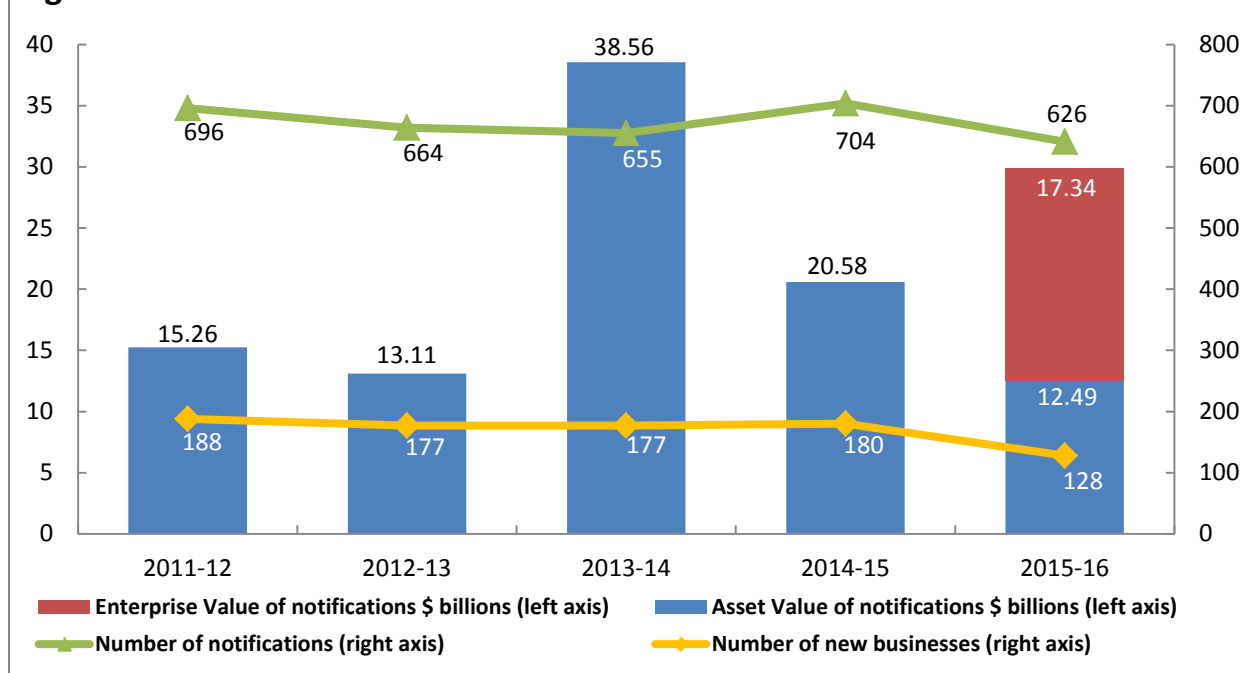


Figure 2: Notifications



Applications for Review

The total value of approved applications for review in 2015–16 was \$18.02 billion for investments based on asset value and \$8.86 billion for applications based on enterprise value. This compares to \$21.78 billion in asset value for approved applications in 2014–15.

The mean value of approved applications in 2015-16 was \$2.25 billion for applications measured by asset value and \$1.27 billion for applications measured by enterprise value. This compares to a mean value of \$1.45 billion in asset value in 2014-15.

The five largest applications for review by asset value in 2015–16 totalled approximately \$16.79 billion in assets and the five largest by enterprise value totalled approximately \$7.49 billion. By comparison, in 2014-15 the five largest applications for review by asset value totalled \$13.87 billion.

There were four reviewable investments in 2015-16 where the Canadian business had assets valued at more than \$1 billion. There were also two reviewable investments based on an enterprise value above \$1 billion.

Notifications

The total values for notifications filed in 2015–16 were \$12.49 billion for investments measured by asset value and \$17.34 billion for those measured by enterprise value. These compare to 2014–15 notifications by asset value totalling \$20.58 billion.

The mean values of notifications filed in 2015-16 were \$45.75 million for notifications by asset value and \$49.12 million for those by enterprise value. These compare to \$29.23 million 2014-15.

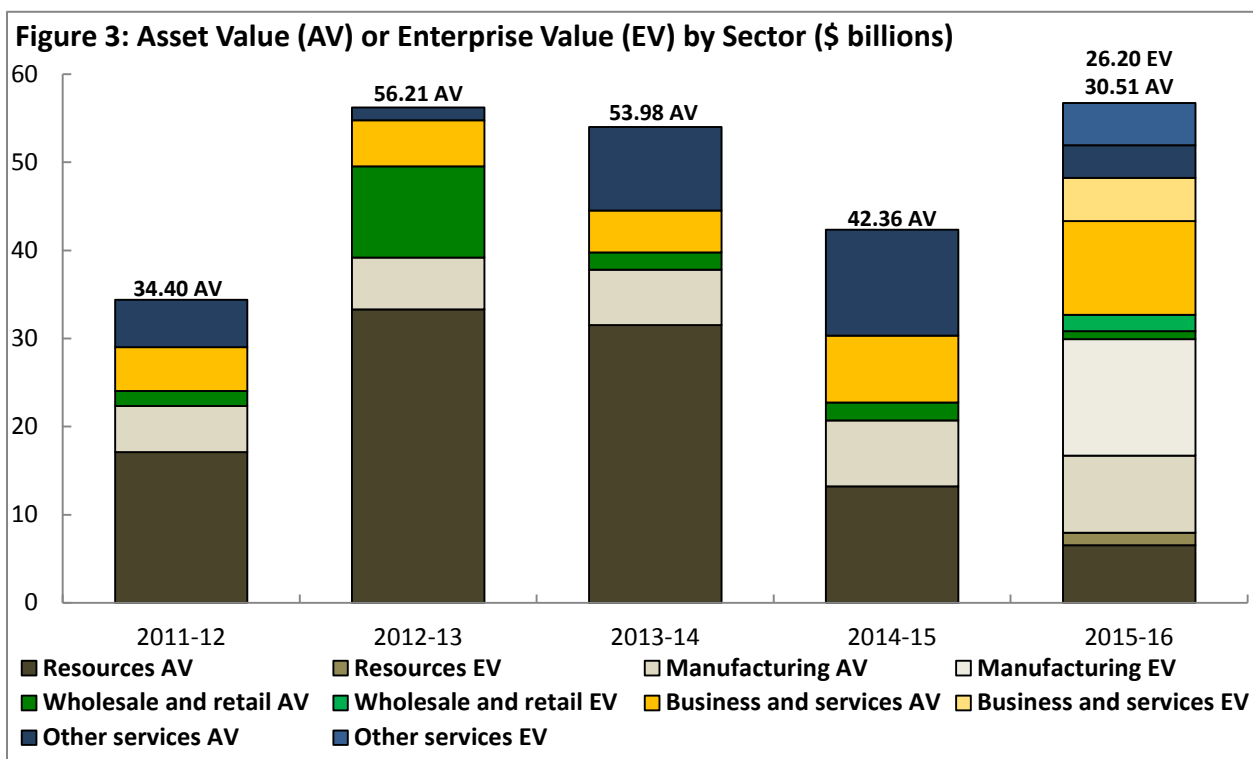
The five largest notifications received for investments measured by asset value in 2015–16 totalled approximately \$5.92 billion, compared to \$3.31 billion in assets in 2014-15. The five largest notifications received for investments measured by enterprise value in 2015–16 totalled approximately \$2.58 billion. The asset or enterprise value, as well as the number, of notifications filed under the Act can be expected to vary from year to year.

Two investments with asset value greater than \$1 billion were not reviewable because they were indirect investments 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.⁶ The five sectors, outlined below, are now based on North American Industry Classification System codes and are comprised of numerous subsectors.

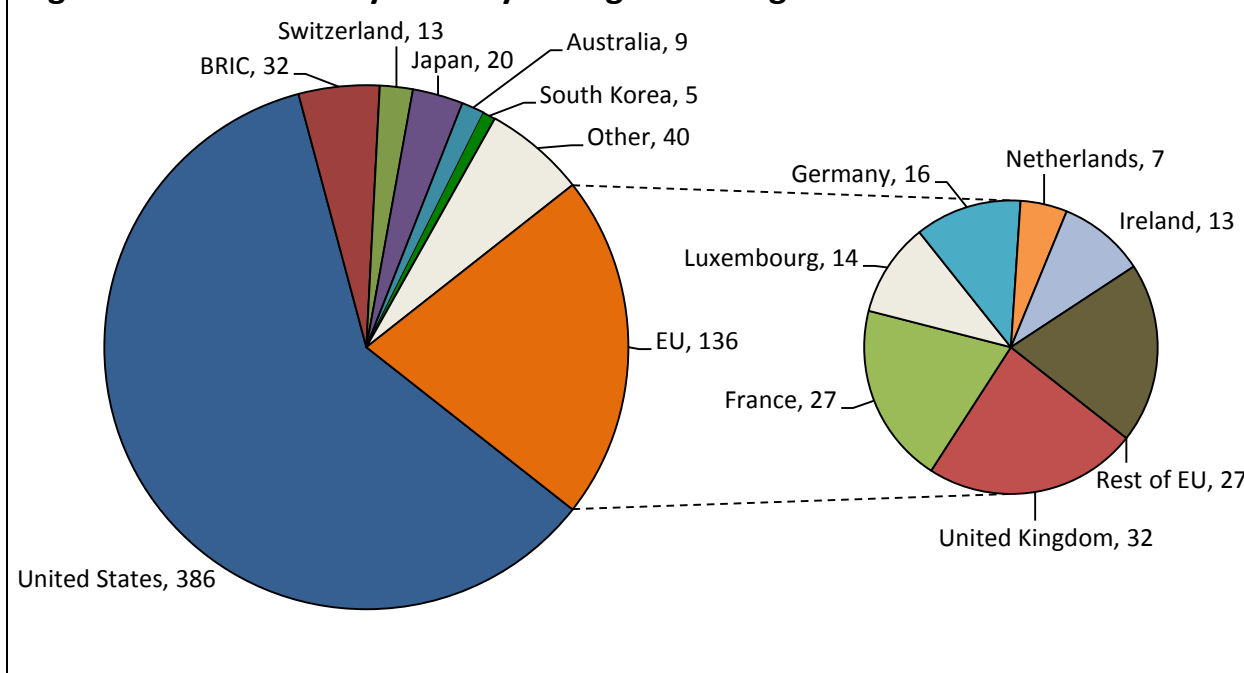
- **Resources:** 65 investments involving Canadian businesses with value totals of \$6.55 billion in asset value investments and \$1.41 billion in enterprise value investments, with a mean investment value of \$234.08 million for asset value investments and \$38.10 million for enterprise value investments.
- **Manufacturing:** 142 investments involving Canadian businesses with value totals of \$8.74 in asset value investments and \$13.24 billion in enterprise value investments, with a mean investment value of \$156.03 million for asset value investments and \$153.96 million for enterprise value investments. This sector had the largest total value of investments by enterprise value.
- **Wholesale and retail:** 111 investments involving Canadian businesses with value totals of \$878.11 million in asset value investments and \$1.87 billion in enterprise value investments, with a mean investment value of \$15.68 million for asset value investments and \$33.96 million for enterprise value investments. **Business and services:** 191 investments involving Canadian businesses with value totals of \$10.64 billion in asset value investments and \$4.89 billion in enterprise value investments, with a mean investment value of \$113.22 million for asset value investments and \$50.37 million for enterprise value investments. This sector had the largest share of investments by asset value. The sector also continued to receive the largest number of investments. **Other services:** 132 investments involving Canadian businesses with value totals of \$3.70 billion in asset value investments and \$4.79 billion in enterprise value investments, with a mean investment value of \$78.62 million for asset value investments and \$56.41 million for enterprise value investments.



Investment by Country or Region of Origin

In 2015–16, the United States was the number one source of investments with 386 investments totalling \$19.86 billion in asset value investments and \$18.69 billion in enterprise value investments. Investments from the United States accounted for 60.2 percent of the total number of investments, 65.01 percent of total value for asset value investments and 71.33 percent of total value for enterprise value investments. Investors from the European Union (EU) made 136 investments totalling \$7.41 billion in asset value investments and \$3.16 billion in enterprise value investments, which represented 21.22 percent of the total number of investments, 24.28 percent of the total value for asset value investments and 12.05 percent of total value for enterprise value investments.

Figure 4: Investment by Country or Region of Origin



Among the EU member states, the levels of investment were as follows:

- Ireland – \$2.54 billion in asset value investments; \$557.17 million in enterprise value investments
- Germany—\$589.07 million in asset value investments; \$730.16 million in enterprise value investments
- United Kingdom—\$340.39 million in asset value investments; \$485.77 million in enterprise value investments
- France—\$213.07 million in asset value investments; \$77.90 million in enterprise value investments

The BRIC countries (Brazil, Russia, India and China) made 32 investments in 2015–16, which totalled \$451.08 million in asset value investments and \$2.49 billion in enterprise value investments.

Other countries of note in terms of the level of investment in 2015–16 are as follows:

- Switzerland—13 investments with values of \$99.23 million for asset value investments and \$362.32 million for enterprise value investments.
- Japan—20 investments with values of \$2.78 million for asset value investments and \$980.07 million for enterprise value investments.
- Australia—9 investments with values of \$5.25 million for asset value investments and \$220.97 million for enterprise value investments.
- South Korea—5 investments valued at \$244.27 million in asset value investments.

Review Time

On average, in 2015-16, the time taken for a net benefit determination to be made was 71.5 days, down from 75.3 days in 2014-15.

National Security Reviews

This addition to the annual report for fiscal year 2015–16 provides information on the administration of the national security provisions of the Act, in force since 2009. This information is being published for the first time, and it is in accordance with confidentiality and privileged information requirements and the need to safeguard national security.

Foreign investments in Canada are screened for national security in accordance with the ICA. This process is undertaken in cooperation with the Government's national security agencies. Should further examination be required, the Act provides for a national security review to be ordered by the Governor-in-Council (GIC) on the recommendation of the Minister of Innovation, Science and Economic Development, after consultation with the Minister of Public Safety and Emergency Preparedness. Information on such reviews must be provided at a high level to respect confidentiality and privileged information requirements and to safeguard national security.

Since the national security provisions came into effect on March 12, 2009, to March 31, 2016, 4,359 notifications and 112 applications were filed. Other investments, which are not subject to the notification or application requirements in the Act but which are nonetheless subject to the Act's national security review provisions, were also completed. The GIC has ordered a total of eight national security reviews, broken down by year as follows.

April 2012- March 2013	April 2013- March 2014	April 2014- March 2015	April 2015- March 2016
2	1	4	1

In the cases that required a GIC-ordered national security review, outcomes included directing the non-Canadian not to implement the proposed investment (three cases), ordering the non-Canadian to divest themselves of control of the Canadian business (two cases) or authorizing an investment with conditions that mitigated the identified national security risks to a degree that allowed the investment to proceed (two cases). One investment was withdrawn prior to a final order being made.

Confidentiality and Review

Under the ICA, applications for review for net benefit must be made and approved prior to the implementation of a reviewable investment. For investments subject to the notification requirement, notifications must be filed either before, or within the 30 days following, the implementation of the investment. The Minister of Innovation, Science and Economic Development has 45 days (which can be extended by up to an additional 45 days) after an ICA application or notification has been certified, or after the implementation of an investment that does not require an ICA filing, to seek an Order from the GIC for a national security review. An investment subject to a GIC-ordered national security review after it has been implemented can be unwound if the GIC makes an order directing the non-Canadian to divest itself of the investment. Accordingly, investors are encouraged to contact the Investment Review Division to discuss their investment and, where applicable, to file a notification or an application for review at least 45 days prior to planned implementation.

If the Investment Review Division becomes aware of a situation where it believes an application for review or a notification has not been properly filed, pursuant to sections 17 and 12 respectively, it may contact the non-Canadian to advise them of their obligations under the Act. The ICA provides the Minister of Innovation, Science and Economic Development the authority to require that this information be provided. The ICA also provides the Minister the authority to require that information be provided in order to determine whether an investment could be injurious to national security. In some cases, the Investment Review Division may, pursuant to subsection 25.2(3) of the Act, request information from non-Canadians and/or businesses involved in proposed or implemented investments by a non-Canadian for this purpose. Such requests for information do not mean that the GIC has or will order a national security review.

In all cases, Investment Review Division officials are ready to meet with investors about their investment projects. Such consultations provide a useful forum for discussion and the exchange of views which may serve to eliminate possible difficulties and encourage the development of investments of benefit to Canada.

Appendix

Interpretive Notes

- All references to the 2015–16 fiscal year in data, tables, charts and explanations mean from April 1, 2015, to March 31, 2016.
- Acquisitions are recorded by the asset value or the enterprise 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 Innovation, Science and Economic Development 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. Innovation, Science and Economic Development 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.

Innovation, Science and Economic Development 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 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

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 and enterprise value of Canadian businesses acquired or newly established is in nominal dollar terms and is not adjusted for asset value changes over time.

Endnote 5

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

Endnote 6

The five sectors are based on North American Industry Classification System 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.