U.S. DIRECT INVESTMENT IN CANADA, BY PROVINCE OF CANADIAN MAIN OFFICE, 1966.

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SUMMARY

Number of Affiliates

In 1966, there were in Canada 4,360 affiliates of U.S. firms, according to the U.S. Office of Business Economics. Of these, 2,621, or 60.1 per cent, were affiliates whose Canadian main office was located in Ontario. U.S. affiliates, the Canadian main offices of which were located in Quebec, numbered 829 or 19.0 per cent of the total. Affiliates which had their Canadian main offices in British Columbia totalled 369, or 8.5 per cent. Canadian head offices located in Alberta had 324 affiliates under them, or 7.4 per cent of the total.

Manufacturing was the industrial group which had more affiliates than any other, 1,920 in number, or 44.0 per cent of the national total. Trade came second with 702 affiliates, or 16.1 per cent of the total. Finance and insurance came third with 342 U.S. affiliates, or 7.8 per cent. Petroleum was fourth with 319 affiliates, or 7.3 per cent. Public utilities were fifth with 182 affiliates, or 4.2 per cent. Mining and smelting was sixth with 176 affiliates or 4.0 per cent.

Capital Flows

Net flows of capital from the United States into Canada for direct investment were $US 1,336 million in 1966, according to the U.S. Office of Business Economics. Of this total, $US 838 million, or 62.7 per cent, went to U.S. affiliates which had their Canadian main offices in Ontario. Affiliates with their Canadian main offices in Quebec received $US 149 million, or 11.2 per cent of the total. Those with Canadian main offices in Alberta received $US 136 million, or 10.2 per cent of the total.

The industry groups in which most of the direct investment was

made were manufacturing; finance and insurance; mining and smelting; and petroleum.

U.S. direct investment in Canadian manufacturing was $US 650 million in 1966, or 48.7 per cent of the total. Of this $US 398 million, or 61.2 per cent of the national total for manufacturing, went to affiliates with their Canadian main offices in Ontario. Direct investment of $US 127 million, or 19.5 per cent of the manufacturing total, went to affiliates with Canadian main offices in Quebec.

U.S. direct investment in Canadian finance and insurance was $US 186 million in 1966, or 13.9 per cent of the total for all industries. This was made up of an investment of $US 197 million in affiliates with their Canadian head offices in Ontario, and a negative investment (withdrawal of capital) of $US 26 million with respect to affiliates with their Canadian main offices in Quebec.

In the case of mining and smelting, U.S. direct investment in Canada was $US 179 million in 1966, or 13.4 per cent of the total for all industries. This was invested in affiliates with their Canadian main offices in the following provinces, to the amounts stated: - Ontario, $US 97 million, or 54.2 per cent of the industry total; Saskatchewan, $US 32 million or 17.9 per cent of the industry total; Nova Scotia and Prince Edward Island, $US 326 million, or 14.5 per cent; British Columbia, $US 12 million or 6.7 per cent.

The petroleum industry in Canada received $US 178 million of U.S. direct investment in 1966, or 13.3 per cent of the total for all industries. Of this, $US 95 million, or 53.4 per cent of the petroleum industry total, went to U.S. affiliates with their Canadian main offices in Alberta. Those with Canadian main offices in Ontario received $US 77 million, or 43.3 per cent of the industry total.

Net Earnings

The net earnings of Canadian affiliates of U.S. firms were $US 1,224 million in 1966. Of these, $US 777 million, or 63.5 per cent of the national total was earned by affiliates with Canadian main offices in Ontario. Those with Canadian main offices in Quebec earned $US 211 million or 17.2 per cent of the national total. Those with Canadian main offices in Alberta earned $US 106 million, or 8.7 per cent of the national total.

In the industrial breakdown, manufacturing affiliates were first with net earnings of $US 583 million in 1966, or 47.6 per cent of the total for all industries; petroleum second with $US 198 million, or 16.2 per cent; mining and smelting third with $US 166 million, or 13.6 per cent; finance and insurance fourth with $US 127 million, or 10.4 per cent.

Manufacturing affiliates with Canadian main offices in Ontario earned $US 416 million, which was 71.4 per cent of the manufacturing total or 34.0 per cent of the national total for all industries. Manufacturing affiliates with Canadian main offices in Quebec earned $US 123 million, which was 21.1 per cent of the manufacturing total or 10.1 per cent of the national total for all industries.

Petroleum affiliates came second in the industrial breakdown, with net earnings of $US 198 million, or 16.2 per cent of the total for all industries. Affiliates with Canadian main offices in Ontario earned $US 90 million, or 45.5 per cent of the industry total. Those with Canadian main offices in Alberta earned $US 86 million, or 43.4 per cent.

The mining and smelting group was third with net earnings of $US 166 million or 13.6 per cent of the national total. Affiliates with Canadian main offices in Ontario earned $US 77 million, or 46.4 per cent of the industry total. Those with Canadian main offices in Quebec earned $US 48 million, or 28.9 per cent of the total for mining and smelting.

Affiliates in finance and insurance earned $US 127 million, or 10.4 per cent of the total for all industries. Those with Canadian main offices in Ontario earned $US 107 million, which was 84.3 per cent of the industry total. Those with Canadian main offices in Quebec earned $US 16 million, or 12.6 per cent.

Income Receipts

Income received in the United States from direct investment in Canada amounted to $US 725 million in 1966. Of this, $US 485 million, or 66.9 per cent of the total, was received from affiliates with their Canadian main offices in Ontario. From those with their Canadian main offices in Quebec, $US 80 million was received, or 11.0 per cent of the total. From affiliates with Canadian main offices in Alberta came $US 67 million or 9.2 per cent. Receipts from affiliates with main offices in British Columbia were $US 40 million, or 5.5 per cent.

Reinvestment of Earnings

Of total net earnings of $US 1,224 million in 1966, $US 580 million were reinvested. This amounted to 47.4 per cent of the net earnings.

Of this $US 580 million reinvested, $US 311 million were reinvested in affiliates with Canadian main offices in Ontario. This was 53.6 per cent of total reinvestment. Affiliates with Canadian main offices in Quebec reinvested $US 146 million, or 25.2 per cent of the national total. Those with Canadian main offices in Alberta reinvested $US 55 million, or 9.5 per cent. In the case of affiliates with Canadian head offices in British Columbia and in Manitoba, each group reinvested $US 30 million, or 5.2 per cent of the national total.

INTRODUCTION

The Office of Business Economics of the United States Department of Commerce publishes extensive material on U.S. direct investment in Canada. This was the basis for an earlier working paper by the Foreign Investment Division entitled U.S. Direct Investment in Canada as Reported by U.S. Sources, 1946-1967. It was issued in June 1969, and updated to 1969 by Amendment List Number 1 in March 1971. It dealt with the total value of U.S. direct investment and with the main flows of funds associated with it.

In 1966, the U.S. Department of Commerce carried out a major survey of U.S. business interests in other countries, which will serve as a base for adjusting the results of the regular sample surveys.

The first results of the 1966 survey have now been published under the title U.S. Direct Investments Abroad 1966 Part 1: Balance of Payments Data. (The document is obtainable from the Superintendent of Documents, U.S. Government Printing Office, at $US 1.75. The stock number is 0310 0039).

That publication gives background material on the scope and nature of the 1966 survey in two appendices. Appendix A consists of the instructions and regulations for the survey. Appendix B consists of copies of the forms used for reporting. This basic documentation was the subject of a working paper entitled United States Business Investments in Foreign Countries: A Note on the 1966 U.S. Survey Questionnaire, which was issued by the Foreign Investment Division in December, 1969.

The new publication is the first volume in a series, and so does not give the full results of the survey. It is confined to data which appear in the balance of payments. One of the items, for instance, is the outward flow of funds from the U.S. for investment in Canada during the current year. Another is the inward flow to the U.S. during the current year of income earned from all of the direct investment which had been made in Canada up to that time.

One new development is the publication of breakdowns for several of the Canadian series according to the province in which was located the Canadian main office of the affiliate surveyed. In view of the likely interest in these series, it was decided to prepare an interim working paper quickly, by selecting and reproducing the data which have been presented by province of Canadian main office, together with enough of the supporting text to explain the concepts used. The reader is advised to study the original U.S. text, if he finds these extracts interesting.

This interim working paper has been prepared in the form of photocopies of selected items from the original text, plus an introduction and a summary.

The first section of photocopy explains how the data were converted into U.S. dollars. Next, the photocopy explains the classification systems used. One was used for preparing breakdowns by industry. Another was used for preparing breakdowns of the world totals by countries, and of the Canadian total by provinces.

The provincial classification of affiliates was made according to the province in which their Canadian main offices were located. In the opinion of the Office of Business Economics, "it was recognized that some affiliates operated in more than one province, but for a large majority the location of the main office corresponded with the location of major operating facilities". This qualification should be borne in mind when interpreting the data.

There are no precisely equivalent Canadian statistical series to serve as a basis for comparison, or for a check on the assumptions of the U.S. authorities. The most nearly equivalent Canadian series appear to be provincial breakdowns of the taxable income in 1966 of corporations owned 50 per cent or more by non-residents. These are given in the Annual Report of the Minister of Industry, Trade and Commerce Under the Corporations and Labour Unions Returns Act (Part 1. Corporations) for 1966. These series cover corporations controlled by non-residents in all countries, not just in the U.S. Fifty per cent or more of non-resident ownership is used as the basis for the statistical breakdown, not 10 per cent as in the case of the U.S. data.

The main lesson from an initial attempt at comparison is that the U.S. figures should be interpreted as meaning precisely what they say. For instance, when they indicate that 43.3 per cent of direct investment in the petroleum industries was made in affiliates of which the head offices were in Ontario, they mean precisely that. They do not necessarily mean that 43.3 per cent of the direct investment in petroleum was actually made within the geographical boundaries of Ontario.

Examination of the available Canadian data does give the impression that the U.S. data, if wrongly used as an indicator of the actual distribution within provincial boundaries of the phenomena under observation, would tend to have an upward bias so far as the apparent relative significance of Ontario is concerned. This would follow logically from the heavy concentration of

Canadian head offices in that province.

The photocopied material in this working paper, after dealing with the geographical classification, gives definitions of four concepts, for which breakdowns of the statistics are available by the provinces in which Canadian main offices are situated. They are capital flows, net earnings, income receipts and reinvested earnings.

Annex A consists of photocopies of tables, or of extracts from tables, published in U.S. Direct Investments Abroad 1966 Part 1: Balance of Payments Data. These are tables for the four concepts noted in the previous paragraph, together with two tables about the number of foreign affiliates.

CONVERSION PRINCIPLES AND METHODS

THE survey instructions required that all financial data of foreign affiliates be taken from their own books and reported in the currency (foreign usually) customarily used in those books. If the foreign books were ordinarily converted to U.S. dollars, reporters were directed to supply the data in dollars, to indicate the exchange rates used, and to describe the method of conversion.

For affiliates whose books were kept only in foreign currencies, accounts were converted into dollars in accordance with standard accounting practices. In addition, reporters were also required to submit transactions involving the flow of U.S. capital as they appeared on the books of the U.S. companies. Statistics on capital flows (Group A tables) were taken from the records of the U.S. companies.

In order to convert net earnings reported in a foreign currency, average annual exchange rates were established and used; these rates were also used to convert the reinvested portion of these earnings. Since the net earnings used in the balance of payments accounts are taken from the books of the foreign companies and are stated in foreign currencies, there is no profit or loss due to exchange rate depreciation or appreciation at this point. The average exchange rate used for conversion is, of course, affected by changes in the value of the currency during the year. Even so, these converted net earnings may differ from amounts shown on the books of the parent companies (when parents take up the net earnings of foreign affiliates on their own books) since the parents' version of net earnings would include profit or loss on the revaluation of the assets or liabilities of the affiliates.

Dividends, royalties, fees and service charges were generally reported in dollars. When conversion was necessary, the average annual exchange rates calculated for earnings were used.

The following table shows the average annual exchange rates used in this survey. Where no rates are shown, none were required bacause no data needed conversion.

Country Listing for Survey of American Business Investments in Foreign Countries, 1966 and Exchange Rates Used for Earnings and Reinvested Earnings

Country	Exchange rate in dollars per foreign currency unit
Canada	$0.930
Latin American Republics:	
Argentina	.005
Bolivia	.084
Brazil—Old Cruzeiros	.00045
—New Cruzeiros	.370
Chile	.215
Colombia	.060
Costa Rica	.150
Cuba	...
Dominican Republic	1.000
Ecuador	.055
El Salvador	.400
Guatemala	1.000
Haiti	.200
Honduras	.500
Mexico	.080
Nicaragua	.143
Panama	1.000
Paraguay	.008
Peru	.037
Uruguay	.015
Venezuela	.220
Unallocated	...
Other Western Hemisphere:	
Bahamas	.980
Barbados	.580
Bermuda	2.790
British Honduras	.607
British Islands in the Caribbean	.580
French Guiana	.204
French Islands in the Caribbean	.204
Guyana	.580
Jamaica	2.790
Netherlands Antilles	.535
Surinam	.535
Trinidad and Tobago	.580
Unallocated	...
Europe:	
Common Market countries:	
Belgium	.020
France	.204
Germany	.250
Italy	.0016
Luxembourg	.020
Netherlands	.276
Europe—Continued	
Other Europe:	
Andorra	...
Austria	$0.040
British Islands in the Atlantic	2.790
Cyprus	2.790
Denmark	.145
Finland	.310
Gibraltar	2.790
Greece	.033
Greenland	...
Iceland	.023
Ireland	2.790
Liechtenstein	.230
Malta	2.790
Monaco	.204
Norway	.140
Portugal	.035
San Marino	...
Spain	.017
Sweden	.190
Switzerland	.230
Turkey	.111
United Kingdom	2.790
Yugoslavia	.080
Albania	...
Bulgaria	...
Czechoslovakia	...
East Germany	...
Hungary	...
Poland	...
Rumania	...
Union of Soviet Socialist Republics	...
Unallocated	...
Africa:	
Countries shown separately:	
Algeria	.204
Congo-Kinshasa	.006
Egypt	2.300
Ethiopia	.400
Ghana	1.170
Kenya	.140
Liberia	1.000
Libya	2.790
Morocco	.200
Nigeria	2.800
Rhodesia	2.790
Republic of South Africa	1.390
Tunisia	1.920
Zambia	2.790

CLASSIFICATION BY INDUSTRY

THE classification of foreign affiliates by industry is made on the basis of the major activity of the individual affiliate, not of the U.S. parent. Essentially, the assets and sales of each affiliate were examined to identify the central or most important operation, and the organization was then assigned to a single industry on the basis of its major activity. If an affiliate carried on more than one activity, e.g., both manufacturing and trade, it was classified in the industry which best described its basic activity.

The OBE classification scheme is organized under eight basic industry groups. With the exception of several regroupings, the OBE system largely parallels the divisions in the Standard Industrial Classification (hereafter, SIC). The eight basic groups are further subdivided, in varying degrees of detail, again generally following the well-defined industry groupings used in the SIC. The table on page 10 shows the coding scheme used by OBE, together with the corresponding SIC codes.

The OBE regrouping of the SIC system was necessary in order to present the data in the manner most appropriate to the institutional structure of foreign direct investments. Notable regroupings were made for petroleum and several other industries.

Petroleum

For the purpose of analyzing U.S. foreign direct investments, it seems highly desirable to have a major data classification to cover the operations of oil companies. The OBE classification scheme thus treats "petroleum" as one of the eight basic industry groups. The "petroleum" industry in the present classification includes the exploration and extraction activities of petroleum companies which the SIC treats as part of mining (group 13), manufacturing (group 29), transportation (groups 44 and 46) and wholesale and retail trade (groups 50 and 55). Excluded from this category, however, are activities of foreign affiliates of U.S. oil companies in the chemical industry, which are classified as manufacturing in the OBE scheme. Also, operations involving the transportation of petroleum products are not included in the petroleum category when they are performed by affiliates not owned by U.S. petroleum companies.

Within the category of "petroleum," classification of subgroups is made on a functional basis. A separate category of "integrated petroleum companies" was set up for those companies which are vertically integrated.

Other Industries

In general, foreign smelting and refining operations are conducted in connection with mining operations abroad. Since it is not possible to obtain separate figures for these "manufacturing" operations of foreign mining companies, they are included under the combined heading of "mining and smelting." On the other hand, smelting or refining operations conducted by a separate foreign affiliate are classified as "manufacturing," under "primary metals."

Save for the exceptions relating to the petroleum and mining and smelting industries, the OBE classification of manufacturing industries generally follows the SIC, except that a number of manufacturing industries having only minor foreign investments are combined in the OBE scheme under "other manufacturing."

With respect to international shipping operations, affiliates owned by U.S. oil companies are classified in the petroleum industry; all other shipping affiliates, including those operating tankers, are classified in the "transportation, communication, and other public utilities" industry.

Within the major industry of "trade," a subgroup (not previously used in balance of payments statistics) is set up to cover wholesale trade in manufactured and semimanufactured products. A further breakdown of this subgroup is made on the basis of the type of manufacturing industry producing these products.

Industry Classification Code

Industry Identification	OBE classification code	Equivalent SIC code
Agriculture, forestry, and fisheries	100	Division A
Agricultural production	110	01
Forestry	120	08
Fisheries	130	09
Agricultural services	140	07
Agriculture, forestry, and fisheries, combinations	190	....
Mining (exclusive of crude petroleum and natural gas, but including smelting when part of a mining operation)	200	Division B, excluding 13; including 333[1]
Iron ores	210	101
Copper, lead, and zinc ores	220	102;103
Gold and silver ores	230	104
Bauxite ores	240	105
Other metals	250	106;109
All other mining operations, coal, nonmetallic minerals	260	11;12;14
Mining services and miscellaneous	280	108
Mining, combinations	290	....
Petroleum	300	13
Exploration and extraction of crude petroleum and natural gas	310	131;132
Refining and processing	320	291;299
Distribution and marketing	330	5092;554
Tanker operation of oil companies	340	44[2]
Crude and product pipelines for petroleum (excluding natural gas)	350	4612;4613
Oil and gas industry services	360	138
Petroleum, integrated companies	390	....
Manufacturing (exclusive of petroleum products and smelting operations of mining companies)	400	Division D, excluding 29 and 333[1]
Diversified manufacturing (used for reporters only)	405	....
Food products	410	20
Meat products	411	201
Dairy products	412	202
Canned and preserved fruits, vegetables, and sea foods	413	203
Grain mill products	414	204
Bakery products	415	205
Beverage industry	416	208
All other food products	418	206;207;209
Food products, combinations	419	....
Paper and allied products	420	26
Pulp mills	421	261
Paper mills, except building paper mills	422	262
All other paper and allied products	428	263;264; 265;266
Paper and allied products, combinations	429	....

Industry Classification Code—Continued

Industry Identification	OBE classification code	Equivalent SIC code
Manufacturing—Continued		
Chemicals and allied products	430	28
Drugs	431	283
Soap, detergents, and cleaning preparations, perfumes, and cosmetics	432	284
Paints and allied products	433	285
Industrial organic and inorganic chemicals, including petrochemicals	434	281
Plastic materials and synthetic resins, synthetic rubber, etc.	435	282
Agricultural chemicals	436	287
All other chemicals and allied products	438	286;289
Chemicals, combinations	439	....
Rubber and miscellaneous plastic products (finished)	440	30
Tires and inner tubes	441	301
All other rubber products	448	302;303; 306;307
Rubber products, combinations	449	....
Primary and fabricated metals	450	33;34
Primary metal industries (excluding aluminum, copper, and brass	451	33 excluding 3331;3334; 3351;3352; 3361;3362
Fabricated metals (excluding aluminum, copper, and brass)	452	34 excluding 3432
Primary and fabricated aluminum	453	3334;3352;3361
Primary and fabricated copper and brass	454	3331;3362;3432
Metal manufactures, combinations	459	....
Machinery (except electrical)	460	35
Farm machinery and equipment	461	352
Industrial machinery and equipment (including construction and mining)	462	353;355;356
Office, computing and accounting machines	463	357 except 3573
Electronic computing equipment	464	3573
Service industry machines	465	358
Metal working machinery and equipment	466	354
Engines, turbines, and all other machinery	468	351;359
Machinery, combinations	469	....
Electrical machinery, equipment, and supplies	470	36
Household appliances	471	363
Electric equipment and apparatus	472	361;362
Electronic components and accessories	473	367
Radio and television communication equipment	474	365;366
All other	478	364;369
Electrical machinery, combinations	479	....
Transportation equipment	480	37
Motor vehicles and motor vehicle equipment	481	371
Aircraft and parts	482	372
Railroad equipment	483	374
Ship and boatbuilding and repairing	484	373
All other	488	375;379
Transportation equipment, combinations	489	....
Other manufacturing	490	....
Textile mill products and apparel	491	22;23
Lumber and wood products including furniture and fixtures	492	24;25
Printing, publishing and allied industries	493	27
Leather and leather products	494	31
Stone, clay, and glass products	495	32
Professional, scientific, and controlling instruments	496	38
Tobacco manufactures	497	21
Ordnance and accessories	498	19
All other manufacturing	499	39

Industry Classification Code—Continued

Industry Identification	OBE classification code	Equivalent SIC code
Transportation, communication, and other public utilities	500	Division E
Railroad transportation and transit lines	510	40;41
Water transportation	520	44
Dry cargo and passenger carriers	521	4411
Tankers (exclusive of tankers owned by petroleum companies)	522	4411
Services	523	446
Water transportation, combinations	529	....
Air transportation	530	45
All other transportation (including warehousing)	540	42;47
Communication	550	48
Electricity, gas, and power	560	491;492;493
Other utilities (including water and sanitation)	580	494;495; 496;497
Transportation and other services, combinations	590	....
Trade (exclusive of distribution of motion pictures and petroleum products)	600	Division F
Retail trade	610	52-59
Purchasing	620	....
Wholesale trade (selling activities) manufactures or semimanufactures	630	....
Food products	631	504;5053; 5054;5095
Paper and allied products	632	5096
Chemicals and allied products	633	502
Rubber products	634	5014
Primary and fabricated metals	635	5072;5091;507
Machinery (except electrical)	636	508
Electrical machinery, equipment, and supplies	637	506;5077
Transportation equipment	638	501
Other manufacturing	639	503;5094;5097 5098;5099
Wholesale trade, raw materials	640	5052;5059
Finance and insurance	700	60-64;67
Banking	710	60
Other finance	720	61;62;67 excluding 671
Holding companies	730	671
Insurance	740	63
Life insurance	741	631
All other insurance	749	632;633;635; 636;639;64
Miscellaneous industries	800	15;16;17;65; 66;70;72; 73;78;89
Real estate	810	65;66
Hotels	820	70
Advertising and related business services	830	731;732;733
Motion pictures	840	78
Contract construction	850	15;16;17
Conglomerate corporations (used for reporters only)	880	
All other categories, including inactives	890	72;734;739; 79;89

1. When related to mining operations in the same country.
2. Separate corporations carrying only the goods of corporations to which they are subsidiary.

CLASSIFICATION BY COUNTRY

UNLESS otherwise indicated, all data are shown by country (or Canadian province) of major activity. The exchange rate list on page 7 shows the countries, and groupings of countries, used in the data tables; it is not intended to be a complete tabulation of all countries or political units. The following major geographic breakdowns are used:

Canada
Latin American Republics
Other Western Hemisphere
Europe
Africa
Middle East
Far East
International

The survey data also indicate, for foreign-incorporated affiliates, the country of incorporation, as opposed to country of major activity. While this type of classification is not used in the data presented here, it will be needed for special tabulations of the survey data in subsequent publications. Affiliates operating in Canada have all been classified according to the province in which their Canadian main offices were located. It was recognized that some affiliates operated in more than one province, but for a large majority the location of the main office corresponded with the location of major operating facilities.

Where area data are presented, European data are often given for two broad groups, Common Market countries and other European countries. The latter group generally includes data for the Eastern European countries for which scattered reports were filed.

The African area groupings were set up to permit presentation of the maximum amount of data while still meeting the requirements for confidentiality of individual reports. Countries for which data could not be shown separately were grouped into four major areas.

Ocean shipping operations conducted by foreign-incorporated shipping subsidiaries of U.S. firms were placed in the "international shipping" category, in line with the practice followed by OBE since 1957. This covers the operations of all U.S.-owned foreign ocean shipping affiliates, regardless of the business of the U.S. parent. (In the breakdown by industry, operations of tanker affiliates of oil companies are shown as part of the petroleum industry, but all other shipping operations are shown as part of the transportation, communication, and other public utilities industry.)

Some affiliates (other than those in ocean shipping) operating in more than one country could not be allocated to a single country, but could be allocated to a major geographic area. Where possible this was done. However, an "international trade and unallocated" category was also established to cover activities of international trading firms and other types of affiliates that operate in more than one area. In order to qualify for this classification, a company's sales or revenue-creating activities had to be in two or more basic geographic areas, and sales in areas other than the area in which the company was organized, or had its head office, had to account for at least 50 percent of total sales or revenues. Organizations that qualified under the first condition, but whose major activity was nonetheless limited to a single country or major area, were coded for that country or area (if the latter, it was coded "unallocated" and included in "other countries" for that area). Organizations that operated in several countries, but within one area, were also coded "unallocated" for that area.

Example: Company A is organized in Switzerland, but operates in various parts of the world with a major portion of total sales or revenues derived from areas other than Europe but not from any one area; this company is coded for "international trade."

Company B is similar to Company A, except that the major portion of its sales comes from activities in several countries in a single area as, for example, the Far East; this company is coded as "unallocated" in the Far East and is shown in "other countries" in the Far East.

Company C is similar to Company A and B but, even though it operates in a number of countries, its major operations are conducted in Italy; this company will be coded for Italy and shown as part of the data for Italy.

CAPITAL FLOWS

DIRECT-investment capital flows measure the increase or decrease of the investment in, or claims on, foreign affiliates resulting from a change in the capital invested, contributed, or loaned by U.S. owners.

In the case of foreign-incorporated affiliates the measure of capital flows includes changes in (a) the U.S. owners' holdings of capital stock in the foreign affiliates (except changes caused by stock dividends or other capitalizations of surplus accounts); (b) capital contributed by U.S. owners to the foreign affiliates; (c) long-term or short-term indebtedness of the foreign affiliates to the U.S. owners (or vice versa); (d) any other intercompany account.

Capitalization of intercompany accounts or long-term debt results in two offsetting entries: The intercompany or debt item is reduced by the amount being capitalized, while the capital stock or capital surplus is increased by the same amount. Such a change in the financial structure of the foreign affiliate is not uncommon. Though it does not supply fresh capital it may increase the ability of the foreign affiliate to obtain outside financing.

Figures on capital flows can be obtained from the financial statements of the foreign affiliates or of the parent companies. The reporting schedules included a request to supply information on changes in the investment of the parents in the foreign affiliates from both sets of books. After adjustment for incomplete or incorrect filing, the books of the owners were used to measure these capital flows. Differences between the two sets of books were most frequently of a timing nature. Sometimes they covered different fiscal year periods, and at times transactions were carried in different accounts.

Capital flows as shown in most tables of "Group A" were based on a summation of the netted flows to each foreign affiliate. However, capital flows can be expressed also as the sum of transactions for particular categories of investments or claims. Tables A-8 and A-9 show net flows divided in this way. In another presentation, table A-11, net flows are divided into the total for all affiliates that had net outflows and those that had net inflows.

As defined for balance of payments accounts, direct-investment capital flows also include transactions of nonaffiliated U.S. owners or lenders with direct-investment affiliates. Since such owners (owners of an interest of less than 10 percent) or lenders were not required to file reports in the survey, data on their transactions had to be prepared from financial and statistical detail contained in the report of the major owner of the foreign affiliate. As needed, reporters were consulted to review the conclusions reached by OBE, and additional information was obtained from them when necessary.

Not all capital flow transactions are between U.S. parents (or unaffiliated U.S. investors) and foreign primary affiliates, i.e., affiliates directly owned by the U.S. parents. In a corporate system of companies, the U.S. parent may have direct transactions, involving a flow of U.S. capital, with a secondary foreign affiliate which is owned through a primary foreign affiliate. Since these transactions enter the balance of payments accounts of the United States, they are counted as part of total direct-investment capital flows.

Some of the capital flows result from the accrual system of recording balance of payments flows. When a foreign affiliate's payments of dividends, fees, etc., to the parent fall due, the full amount of the transaction is entered as a receipt in the balance of payments account. However, the portion that has not been transferred is shown as an increase in the intercompany debt of the affiliate to the parent. Assume, for instance, that a foreign affiliate declares a dividend of $10 million, but pays only $4 million during the fiscal period. The respective balance of payments entries will be: (1) income receipts from direct investments of $10 million; and (2) an increase in intercompany receivables from the foreign affiliate, a capital outflow, of $6 million. The net in the balance of payments, therefore, is a receipt of $4 million ($10 million less $6 million).

While a number of separate types of transactions are used to measure capital flows with foreign-incorporated affiliates, U.S. owners of foreign branches, or other unincorporated foreign affiliates, use only one collective account, representing the net of all claims and liabilities of the owner on the foreign organization. If net claims have risen during the period under review, transactions affecting this account have resulted in a capital outflow. If, however, net claims have declined, then transactions affecting this account have resulted in a capital inflow.

For unincorporated affiliates, total net earnings are counted as an income receipt in the balance of payments. Therefore, any part of earnings not transferred to the United States results in an offsetting increase in net claims of the parent on the branch, a capital outflow. In other words, the reinvestment of earnings of unincorporated foreign affiliates becomes part of the capital flow statistics. By contrast, for foreign-incorporated affiliates, earnings not repatriated as income are not balance of payments entries and the reinvestment of such earnings are not part of capital flows. However, reinvested earnings are taken into consideration in computing the net change in book value of direct investments.

NET EARNINGS

NET earnings measures the U.S. owners' share, based on percentage of ownership, in the after-tax net earnings of foreign affiliates. This is distinct from "income receipts" from direct investments in the balance of payments account which represents the amounts actually paid to U.S. owners out of earnings in the form of dividends for foreign-incorporated affiliates, or the amount accruing to owners as net earnings for unincorporated foreign affiliates, as well as interest paid by the affiliates to the owners on outstanding debt.

Net earnings are needed for the measurement of earnings yields (relating earnings to owners' investment) and for determining changes in the book value of direct investments through the reinvestment of earnings.

The net earnings data presented here are defined somewhat differently than similar domestic data. Here, the earnings are calculated as net earnings on voting stock, *after* deduction of dividends paid to owners of preferred (non-voting) stock, if any. The net earnings figures thus represent the U.S. owners' share of the amount available to the affiliate for either distribution as a dividend or for reinvestment. In the former case, the owner of voting stock receives a dividend; in the latter case his equity is increased to the extent of reinvestment.

In addition, net earnings are stated before the deduction of depletion charges for wasting assets of affiliates engaged in the extractive industries. In effect, these funds are considered to be a return of capital in balance of payments usage rather than a noncash charge to income accounts.

It should also be noted that, as stated previously, net earnings figures are taken directly from the books of the foreign affiliates and therefore do not include unrealized profit or loss due to exchange rate variation.

Net profits of branches and other unincorporated foreign affiliates were stated by some reporters after U.S. tax liabilities had been deducted. Such reports were adjusted when the data were compiled, to restate net earnings after foreign taxes but before U.S. taxes. No separate data were collected on the actual amount of U.S. taxes paid by affiliates or on the U.S. taxes paid by U.S. owners on the income from their foreign affiliates.

Determination of the U.S. share in net earnings of secondary foreign organizations was done on a prorated basis. Thus, a U.S. parent company owning 50 percent of a foreign affiliate which in turn owns 80 percent of another (secondary) foreign company would have a direct claim on 40 percent (50 percent of 80 percent) of the earnings of the secondary company. Thus, only 40 percent of the secondary affiliate's net earnings would be included here.

The relationships between net earnings, income, interest, withholding taxes on dividends, and reinvested earnings are given in the following table and in chart 2.

Relationships Between Net Earnings and Income Receipts

[Millions of dollars]

	Amount	Line reference
1. Net earnings of foreign-incorporated organizations	3,681	....
2. Net earnings of foreign branches	1,931	....
3. Net earnings of other unincorporated foreign organizations	2	....
4. Net earnings of foreign affiliates	5,614	1+2+3
5. Gross dividends on common or voting stock	1,890	....
6. Foreign withholding taxes on common or voting stock	162	....
7. Dividend receipts on common or voting stock	1,728	5-6
8. Dividend receipts on preferred stock	6	....
9. Interest receipts	270	....
10. Income receipts	3,938	2+3+7+8+9
11. Reinvested earnings of foreign-incorporated organizations	1,790	1-5

INCOME RECEIPTS

INCOME receipts from direct investments measure the amounts received by, or accruing to, U.S. parents in the form of dividends from foreign-incorporated affiliates, branch profits, or distribution of income from other unincorporated affiliates, or as interest on debt. Income receipts are essentially the amounts accruing to U.S. owners as a return on their capital. Stock dividends are not counted in income receipts because they merely shift the owners' equity from a claim on the surplus accounts into holdings of capital stock of the foreign corporations. No transfer of funds is involved in such transactions.

All figures on income receipts are net of similar payments by U.S. parents to the foreign affiliates. Income receipts from branches and other unincorporated affiliates are defined to be equal to the owners' proportionate share in the affiliates' net earnings, plus any interest paid by the affiliates to the U.S. owners. Negative net income or earnings, i.e., losses, are not unusual, especially in the case of affiliates engaged in mining and petroleum exploration and development.

Dividends of both common or voting stock and preferred stock are included in the measure of income receipts. The dividends received by, or accrued to, U.S. owners in 1966 amounted to \$1,734 million, almost all of which was in the form of dividends on voting stock. Only \$6 million (less than one-half of 1 percent) was in the form of preferred dividends. Dividends are stated after deduction of withholding taxes paid at the source to local governments (but before any U.S. taxes). Such foreign taxes amounted to \$162 million in 1966.

Only those dividends received by U.S. owners from their directly-owned foreign affiliates (primary foreign organizations) enter the balance of payments accounts and are therefore counted as part of direct investment income receipts. However, the revenues of such a primary corporation may include dividends which it has received from its own chain of foreign affiliates (secondary foreign organizations). In this case, the primary company's dividends are allocated in part to the countries and industries of the secondary companies. They are allocated in the proportion that the primary company's dividend receipts from its secondary bear to the primary company's total revenues. Example: Company "P" (primary) has total revenues of 120 which include a dividend from company "S" (secondary) of 80. Company "P" itself pays a dividend of 45 to its U.S. parent. The ratio of dividend receipts to total revenues of company "P" is two to three (80 to 120). Thus, of the 45 dividend payment by company "P" to the U.S. parent, two-thirds, or 30, is allocated to the country of company "S", and one-third, or 15, to the country of company "P".

The tables on income receipts include classifications by country and industry, by form of organization, by transaction type, by percentage of ownership, by age of the foreign organizations, etc. A summary of income receipts is given in chart 3.

REINVESTED EARNINGS

THE treatment accorded in balance of payments accounting to income receipts from direct investments and to net earnings of direct-investment affiliates makes it necessary to measure separately the reinvested portion of earnings of foreign-incorporated enterprises. (Recall that for branches, all earnings are considered to be repatriated and all increases in investment show up as capital outflows. Thus branches do not have "reinvested" earnings.) It is one of the factors needed to measure the growth in the value of direct investments abroad.

The reinvested earnings of foreign-incorporated affiliates equal their net earnings less gross common dividends. Gross common dividends are the amounts paid out by the foreign corporations, including dividend withholding taxes in countries where such taxes are levied. In all instances the amounts used in these aggregations relate to the U.S. owners' share in the voting securities of the foreign-incorporated affiliates.

For 1966, the total U.S. share in the reinvested earnings of all foreign-incorporated affiliates was $1,790 million, of which $1,551 million was in primary and $239 million in secondary foreign organizations. This is derived by deducting from consolidated earnings of $3,681 million, gross common dividends of $1,890 million. (The earnings figure consolidates $190 million of dividends paid by secondary foreign organizations to primary foreign organizations. The gross common dividends include only those paid by primary foreign organizations to U.S. owners.) The amount of dividends actually entering balance of payments accounts, however, is only $1,728 million because of withholding taxes of $162 million applicable to gross dividends paid by the primary foreign organizations to their U.S. parents. (See table in section on Net Earnings and chart 2.)

As in the case of the earnings data, separate tables show reinvested earnings for primary and secondary foreign affiliates as well as combined statistics for all types of foreign affiliates.

ANNEX A

U.S. DIRECT INVESTMENT IN CANADA, BY PROVINCE OF CANADIAN MAIN OFFICE, 1966

LIST OF TABLES

Table A-14.—Net Capital Flows With Canada by Major Industry, by Province of Head Office

[In millions of dollars; inflows to U.S. (–)]

Province	All industries, total	Agriculture (100)	Mining and smelting (200)	Petroleum (300)	Manufacturing (400)	Public utilities (500)	Trade (600)	Finance and insurance (700)	Other industries (800)
Canada	1,336	–1	179	178	650	25	48	186	70
Alberta	136	(**)	(**)	95	28	6	5	(**)	2
British Columbia	48	–1	12	6	24	–2	1	1	7
Manitoba	47	1	3	......	16	(**)	13	13	1
New Brunswick	–5	(**)	(**)	(*)	–3	(**)	(*)	(*)	–2
Newfoundland	3	......	2	(*)	(**)	1	(*)	(*)	(**)
Nova Scotia and Prince Edward Island	50	(**)	26	......	25	–1	(**)	(*)	(**)
Ontario	838	(**)	97	77	398	2	25	197	42
Quebec	149	(**)	5	2	127	19	4	–26	18
Saskatchewan	66	(**)	32	–2	35	......	(**)	......	......
Northwest Territories	3	......	3	......	......	......	......	......	......

Table A-15.—Net Capital Flows With Canada by Year of Establishment or Acquisition of Foreign Organization, by Province of Head Office

[In millions of dollars; inflows to U.S. (–)]

Province	All years, total	1957[1]	1958	1959	1960	1961	1962	1963	1964	1965	1966
Canada	1,336	804	16	8	13	11	38	54	148	148	97
Alberta	136	103	(**)	3	–9	4	(**)	(**)	9	19	6
British Columbia	48	22	(**)	2	(**)	1	(**)	(**)	3	19	1
Manitoba	47	28	(**)	(**)	(**)	11	(**)	1	5	(**)	2
New Brunswick	–5	–4	.....	.....	.....	–1	(**)	.....	(**)	.....	.....
Newfoundland	3	–2	.....	–1	(**)	3	(**)	.....	3	.....	(**)
Nova Scotia and Prince Edward Island	50	–3	(**)	(**)	.....	29	.....	–2	(**)	24	2
Ontario	838	572	5	4	9	2	29	14	90	37	76
Quebec	149	71	10	1	13	–37	11	39	4	30	7
Saskatchewan	66	17	.....	.....	.....	–2	–2	(**)	34	17	1
North West Territories	3	.....	.....	.....	.....	.....	(**)	.....	(**)	3	(**)

1. This includes net capital flows in 1966 for all companies established or acquired before December 31, 1957.

Table B-12.—Net Earnings of Canadian Affiliates by Major Industry, by Province of Head Office, and Type of Organization

[In millions of dollars]

Province	All industries, total	Agriculture (100)	Mining and smelting (200)	Petroleum (300)	Manufacturing (400)	Public utilities (500)	Trade (600)	Finance and insurance (700)	Other industries (800)
Canada	1,224	2	166	198	583	39	67	127	42
Corporate	1,076	2	143	158	579	35	66	63	30
Branch	150	(**)	27	40	4	4	1	64	12
Other	−2	(**)	−3	(**)	(1)	......	(**)	(1)	(**)
Alberta	106	(**)	(**)	86	3	14	2	(**)	1
Corporate	69	(**)	1	50	3	11	2	(**)	1
Branch	37	......	(**)	36	......	2	(**)	......	......
Other	(**)	(**)	......	(**)	......	......	......	......	(**)
British Columbia	51	1	2	7	29	5	1	3	3
Corporate	50	1	4	7	28	5	1	1	3
Branch	(**)	(**)	−2	......	(**)	......	(**)	2	(**)
Other	(**)	(**)	......	......	......	......	......	......	(**)
Manitoba	42	(**)	13	......	7	(**)	21	(**)	(**)
Corporate	42	(**)	13	......	8	(**)	21	(**)	(**)
Branch	(**)	......	......	......	(**)	......	(**)	(**)	......
Other	......	......	......	......	......	......	......	......	......
New Brunswick	2	(**)	(**)	(*)	1	(**)	(*)	(**)	1
Corporate	2	(**)	(**)	(*)	1	(**)	(*)	(**)	1
Branch	(**)	......	......	(*)	......	(**)	......	......	(**)
Other	......	......	......	......	......	......	......	......	......
Newfoundland	5	......	4	......	(**)	(**)	(**)	(**)	......
Corporate	3	......	2	......	(**)	(**)	(**)	(**)	......
Branch	2	......	2	......	......	......	......	......	......
Other	......	......	......	......	......	......	......	......	......
Nova Scotia and Prince Edward Island	22	(**)	20	......	1	1	(**)	(**)	(**)
Corporate	4	(**)	2	......	1	1	(**)	(**)	(**)
Branch	18	......	19	......	......	......	......	......	(**)
Other	(**)	(**)	......	......	......	......	......	......	......
Ontario	777	1	77	90	416	10	31	107	45
Corporate	700	1	74	89	414	9	30	52	32
Branch	77	......	4	1	2	2	1	55	12
Other	(**)	......	......	......	(1)	......	(**)	......	(**)
Quebec	211	(**)	48	10	123	8	12	16	−7
Corporate	201	(**)	47	10	122	8	12	10	−7
Branch	9	......	2	......	2	(**)	(**)	6	(**)
Other	1	......	(**)	......	......	......	......	(1)	(**)
Saskatchewan	7	(**)	1	(*)	3	......	(*)	......	3
Corporate	4	(**)	1	(*)	3	......	(*)	......	(**)
Branch	6	......	3	(*)	(**)	......	......	......	3
Other	−3	......	−3	......	......	......	......	......	......
Northwest Territories	(**)	......	(**)	......	......	......	(**)	......	......
Corporate	(**)	......	(**)	......	......	......	(**)	......	......
Branch	......	......	......	......	......	......	......	......	......
Other	......	......	......	......	......	......	......	......	......

1. Amounts included in branch earnings.

Table C-14.—Income Receipts from Canada by Major Industry, by Province of Head Office

[In millions of dollars]

Province	All industries, total	Agriculture (100)	Mining and smelting (200)	Petroleum (300)	Manufacturing (400)	Public utilities (500)	Trade (600)	Finance and insurance (700)	Other industries (800)
Canada	725	1	99	131	313	26	9	115	31
Alberta	67	(**)	(**)	57	1	9	(**)	......	(**)
British Columbia	40	1	(**)	6	23	8	(**)	2	(**)
Manitoba	12	......	6	......	3	(**)	1	1	(**)
New Brunswick	2	(**)	(**)	(*)	(**)	(**)	(*)	(*)	1
Newfoundland	4	......	3	(*)	......	(**)	(*)	(*)	(**)
Nova Scotia and Prince Edward Island	27	(**)	25	......	1	1	(**)	(*)	(**)
Ontario	485	(**)	52	58	234	5	6	103	27
Quebec	80	(**)	12	5	47	3	2	9	3
Saskatchewan	8	(**)	1	4	3	......	......	......	......
Northwest Territories	......	......	......	......	......	......	......	......	......

Table D-10.—Reinvestment of Earnings of Canadian Affiliates by Major Industry, by Province of Head Office

[In millions of dollars]

Province	All industries, total	Agriculture (100)	Mining and smelting (200)	Petroleum (300)	Manufacturing (400)	Public utilities (500)	Trade (600)	Finance and insurance (700)	Other industries (800)
Canada	580	1	71	85	282	20	60	47	13
Alberta	55	(**)	(**)	43	3	5	2	(**)	1
British Columbia	30	(**)	2	7	12	4	1	1	3
Manitoba	30	(**)	5	......	4	(**)	21	(**)	(**)
New Brunswick	2	(**)	(**)	(*)	1	(**)	(*)	(**)	1
Newfoundland	2	......	1	......	(**)	(**)	(**)	(**)	......
Nova Scotia and Prince Edward Island	2	(**)	2	......	(**)	(**)	(**)	(**)	(**)
Ontario	311	1	24	28	171	5	26	38	18
Quebec	146	(**)	35	6	91	6	10	8	−10
Saskatchewan	2	(**)	1	(*)	(**)	......	(*)	......	(**)
Northwest Territories	(**)	......	(**)	......	......	......	(**)	......	......

Table F-8.—Number of Foreign Affiliates by Major Industry, by Country

Area and country	All industries, total	Agriculture (100)	Mining and smelting (200)	Petroleum (300)	Manufacturing (400)	Public utilities (500)	Trade (600)	Finance and insurance (700)	Other industries (800)
All areas	23,282	289	518	1,858	9,343	1,055	4,233	1,883	4,103
Canada	4,360	43	176	319	1,920	182	702	342	676
Alberta	324	3	11	158	24	32	44	2	50
British Columbia	369	13	22	10	144	26	53	20	81
Manitoba	87	5	3	......	20	3	44	9	3
New Brunswick	24	3	3	2	5	3	2	2	4
Newfoundland	28	......	7	......	10	9	1	1	....
Nova Scotia and Prince Edward Island	36	2	7	......	13	3	3	1	7
Ontario	2,621	9	88	126	1,342	51	429	224	352
Quebec	829	2	23	11	355	55	123	83	177
Saskatchewan	34	6	7	12	7	......	2	......	....
Northwest Territories	8	......	5	......	......	......	1	......	2

Table F-9.—Number of Foreign Affiliates by Type of Organization, by Country

Area and country	Total	Corporate	Branch	Other
All areas	23,282	19,700	3,281	301
Canada	4,360	3,911	399	50
Alberta	324	226	75	23
British Columbia	369	341	25	3
Manitoba	87	81	6	....
New Brunswick	24	23	1	....
Newfoundland	28	24	4	....
Nova Scotia and Prince Edward Island	36	30	5	1
Ontario	2,621	2,409	200	12
Quebec	829	747	72	10
Saskatchewan	34	22	11	1
Northwest Territories	8	8	....	....