

Catalogue no. 11-621-M2019001

ISSN 1707-0503

ISBN 978-0-660-29719-4

Analysis in Brief

Multinational enterprises in Canada

by Claire Schaffter and Alexandre Fortier-Labonte

Release date: April 1, 2019



Statistics
Canada

Statistique
Canada

Canada

How to obtain more information

For information about this product or the wide range of services and data available from Statistics Canada, visit our website, www.statcan.gc.ca.

You can also contact us by

Email at STATCAN.infostats-infostats.STATCAN@canada.ca

Telephone, from Monday to Friday, 8:30 a.m. to 4:30 p.m., at the following numbers:

- Statistical Information Service 1-800-263-1136
- National telecommunications device for the hearing impaired 1-800-363-7629
- Fax line 1-514-283-9350

Depository Services Program

- Inquiries line 1-800-635-7943
- Fax line 1-800-565-7757

Standards of service to the public

Statistics Canada is committed to serving its clients in a prompt, reliable and courteous manner. To this end, Statistics Canada has developed standards of service that its employees observe. To obtain a copy of these service standards, please contact Statistics Canada toll-free at 1-800-263-1136. The service standards are also published on www.statcan.gc.ca under "Contact us" > "[Standards of service to the public](#)."

Note of appreciation

Canada owes the success of its statistical system to a long-standing partnership between Statistics Canada, the citizens of Canada, its businesses, governments and other institutions. Accurate and timely statistical information could not be produced without their continued co-operation and goodwill.

Published by authority of the Minister responsible for Statistics Canada

© Her Majesty the Queen in Right of Canada as represented by the Minister of Industry, 2019

All rights reserved. Use of this publication is governed by the Statistics Canada [Open Licence Agreement](#).

An HTML version is also available.

Cette publication est aussi disponible en français.

Multinational enterprises in Canada

by Claire Schaffter and Alexandre Fortier-Labonte

Introduction

Globalization refers to the economic integration between countries as a result of increasing cross-border trade and capital movements.

Multinational enterprises (MNEs) have been drivers of globalization. These enterprises have taken advantage of innovations in logistics and communications technology over the past four decades to diversify their supply chains and expand into new markets.

MNEs are also an important source of investment in innovation, technology and skilled labour in Canada. The involvement of MNEs in these aspects of the Canadian economy was discussed in a prior Statistics Canada study.¹

This analytical study describes the characteristics of MNEs² in Canada and abroad, and how their activities in Canada differ from those of Canadian domestic enterprises that do not control businesses outside the country.

The data for the study come from various sources, including Statistics Canada's 2016³ Annual Financial and Taxation Statistics (AFTS) program. The AFTS collects and aggregates data from the financial statements of all enterprises in Canada.

An indicator⁴ that distinguishes MNEs from domestic enterprises in the AFTS data is used in this study to compare size, industry involvement and financial performance for both groups. Data collected by the Canada Revenue Agency (CRA) also provide details about subsidiaries of Canadian enterprises abroad.

MNEs in Canada

At the end of 2016 (see Chart 1), 99.2% of enterprises in Canada were domestic.⁵ Of these, 0.8% were part of an enterprise group, while 98.5% were Canadian non-group enterprises. Only 0.8% of all enterprises operating in Canada were MNEs. Half of MNEs were Canadian majority-owned, with foreign affiliates (MOFAs) and half were foreign majority-owned, with Canadian affiliates (FMOOCAs).

Although less than 1% of all enterprises were MNEs, they held 67% of all assets in the Canadian economy. MOFAs owned more assets than FMOOCAs, with 49% of the total.

1. Baldwin, John R. and Guy Gellatly. 2007. *Global Links: Multinationals in Canada: An Overview of Research at Statistics Canada*. Analytical Studies Branch Research Paper Series. Catalogue no. 11622MIE2007014. Ottawa: Statistics Canada.

2. For the purpose of this study, an MNE is a group of two or more legal entities that are required to prepare consolidated financial statements for financial reporting purposes, and one of the legal entities of the group resides in a tax jurisdiction other than Canada. This definition is based on section 233.3 of the *Income Tax Act*.

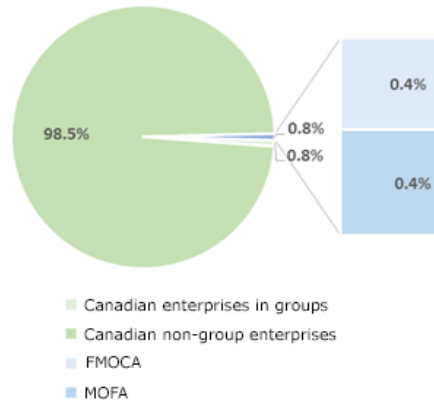
3. At the time of writing, the most recent AFTS data was for 2016.

4. An indicator was developed using two different types of data. The 2016 country of control information from Statistics Canada's *Corporations Returns Act* program was used to identify foreign majority-owned enterprises operating in Canada. Tax information from 2016 corporate tax and information returns was used to identify Canadian majority-owned enterprises with controlled foreign affiliates. The indicator was developed in collaboration with Statistics Canada's International Accounts and Trade Division.

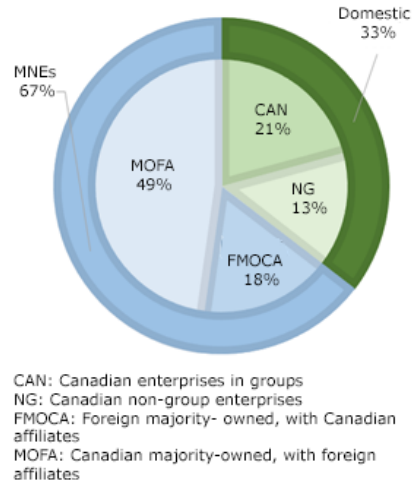
5. Canadian enterprises that are not MNEs are referred to as domestic enterprises. They may be part of an enterprise group or be non-group firms (also known as "simple singles"). Non-group enterprises have only one legal entity in their structure and are not controlled by a separate enterprise.

Chart 1
MNEs presence in the Canadian economy

Percentage of total enterprises count, per type, 2016



Share of total assets, by enterprise type, 2016



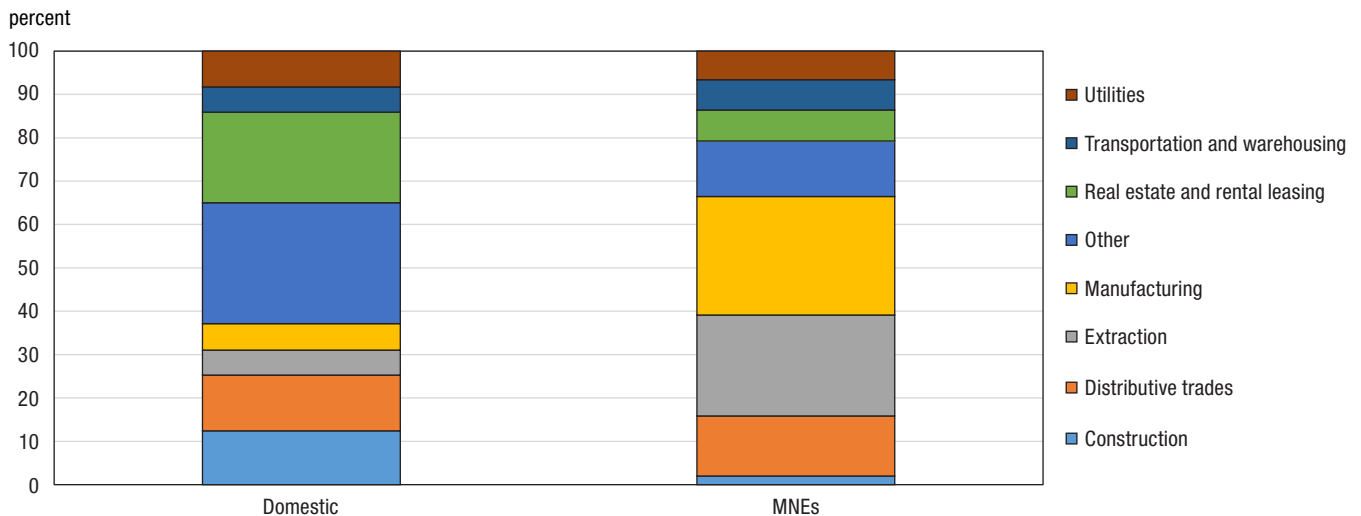
Note: Numbers might not add up to 100% due to rounding.

Source: Statistics Canada, author's calculations based on data from the Annual Financial and Taxation Statistics (AFTS).

Charts 2 and 3 show the distribution of assets for MNEs and domestic enterprises across industries included in the AFTS⁶ for 2016.

Most MNE's assets in non-financial industries (Chart 2) were held in manufacturing, distributive trades and extraction, while a higher share of domestic enterprise's assets were held in real estate and construction. Overall, domestic enterprises owned 83.6% of all assets in construction and 70.7% in real estate. The local knowledge required to operate in both industries could account for the high share of assets held by domestic enterprises.

Chart 2
Share of asset holdings by enterprise type — Non-financial industries, 2016



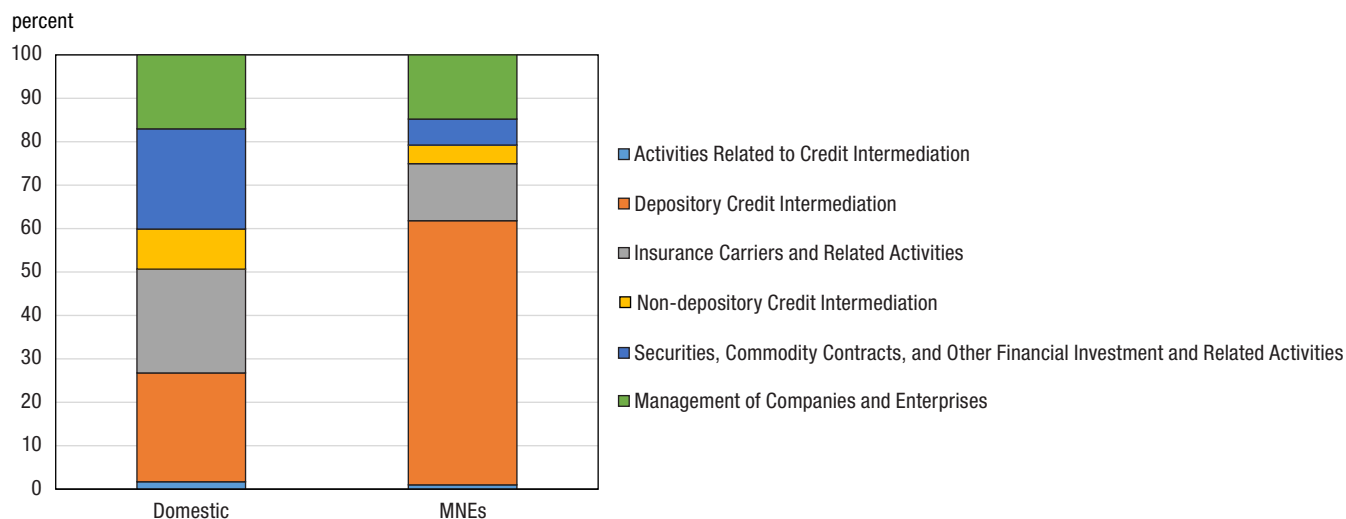
Source: Statistics Canada, author's calculations based on data from the Annual Financial and Taxation Statistics (AFTS).

6. See Appendix A for a list of industries included in the AFTS estimates.

Chart 3 shows the distribution of assets across financial industries. MNEs held more assets in depository credit intermediation than domestic enterprises. Generally, large banks have operations abroad while local credit unions do not.

In general, the financial industries were dominated by MNEs, which held 72.1% of total assets (Table 1). The only financial industry with more assets owned by domestic enterprises than MNEs was Securities, Commodity Contracts and Other Financial Investment and Related Activities, where domestic enterprises owned 57% of total assets.

Chart 3
Share of asset holdings by enterprise type — Financial industries, 2016



Source: Statistics Canada, author's calculations based on data from the Annual Financial and Taxation Statistics (AFTS).

There was also a large discrepancy between the size of MNEs and domestic enterprises in capital intensive industries such as extraction and utilities. In the extraction industry, the median⁷ value of assets held by MNEs was \$14.4 million, versus \$0.16 million for domestic enterprises. In the utilities industry, the median value of assets held by MNEs was \$17.34 million, versus \$0.29 million for domestic enterprises. Earlier work also showed that MNEs were more likely to operate in large-firm industries with significant economies of scale and capital intensity.⁸

7. The median was chosen because it is less sensitive to outliers.

8. Baldwin, John R. and Guy Gellatly. 2007. *Global Links: Multinationals in Canada: An Overview of Research at Statistics Canada*. Analytical Studies Branch Research Paper Series. Catalogue no. 11622MIE2007014. Ottawa: Statistics Canada.

Table 1
Enterprise size in 2016, by type, for selected industries

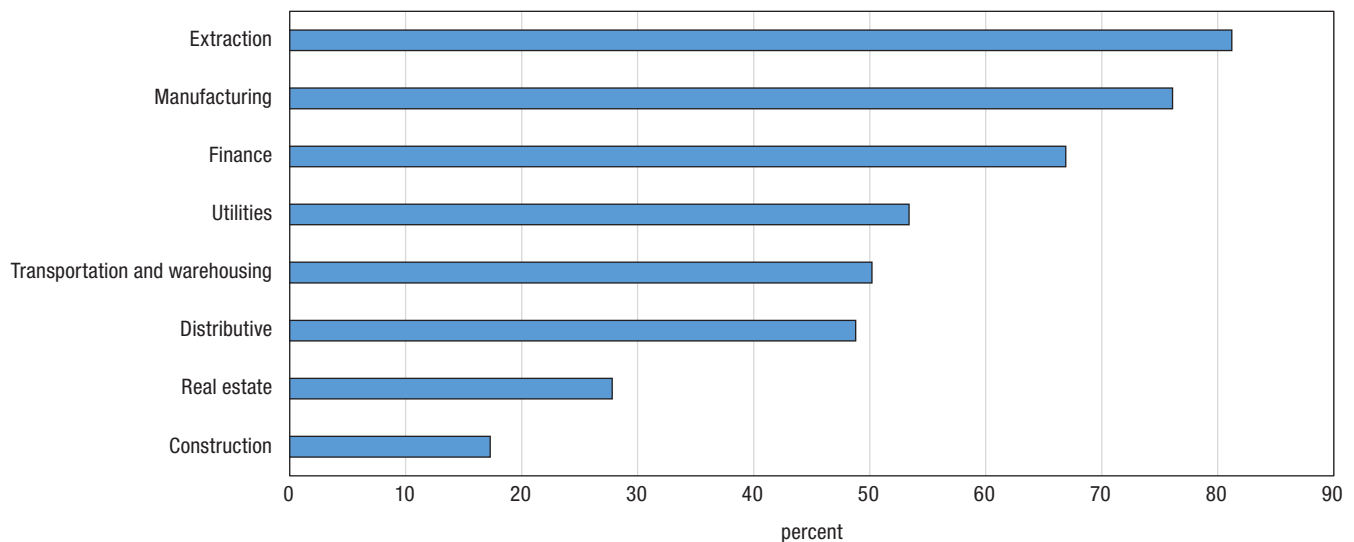
Industry	MNEs' share of assets	Type	Assets (median)
	percent		\$ millions
Construction	18.6	MNEs	3.80
		domestic enterprises	0.13
Distributive trade	60.8	MNEs	6.90
		domestic enterprises	0.22
Extraction	85.2	MNEs	14.4
		domestic enterprises	0.16
Finance	72.8	MNEs	3.41
		domestic enterprises	0.57
Manufacturing	86.5	MNEs	19.52
		domestic enterprises	0.24
Real estate	33.0	MNEs	3.27
		domestic enterprises	0.54
Transportation and warehousing	62.3	MNEs	6.43
		domestic enterprises	0.05
Utilities	53.2	MNEs	17.34
		domestic enterprises	0.29

Source: Statistics Canada, author's calculations based on data from the Annual Financial and Taxation Statistics (AFTS).

MNEs had higher operating revenues for the industries where they owned more assets. Chart 4 displays the proportion of operating revenue generated by MNEs in selected industries.

MNEs in the extraction and manufacturing industries had the highest share of operating revenue of all industries (80.8% and 75.4%, respectively). MNEs in construction and real estate had the lowest share of operating revenue (17.3% and 27.8%, respectively).

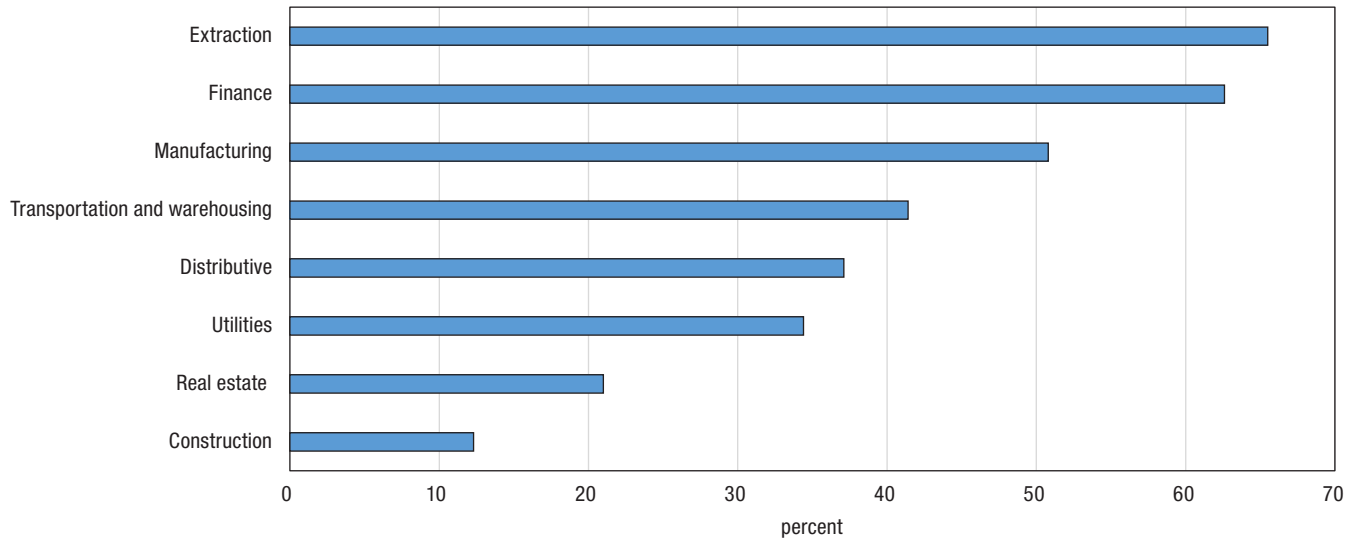
Chart 4
MNEs share of operating revenue for selected industries, 2016



Source: Statistics Canada, author's calculations based on data from the Annual Financial and Taxation Statistics (AFTS).

Overall, one in four employees in the Canadian economy⁹ worked for MNEs in 2016. The employment share of MNEs was the largest for the extraction industry (65.5%) and lowest for construction (12.3%) (Chart 5).

Chart 5
MNEs employment share for selected industries, 2016



Source: Statistics Canada, author's calculations based on data from the Annual Financial and Taxation Statistics (AFTS) and Survey of Employment, Payrolls and Hours (SEPH).

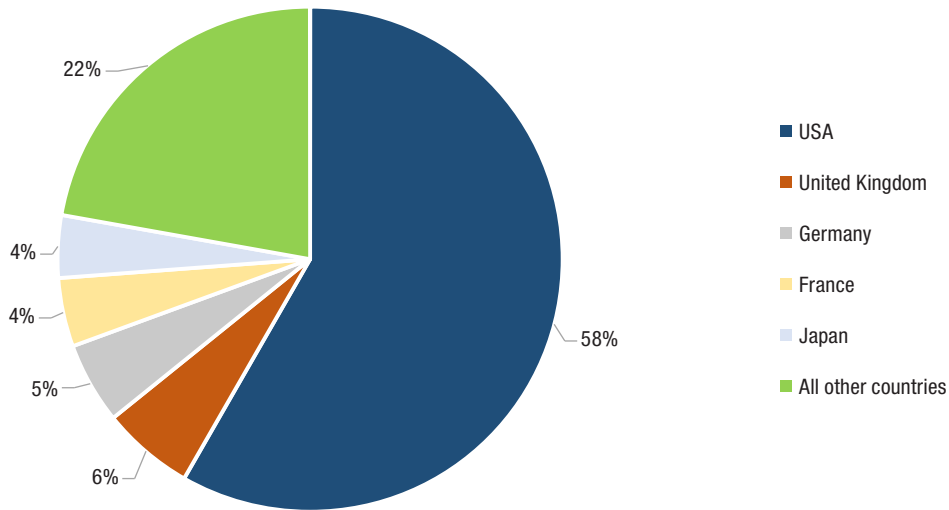
MNE affiliates abroad

The United States had the most corporate ownership connections with Canada in 2016.

The United States had more parent enterprises for FMOCA's than any other country (58.3%), followed by the United Kingdom and Germany (Chart 6).

9. The agriculture industry was excluded.

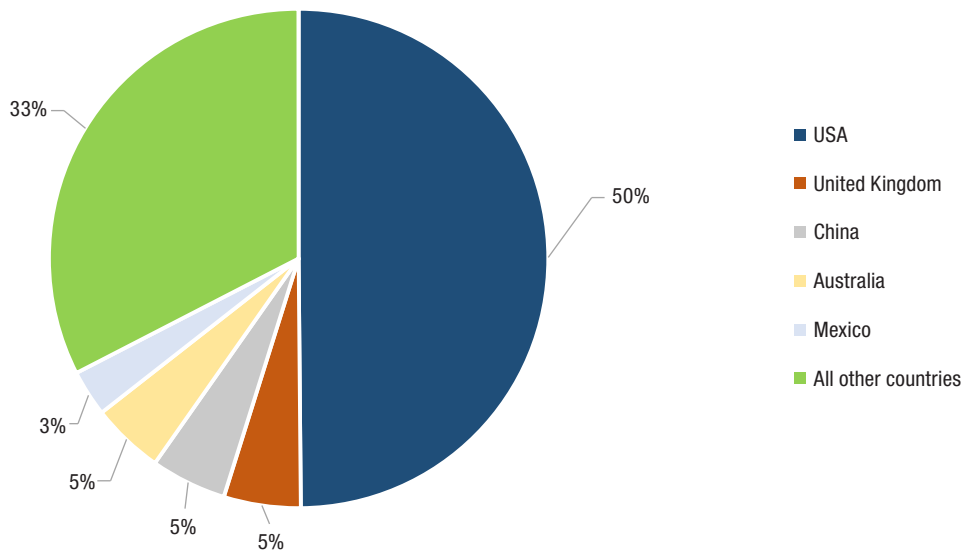
Chart 6
Countries where FMOcAs have the most parents, 2016



Source: Statistics Canada, Corporate Returns Act program.

MOFAs¹⁰ reported that most of their subsidiaries (49.9%) were located in the United States. The number of subsidiaries located in the United States was nearly seven times higher than the number of subsidiaries located in the United Kingdom, which had the second highest number of subsidiaries (Chart 7).

Chart 7
Countries where MOFAs have the most subsidiaries, 2016

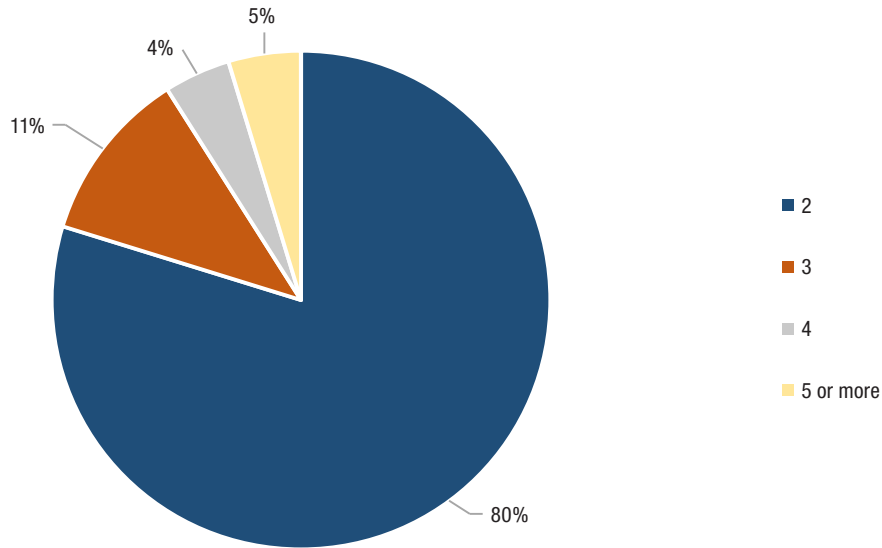


Source: Canada Revenue Agency, T1134 information return.

10. To learn about the structures and activities of MOFAs, we relied on the T1134 *Information Return Relating to Controlled and Non-Controlled Foreign affiliates* which CRA requires all enterprises with foreign subsidiaries to complete. Data were available for 60% of enterprises in the AFTS that had been identified as MOFAs. Other tax sources which were used to identify MOFAs did not contain details about countries and industries in which foreign subsidiaries of MOFAs operate.

On average, MOFAs directly controlled subsidiaries in only one other country. However, about 10% of MOFAs controlled subsidiaries in more than four countries in 2016 (Chart 8).

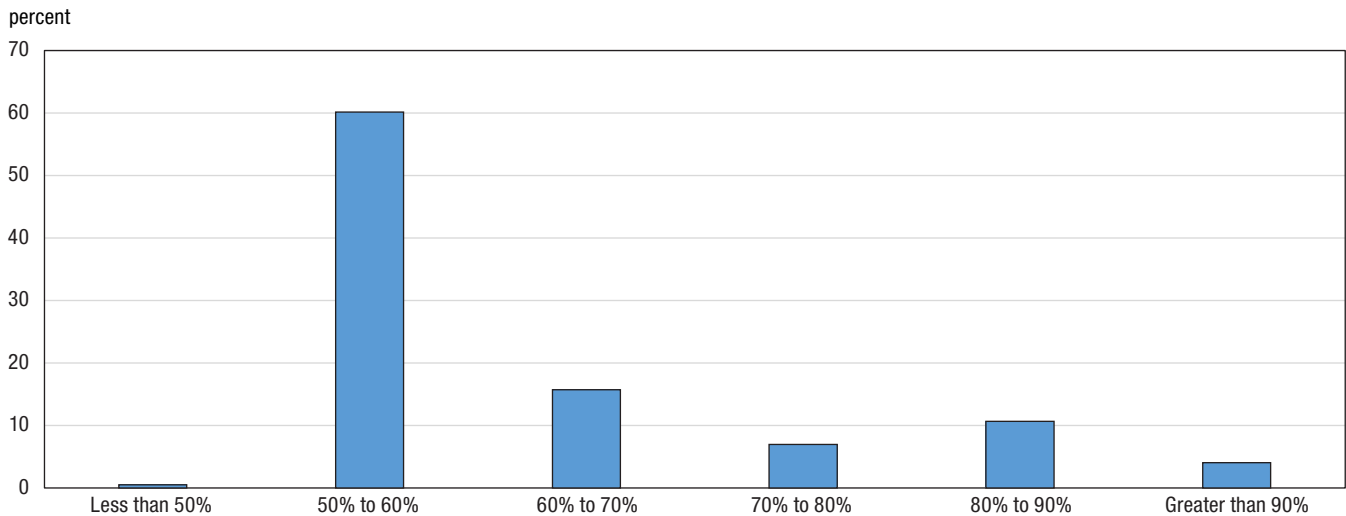
Chart 8
Number of countries where MOFAs operated, 2016



Source: Canada Revenue Agency, T1134 information return.

MOFAs had a higher proportion of foreign subsidiaries than Canadian subsidiaries (Chart 9). However, it was most common for a Canadian enterprise without Canadian subsidiaries to control one foreign subsidiary. Over 50% of MOFAs had this simple structure.

Chart 9
Proportion of foreign subsidiaries within a MOFA, 2016

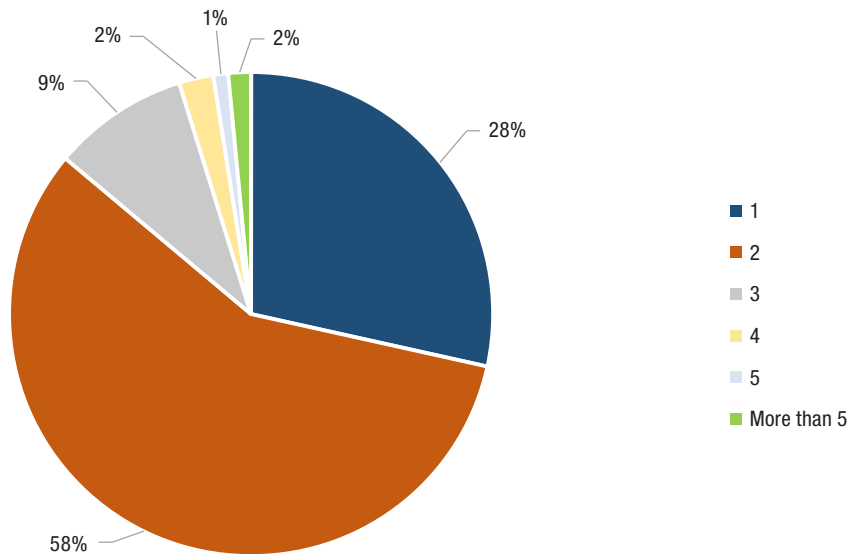


Source: Canada Revenue Agency, T1134 information return; Statistics Canada, Data Integration Infrastructure Division.

Most MOFAs operated in more than one industry,¹¹ either in Canada or abroad (Chart 10).

Among enterprises that operated in two industries, the most common pairing was Securities, Commodity Contracts, and Other Financial Investment and Related Activities with Real Estate and Rental and Leasing (7.3%). Oil producers were also involved in mining activities (6.5%), and manufacturers were involved in wholesale trade (5.3%). No other pairings comprised over 5% of the total.

Chart 10
Number of industries where MOFAs operated, 2016



Source: Canada Revenue Agency, T1134 information return; Statistics Canada, Data Integration Infrastructure Division.

Financial performance

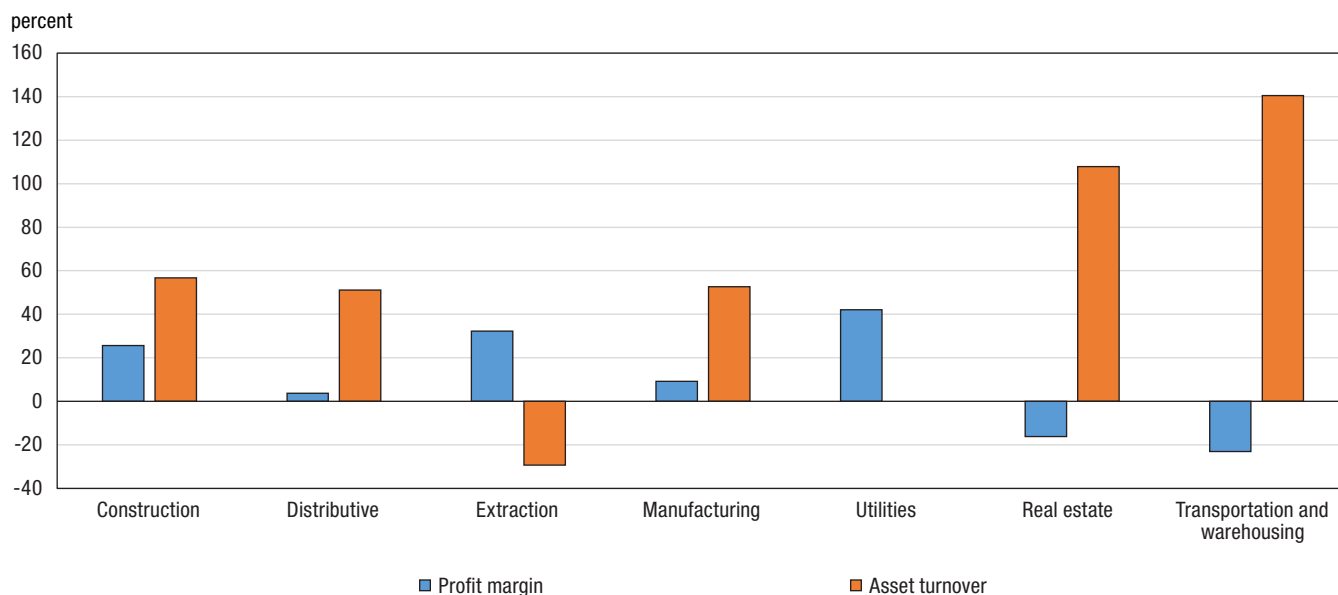
This section compares the profitability, efficiency and leverage of MNEs and domestic enterprises in 2016.¹²

The analysis includes only non-financial industries because the selected ratios are better suited for those industries. All ratios have been controlled for enterprise size.

11. Industry groupings were made at the NAICS 24 level, so there are 6 financial industries and 18 non-financial industries. See Appendix A for a table of industry groupings.

12. Financial ratios are used to measure the performance of an enterprise. Financial ratios for MNEs and domestic enterprises in selected industries were created using the balance sheet and income statement data from the AFTS.

Chart 11
Difference in profitability and efficiency ratios for MNEs compared to domestic firms, in percentage, for selected industries, 2016



Source: Statistics Canada, author's calculations based on data from the Annual Financial and Taxation Statistics (AFTS).

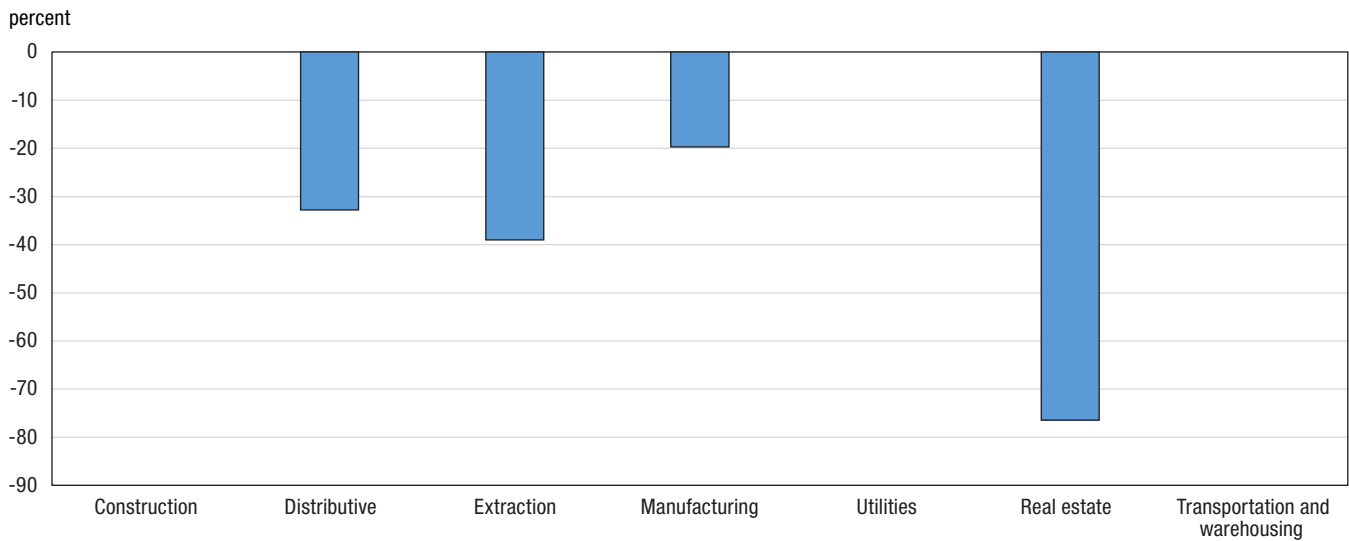
Chart 11 represents the percentage difference in profit margin and asset turnover ratios between MNEs and domestic firms. A positive difference represents an advantage for MNEs over domestic firms.

Profit margin is an indicator of profitability and measures the before-tax profit on each dollar of sales. Asset turnover is an indicator of efficiency and measures the sales generated per dollar of investment in assets.

In the distributive trade and manufacturing industries, MNEs had a slightly higher profit margin than domestic enterprises (3.7% and 9.2%, respectively). These two industries contain a large number of firms that make up a competitive market. This could explain why MNEs could not attain a high profit margin, as competition puts a downward pressure on their profit margin. However, it seems that MNEs were more profitable in terms of their asset turnover in these industries, since MNEs were able to generate more sales than their domestic enterprise counterparts with the same level of assets.

The Canadian utilities industry can be described as an oligopoly, as there are relatively few enterprises in this industry. Furthermore, there are significant barriers to entry, with high fixed costs required to operate in this industry. This could explain why, of all the industries, the difference in profit margin percentage between MNEs and domestic enterprises in 2016 was at its highest (42.1%). MNEs seemed to use this oligopoly to increase their profit margin. Despite this, MNEs had no efficiency advantage, as there was no difference in asset turnover between MNEs and domestic enterprises.

Chart 12
Difference in debt-to-equity ratio for MNEs compared to domestic firms, in percentage, for selected industries, 2016



Source: Statistics Canada, author's calculations based on data from the Annual Financial and Taxation Statistics (AFTS).

The debt-to-equity ratio measures an enterprise's debt relative to the value of its shareholder equity. It describes the extent to which an enterprise has taken on debt. A high ratio is associated with a high risk, meaning that an enterprise has been aggressive in financing its growth or operations with debt.

The debt-to-equity ratio of MNEs in construction, utilities and transportation and warehousing was the same as domestic enterprises (Chart 12). However, the ratio was lower for MNEs than domestic enterprises in the remaining industries. Since MNEs are larger firms, they are more likely to have access to public equity. This could explain why MNEs financed their operations with less debt.

Conclusion

In 2016, less than one percent of enterprises in Canada were MNEs. Though they were a small share of total enterprises, MNEs had a significant impact on the Canadian economy. These enterprises employed one of four Canadians, and owned 67% of total assets in the financial and non-financial sectors. MNEs also earned more revenue and held more assets than domestic enterprises in nearly every Canadian industry, and, taking into account their size were generally more profitable than domestic enterprises.

The majority of Canadian MNE affiliates are in the United States, where 58.3% of all parents and 49.9% of all subsidiaries are located.

Appendix A

Table A
Industry groupings for study's charts

North American Industry Classification System (NAICs) codes for 24-level industry classification	Industry groups for Chart 9	Industry groups for Chart 2 (Financial industries) & Chart 3 (non-financial industries)	Selected industry groups for all other charts
212	Mining and Quarrying (except Oil and Gas)	Extraction	Extraction
21C	Oil and Gas Extraction and Support Activities		
22	Utilities	Utilities	Utilities
23	Construction	Construction	Construction
31-33	Manufacturing	Manufacturing	Manufacturing
41	Wholesale Trade	Distributive trades	Distributive trades
44-45	Retail Trade	Distributive trades	Distributive trades
48-49	Transportation and Warehousing	Transportation and Warehousing	Transportation and Warehousing
53	Real Estate and Rental and Leasing	Real Estate and Rental and Leasing	Real Estate and Rental and Leasing
5221	Depository Credit Intermediation	Depository Credit Intermediation	Financial industries
5222	Non-Depository Credit Intermediation	Non-Depository Credit Intermediation	
5223	Activities Related to Credit Intermediation	Activities Related to Credit Intermediation	
523	Securities, Commodity Contracts, and Other Financial Investment and Related Activities	Securities, Commodity Contracts, and Other Financial Investment and Related Activities	
524	Insurance Carriers and Related Activities	Insurance Carriers and Related Activities	
55	Management of Companies and Enterprises	Management of Companies and Enterprises	
51	Information and Cultural Industries	Other	N/A
54	Professional, Scientific and Technical Services		
56	Administrative and Support, Waste Management and Remediation Services		
61-62	Educational, Health Care and Social Assistance Services		
71	Arts, Entertainment and Recreation		
72	Accommodation and Food Services		
81A	Repair, Maintenance and Personal Services		
11	Agriculture, Forestry, Fishing and Hunting		