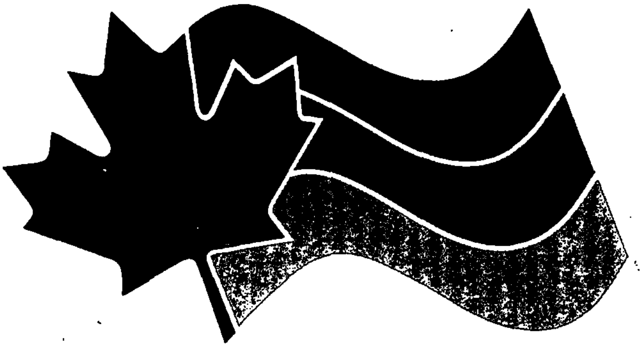
INVESTMENT BETWEEN *CANADA* AND *GERMANY*



Industry Canada
Kanadisches Bundesministerium für Industrie

Canada

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Contents

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Industry Canada would like to acknowledge the contribution of articles by experts in their respective fields.

- Ted Zahavich, senior investment officer, Industry Canada, Ottawa, writes on German investment in Canada and Canadian investment in Germany. He also has overall management responsibility for the publication. Comments may be directed to him at: P.O. Box 2800, Postal Station D, Ottawa, Ontario, Canada, K1P 6A5.
- Jim Buchanan, principal, Ernst & Young, Toronto, writes on reasons to invest in Canada.
- Avery Shenfeld, principal, Ernst & Young, Toronto, describes Canadian policies favourable to foreign investors.
- Salvatore Badali, partner, Peat Marwick Thorne, Toronto, outlines the North American Free Trade Agreement.
- Sigrid Feser, partner, Deloitte & Touche, Toronto, compares the tax systems in Canada and the United States.
- Uwe Harnack, executive director, Canadian-German Chamber of Industry and Commerce, Toronto, writes on German businesses in Canada. Mr. Harnack is also thanked for his assistance in arranging for preparation of the corporate profiles.
- Greg Meredith, manager, Investment Development Bureau, Foreign Affairs and International Trade Canada, Ottawa, highlights Canada's investment promotion activity in Germany.

The opinions and statements in these articles attributed to named authors do not necessarily reflect the policy of Industry Canada or the Government of Canada.

Introduction

Canada is keenly aware of the important role that foreign direct investment plays in an economy. In the early years, European investors supplied much of the capital needed to build railways, roads, canals and utilities. Later, the mining and oil and gas industries were largely developed with the help of U.S. capital.

Today, investors from over 70 countries operate over 5 500 foreign businesses in Canada.

Canada is also aware of the growing competition for international investment. To maintain the prominent role played by foreign investment in Canada, government officials at the municipal, provincial and federal level, together with their counterparts in the private sector, actively promote Canada to foreign investors. One of the requests frequently made to these officials by foreign investors is for more information on Canada. This publication endeavours to provide some of this information. It brings together a number of articles on both specific topics and topics of a more general nature — all designed to provide the investor with information on investing in Canada.

This publication is directed at existing and potential German investors in Canada. German businesses are important investors in Canada. Over 17 000 Canadians work for German-controlled manufacturing firms in Canada, and an equal number work in the resource and service sectors. In 1990, exports by German-controlled firms in Canada were worth $1.5 billion.[1] Equally important are the less tangible benefits, such as the introduction of new technologies, new management techniques and international marketing networks that German investment brings to Canada.

Toward the end of the publication are profiles of six German companies in Canada. They provide insight into the successes they have had in Canada as well as comments on Canada's investment climate. The corporate profiles have been prepared by the respective companies.

Investors in Germany considering investing in Canada should contact the Canadian Embassy in Bonn, or Consulates General in Berlin, Düsseldorf or Munich. German businesses in Canada needing information can contact the authors of any of the articles.

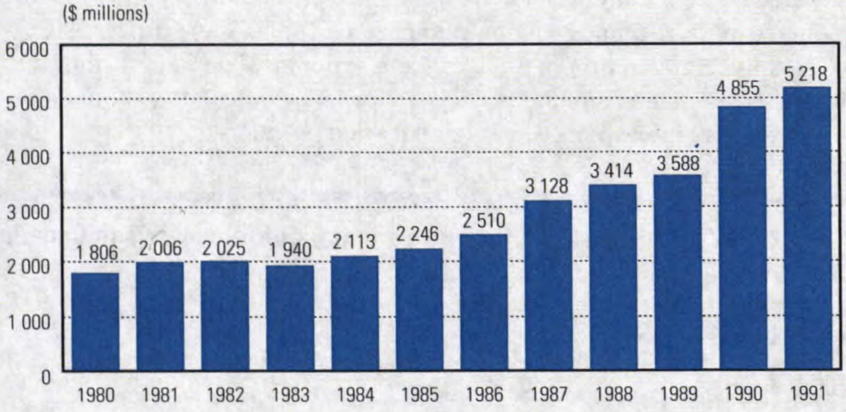
German Investment in Canada

Germany is an important source of direct investment. Of the world's estimated US$1.6 trillion direct investment abroad in 1990, 9.4% was controlled by German-owned companies. This figure is up from 8.3% in 1980. After Germany's European neighbours, Canada is one of the largest recipients of German direct investment.

Although there have been significant amounts of German direct investment in Canada for over 50 years, it was not until the past decade that it became prominent. Germany is now the fourth-largest foreign investor in Canada — behind the United States, the United Kingdom and Japan. The book value of German direct investment in Canada at the end of 1991 stood at $5.2 billion

[1] Unless otherwise stated, all currency figures are in Canadian dollars.

Figure 1 — Growth in German FDI in Canada, 1980-1991



Source: Statistics Canada.

(Figure 1). This represents about 4% of the $131.6 billion of foreign direct investment (FDI) in Canada. Revenues by German-controlled businesses were over $12 billion in 1991.

Between 1988 and 1992, 47 German-owned companies established new businesses in Canada with a total initial investment of about $125 million. These business start-ups cover the full range of business activity in Canada — from resources to manufacturing to financial services and real estate. Not surprisingly, most of these businesses, by their nature, are small and employ less than 50 people.

German investment in Canada creates a wide range of economic activity in Canada. For example, German-controlled manufacturing companies in Canada employ about 17 400 Canadians and an equal number of Canadians are employed by German-controlled businesses outside the manufacturing industry.

A second source of economic activity is created by spending on research and development (R&D). In 1980, 10 German-controlled businesses committed funds for R&D, which was valued at $11.0 million (see Table 1). By 1985, this activity had grown slightly to 12 businesses and expenditures of $12.2 million. It took a big leap in 1990, reaching 20 firms with R&D spending valued at $78.0 million.

A third source of economic activity is expenditures to build or modernize plants and to purchase new equipment. Expenditures for this purpose increased from $141 million in 1980 to $354 million in 1985, with a further increase to $471 million in 1990.

Table 1 — R&D Expenditures by German-Controlled Companies in Canada ($ millions)

	1980	1985	1990
Manufacturing industries	–	6.6	60.0
Other industries	–	5.6	18.0
Total	11.0	12.2	78.0

But the most important contribution to the Canadian economy is in the area of trade. Historically, Canada has relied heavily on trade for growth and German business are important contributors (see Tables 2 and 3). In 1990, 195 German-controlled firms in Canada were exporters. The value of the exports was $1.5 billion and this accounted for 1.1% of all exports from Canada. Eighty percent of the exports were manufactured products.

Table 2 — Major Export Products by German-controlled Firms in Canada ($ millions)

Automobile parts	370
Machinery	193
Chemicals	138
Primary metals	83

Table 3 — Major Export Destinations by German-controlled Firms in Canada ($ millions)

United States	980
Germany	88
Belgium	58
Saudi Arabia	46
Japan	43

In summary, German investment in Canada is an important and growing contributor to the Canadian economy. ▼

by Ted Zahavich, Industry Canada, Ottawa

Canada Boasts Ten Good Reasons to Invest

It's a fact — more European companies are investing in Canada. Foreign direct investment (FDI) in Canada has increased steadily over the past five years to reach over $130 billion and 30% of it came from Europe. European direct investment in Canada has increased over 50% in the past five years.

European companies are discovering what firms in the United States have known for decades — that it pays to invest in Canada.

Although all the factors involved in making a foreign investment decision are too numerous to list, summarized here are 10 essential points to consider, all of which prove Canada is a favourable choice.

Domestic Market

Canada's per capita purchasing power is second only to that of the United States among all G-7 countries. The Organisation for Economic Co-operation and Development (OECD) expects Canada to lead industrialized countries in short-term economic growth.

Further, the Canada-U.S. Free Trade Agreement (FTA), which was implemented on 1 January 1989, together with the North American Free Trade Agreement (NAFTA), pending ratification, will give Canadian-based companies an unparalleled access to 368 million people, forming an economy larger than that of the European Community (EC).

Wage Competitiveness

Many international corporations find the Canadian work force to be highly cost-effective. On average, wages in Canada's business centres are lower than those in nearly all major business centres around the world. Toronto's manager-level employees earn roughly $15 000 less annually than their New York counterparts.

The hourly wages of Canadian production workers have gone up only 5.4% since 1990. This is the second-slowest growth among all G-7 countries in the past two years. In contrast, the hourly increases in Great Britain and Germany have been 12.4% and 14.3%, respectively.

As well, employer-paid taxes and benefits are lower in Canada than in the United States. In fact, Chrysler Corporation estimated these savings amounted to about $500 per car produced.

Work Force Skills

The cost-effectiveness of the Canadian work force is especially apparent in the high level of skills and education of the workers. Canada leads the G-7 countries in advanced education, with about two-thirds of its 20 to 24-year-olds enrolled in postsecondary education.

Labour Relations

The already productive labour/management relations continue to improve. Canadian operations enjoy low turnover and absenteeism rates, and the days lost to work stoppages have been cut by more than one-half in the past two years.

"The quality, skills, flexibility and productivity of the Canadian labour force were major factors in the decision to expand here," says Minoru Azumak, former president of Toyota's Canadian manufacturing subsidiary.

Research and Development

Canadian research and development (R&D) is expanding as more international businesses are utilizing Canadian universities and organizations along with the newest data networks. Canada is home to research centres and product development facilities for IBM, Digital Equipment, Glaxo and Amdahl.

The Canadian government encourages R&D through tax incentives and improved patent protection laws. As a result, of all the G-7 countries, Canada carries the lowest tax burden on R&D investment.

Raw Materials

Canada's rich mineral reserves and natural resources, coupled with its cost-effective ability to extract and harvest, enable Canada to be a leader in exports of both raw and processed commodities.

Canada is the world's top producer of newsprint and zinc, as well as the second-largest producer of nickel, pulp and potash.

Energy Costs

In addition to raw materials, Canada's rich mineral deposits include mineral fuels and river systems that have been tapped for massive energy reserves. Canada has the lowest electricity cost of all the G-7 countries and is the only G-7 member with enough natural gas to be a net exporter.

"Costs are very competitive here," says Volkswagen Canada Inc. plant manager John Connor. "The cost of energy is up to 10% lower than in Europe. These are distinct advantages, coupled with the general political stability of Canada."

Occupancy Costs

Canadian cities and towns offer modern offices and industrial buildings at highly competitive rates. Office operating costs in major Canadian business centres are the lowest of all G-7 major cities. In Toronto, one square metre of prime downtown office space costs about $350. The rate for a similar space in London, England, is about $940.

Infrastructure

As a result of the geographical vastness of Canada, the communications and transportation infrastructures have become highly effective and advanced. Heavy investment in fibre optics and high-speed transmission technology, together with a newly competitive long-distance market, will maintain the competitive costs.

Collectively, Canada's transportation systems (roads, railroads, air transport and port access) won the highest overall score in the *1992 World Competitiveness Report.*

Business Services

Canada's business service sector has expanded considerably over the past 20 years and now provides highly specialized services for all international investor needs. Canadian banks rank among the largest in North America, and stock exchanges in Toronto, Montreal and Vancouver provide international firms with Canadian equity participation.

Given Canada's stability, both politically and economically, these factors are not likely to change. If anything, they will improve. The Canadian economy is growing and moving forward, and as more international companies invest in Canada, continued growth is assured. ▼

by Jim Buchanan, Ernst & Young, Toronto

Canadian Policies Favourable to Foreign Investors

For a young nation, Canada has an impressive history of international economic cooperation. With an open, stable economy, Canada has been especially successful in its long-time trade relations with the United States. This success grew to a point, about five years ago, whereby more than 80% of Canadian exports entered the U.S. market duty-free.

As fewer trade barriers continued to correlate with greater economic success, the Canadian government saw barriers removed altogether under the Canada-U.S. Free Trade Agreement (FTA).

Now Canada is second among G-7 countries in total trade as a share of its economic output and it is clear that government policies geared toward the international business community are working.

The Canadian government has a record of actively promoting foreign direct investment (FDI) in Canada. By adapting government policies to create a favourable investment climate, Canada is able to aim for higher economic growth every year.

The winners in this government-promoted economy are Canadian companies, of course, but also the foreign investors who take advantage of the policies designed for their benefit. Such initiatives can lead to reduced tax burdens, less government intervention, freer trade, more stable currency and lower inflation.

Several of the world's largest corporations invest in Canada — all of the 10 largest U.S. industrials have operations in Canada and 17 of the world's 20 largest industrials (as ranked by *Fortune* magazine) have production facilities in Canada. These corporations know that businesses located in Canada are achieving record levels of sales on world markets. They also recognize they will receive a high degree of government support.

"At every government level, be it municipal, provincial or federal, we were well received and found resource people who could help us move ahead," says Nicolas Martella of Glaverbec, a subsidiary of Glaverbel of Belgium.

Every year, more international businesses are using Canada as a base for research and development (R&D), and the number of scientists and engineers working in R&D in Canada is growing.

The Canadian government has helped the pharmaceutical industry by extending patent protection in the domestic market, through Bill C-91 *(Patent Act Amendment Act, 1992)*. This added protection allows Canadian pharmaceuticals to be more competitive in the global marketplace. "It is a vote of confidence that has already resulted in significant new research investments," says Glaxo Canada Inc. president Jacques Lapointe.

A study by the Conference Board of Canada showed Canada's tax treatment of R&D expenses as the most favourable among the 10 major industrialized countries studied. Public companies can qualify for investment tax credits on eligible R&D expenditures to cut up to 75% of their federal tax payments. Accordingly, Canada carries the lowest R&D tax burden of all the G-7 countries.

Other recent tax reforms have been aimed at removing tax barriers to international competition. The goods and services tax (GST), which was implemented on 1 January 1991, has been removed from Canadian exports, and several tariffs have been lifted from production inputs.

Lifting restrictions to support the government's market-based industrial strategy also extends to deregulation and privatization. Federal government enterprises have been privatized in sectors such as aerospace, transportation, fossil fuels, communications and fisheries. Encouragingly, provincial governments have been following suit.

Possibly the best testimony to the benefits of restriction removal is the FTA. Since the implementation of the agreement on 1 January 1989, Canadian exports to the United States have grown, and Canadian-based companies have gained new markets for their products. Investors in Canada now enjoy tariff-free access to the world's richest economy. If the North American Free Trade Agreement (NAFTA) is ratified, Canadian exports will extend to the Mexican market as well.

Half of Canada's gross domestic product (GDP) is based upon trade, with nearly half of that amount owing to exports. In the past two years, Canadian exports have expanded by 4.4% — an increase ranked third among the G-7 countries.

Of all the G-7 countries, Canada has the second-lowest rate of inflation. Second only to Japan at 1.9%, Canada's inflation rate rose by 2.3% between 1990 and 1992. This increase is minimal in comparison with the United States at 3.7%, Germany at 4.6% and the United Kingdom at 6.1%.

In summary, foreign investors in Canada can enjoy full confidence in every aspect of business planning. ▼

by Avery Shenfeld, Ernst & Young, Toronto

The North American Free Trade Agreement

The North American Free Trade Agreement (NAFTA), pending ratification, is scheduled to come into effect on 1 January 1994. It will create the world's largest free trade zone, with a population 8% larger and a gross national product (GNP) US$1.5 trillion higher than the European Community (EC). To sustain economic growth, a small open economy like Canada's needs policies that expand trade and guarantees market access for its exports. The NAFTA will liberalize trade, investment and other restrictions between Canada, the United States and Mexico.

For German investors in Canada, this means that goods produced in Canada will have barrier-free access to the affluent U.S. market as well as to the rapidly growing Mexican market. Most Canadian goods already enter the United States duty free and all remaining tariffs will be removed no later than 1 January 1998. Tariffs on Canadian exports to Mexico will be phased out over 10 years.

The United States, by far the dominant economy in North America, accounts for 87% of the region's output of goods and services and about 70% of the total population. Mexico, the smallest and least developed of the three economies, accounts for about 4% of the total output of goods and services, but is home to almost 25% of the region's population. Canada, with an economy twice as large as Mexico's, accounts for 9% of total North American output and about 7.5% of the population. However, Canada has proportionately a much greater share of the amount of foreign direct investment (FDI) in North America than would be expected given its population or economy. Total FDI in the three countries is about US$600 billion, with about 71% in the United States, 23% in Canada and 6% in Mexico.

German investors should be aware of one significant difference between the NAFTA and the EC agreement. The NAFTA members will maintain existing import regimes with their trading partners. There will be no comprehensive harmonization of internal regulations or policies, economic, social, cultural or otherwise. In comparison, the EC has established common external tariffs and is moving toward common internal regulations covering goods, services, capital and people.

The following sections briefly describe the importance of the NAFTA in six selected areas.

Investment

German companies with subsidiaries in Canada will be covered by the NAFTA if they use Canada as a "home base" to make investments in the United States and Mexico. Mexico will reduce investment restrictions on dozens of sectors including automobiles, mining, agriculture, fishing, transportation and most manufacturing. Foreign investment up to 100% will be allowed in most sectors. Thresholds for investments that are reviewable will be raised from US$25 million in the first year of the agreement to US$150 million after nine years.

Automotive Goods

The Mexican automobile market is the fastest growing in North America and one of the fastest growing in the world. Mexico will remove tariffs on most automotive products over five years and on all products within 10 years. In addition, Canadian manufacturers of medium and heavy trucks and buses will get immediate duty-free entry to Mexico.

Energy and Petrochemicals

The NAFTA leaves in place Mexico's restrictions on foreign investment and private participation in the oil, gas, refining, basic petrochemicals, nuclear and electricity sectors. However, the elimination of trade restrictions on secondary petrochemicals offers immediate benefits to German-controlled chemical companies in Canada.

Computers

Mexico will phase out its 20% tariff on computers imported from Canada and the United States if the computer contains a North American-made motherboard, a major component that accounts for between 20% and 40% of the value of a computer.

Financial Services

Under the NAFTA, Mexico will provide substantial access to its market after a transition period. German companies with Canadian-based subsidiaries in the insurance, banking and other financial service areas will be able to establish subsidiaries, invest in and acquire control of financial institutions in Mexico. This is a major advantage for German companies using Canada as a "home base."

Textiles and Apparel

The NAFTA contains new, tighter rules of origin requiring greater sourcing in North America for products to be covered by the agreement. Mexico will phase out its tariffs for U.S. and Canadian-made textiles by specified amounts over five to six years. For apparel, the new rules require that yarns and fabrics in a garment be made in North America to qualify for the preferential treatment. ▼

by Salvatore Badali, Peat Marwick Thorne, Toronto

An Overview of the Tax Systems in Canada and the United States

Introduction

Canada is often thought of as a high income tax country when compared to the United States and considered more favourably when compared to Germany.

Because of differences in provincial rates, the combined federal and provincial taxes for corporations in Canada range from a low of 37.7% to a high of 45.8%. However, taking credits for manufacturing and processing (M&P), research and development (R&D), or small business deductions into consideration, the overall tax rate for a company in Ontario for example, is reduced to 38.34% for M&P, approximately 21% for R&D and up to a certain amount to 22.8% for small business. In the United States, the taxes levied by state governments vary, but the overall tax burden for federal and state taxes on income earned in the United States is typically about 41%.

Differences in the tax systems of Canada and the United States are highlighted in the following overview to provide some insight into the structure, recognition of income and applicable taxes.

Principal Taxes

Taxes in Canada are levied by three levels of government: federal, provincial and municipal. The federal government has the authority to levy any type of tax. The provincial governments are restricted to levying direct taxes on those persons or corporations that fall within their jurisdiction, and the municipal governments are generally restricted to levying taxes on real estate.

The principal taxes levied by the federal government are income taxes, including the large corporations tax, non-resident withholding taxes and the branch tax. The federal government also levies customs duties and excise taxes and the goods and services tax (GST), a form of value-added tax, which on 1 January 1991, replaced the federal manufacturers' sales tax.

The the major provincial taxes are income taxes, capital taxes on corporations, land transfer taxes and provincial sales taxes. There are also resource taxes in the provinces, such as taxes on gasoline.

Canada does not have a net wealth or net worth tax. There are no inheritance or gift taxes in Canada, but gifts may give rise to an income tax charge on a deemed disposition, and there are special rules for transfers of property within a family.

Basic Legislation

The basic statutory authorities for federal income tax are the *Income Tax Act (ITA)* and the Income Tax Regulations (ITR). The *ITA* is the main source of law. The ITR are a subsidiary source, but are being used to an increasing extent.

Computation of Corporate Income Taxes

Corporate Entities Liable for Corporate Taxes

Corporate income taxes are levied on the worldwide income of resident corporations. Corporations resident in Canada are basically classified for tax purposes as either public or private corporations, though some corporations may be neither. Generally, a public corporation is one that has a class of shares listed on a Canadian stock exchange, and a private corporation is one that neither is itself a public corporation nor is controlled by a public corporation. Most Canadian subsidiaries of foreign corporations are therefore private corporations, even though the parent may be a public corporation in its own jurisdiction.

A private corporation is classified as a Canadian-controlled private corporation (CCPC) if it is not controlled by non-residents, by one or more public corporations, or by any combination of non-residents and public corporations. CCPCs may be eligible for a reduced rate of tax on some of their active business income and a refund of a portion of the taxes paid on investment income. Active business income comprises income from any business other than a specified investment or personal service business.

Treatment of Partnerships

The taxable income accruing to a partnership is computed as if the partnership were a separate entity, but the partnership itself is not taxed. Instead, individual partners are taxed on their respective shares of the partnership income in the year in which it was earned.

Taxable Income

The *ITA* does not contain a specific definition of taxable income. It has to be arrived at by combining the effects of a number of separate detailed provisions under which income is computed.

The statutory provisions impose income tax (Part I tax) on employment income, business profits, and income from property (i.e. interest, dividends, rent and royalties) and grant relief for losses arising. They also impose income tax on 75% of any capital gains realized, after allowing relief for capital losses.

Subject to specific adjustments described below, business profits earned both in Canada and abroad are computed in accordance with generally accepted accounting principles.

Inventory Valuation: Inventories may be valued either at market value or at the lower of cost or market value. The last-in, first-out (LIFO) method is not acceptable for determining cost.

Foreign Exchange: The treatment of foreign exchange gains and losses varies according to the circumstances. Gains and losses related to current trading activities may be recognized on either an accrued or a realized basis.

Income from Property: Most income from property (passive income), including foreign-source income for which a foreign tax credit may be allowed, is taxed on an accrual basis. Dividends, however, are normally taxed on the basis of the sums received.

Allowable Deductions

The main tests for the deductibility of an expense in computing taxable profits are that it must be incurred for the purpose of earning income, it must be reasonable in the circumstances and it must not be of a capital nature.

Depreciation — The Capital Cost Allowance: In the place of the accounting depreciation charge on capital assets provided in the financial statements, Canadian federal tax law permits the deduction of an allowance for the capital cost of depreciable property, which is called the capital cost allowance (CCA). The CCA rules in the provinces are based on federal rules, except that there are important differences in Alberta, Quebec and Ontario.

Depreciable properties are grouped according to types of expenditure in a series of classes, each with its own annual rate of CCA, calculated on a declining balance basis (see Table 1).

In the year in which a depreciable asset is acquired, the maximum allowance is generally limited to 50% of the normal rate.

Table 1 — Selected CCA Classes and Maximum Rates

	Class	Rate (%)
Buildings	3	5
Automotive equipment	10	30
Furniture	8	20
Manufacturing machinery	39	25
Moulds, tools	12	100

Accelerated allowances are available for various resource and extraction properties and offshore drilling platforms.

Allowances are not mandatory. Each year the taxpayer may claim any amount up to the maximum. The amount claimed need not relate to the depreciation shown in financial statements.

Intangibles: Intangibles (including patents, copyrights and licenses) that have a fixed expiration date are generally treated as depreciable property and their cost may be written off on a straight-line basis over the life of the asset.

Scientific Research: Relief is given for expenditure on scientific research and experimental development (R&D) related to a business carried on by the taxpayer. The types of activities covered by the statutory definition of R&D include research, product development and the testing of prototypes. They exclude quality control or routine testing, market research, style changes, and the commercial production of a new or improved material, device or product.

Both current and capital expenditure on scientific research carried out in Canada may be deducted in full either in the current year or, if desired, in a later year. Exceptionally, buildings acquired since 1987 and used for R&D are not eligible for the 100% deduction nor the investment tax credit, which would generally be an additional 20% reduction on federal income taxes payable.

Taxes: As a general rule, taxes other than those on income are deductible if they relate to the earning of income. Deductible taxes include municipal taxes on property used to earn business or property income and provincial capital taxes. The large corporation tax may be credited against the 3% federal surtax.

Corporate Tax Rates

Combined basic income tax rates vary, depending on provincial rates, from a low of 37.74% to a high of 45.84%. The basic direct income tax rate for M&P activities is reduced by at least 6%. The United States does not offer similar incentives for manufacturing since R&D activities provide further tax credits unique to Canada.

CCPCs, mentioned earlier, pay a reduced tax of 17.84% (lowest in Nova Scotia) to 23.84% (highest in Manitoba) on some of their active business income.

Other Considerations

Generally, payroll taxes and workers' medical benefits are far lower in Canada than the United States. This is part of the reason why individuals pay higher tax rates in Canada.

Lastly, it is critical to examine the overall tax effects when investing in Canada as an efficient structure can significantly reduce the burden of Canadian taxation and ultimately foreign taxation. In certain circumstances, business structures other than corporations (i.e. partnerships) may be appropriate.

UNITED STATES — AN OVERVIEW

Income to Which Tax Applies

Basic features of the U.S. income tax law make it markedly different from the income tax systems of some other tax jurisdictions. The United States ordinarily imposes income tax on its own citizens, residents and corporations on a worldwide basis. Unlike some jurisdictions, it does not limit the application of its tax to income derived from within the country. This is true for a U.S. corporation even though all of its stock may be owned by investors from other countries. It is also true for an individual resident even though the period of residence may be brief. The United States does, however, provide for relief from double taxation through a network of treaties and a credit for foreign taxes.

Non-resident alien individuals and corporations organized outside the United States are generally taxable on foreign net income that is effectively connected with a U.S. trade or business.

Principal Taxes

Taxes in the United States are levied by all three levels of government: federal, state and local. The principal federal taxes are corporate income taxes, individual income taxes, estate and gift taxes, social security taxes, excise taxes and customs duties.

The principal corporate taxes imposed by the federal government are the corporate income tax, the corporate alternative minimum tax, and the branch profits tax on U.S. branches of foreign corporations. Other corporate taxes are the personal holding company tax and the accumulated earnings tax, which are likely to apply to small, closely held corporations. The top corporate tax rate is presently 34% (Congress proposes an increase to 35%).

Unlike many other industrialized countries, the United States does not have a federal turnover tax system akin to the European systems of value added tax (VAT). States have the authority to impose sales taxes on certain types of transfers.

State Taxation

Most states and some local (city) governments impose corporate or individual taxes. Although imposed at a lower rate than federal tax, state taxes are a serious cost of operations. Many companies pay more state tax than federal tax in the aggregate. There is a wide variety of state taxes, including gross and net income taxes, franchise taxes, wealth taxes, transfer taxes and ad valorem sales taxes. Many states also impose modest unemployment taxes.

State and local income taxes generally follow the federal income tax in the way that income is calculated. However, they differ from the federal income tax in that they apportion the income of a non-resident or foreign corporation by a formula, rather than by determining specific state earnings. This apportionment has become controversial when applied to groups of companies (the "unitary" apportionment).

Most taxes paid to state and local governments by a business are deductible from income for federal income tax purposes. These taxes, other than income tax, are deductible from income also for most state and local income tax purposes. (Generally, it is not possible for a company to anticipate its overall tax burden until it has decided exactly where it will be doing business.) Individuals may deduct state income and property taxes from their federal income but are restricted from deducting other taxes. Non-resident aliens may be somewhat restricted from claiming state tax deductions.

Under U.S. tax treaties, state taxes cannot be imposed on a discriminatory basis. Otherwise, state taxes are not affected by treaties.

Corporate Income Taxes

Entities Liable for Corporate Taxes

All corporations organized in the United States (domestic corporations), with the exceptions noted below, are subject to income tax. Foreign corporations are subject to tax on that portion of their income connected with a U.S. trade or business and on fixed income from U.S. sources. The term "foreign corporation" generally covers all forms of corporate organization in foreign countries unless the context indicates otherwise.

Taxable Income

Taxable income is determined by subtracting allowable deductions from gross income.

Some of these deductions that vary in application from the Canadian system include the following:

Accounting for Inventory: Inventories must generally be valued at cost, but the lower of cost or market value may be used if the proper procedural steps are followed. An important feature of the U.S. tax law is the availability of the last-in, first-out (LIFO) flow-of-cost assumption. Items of inventory are used or sold in reverse order of acquisition. In a period of rising prices, first-in, first-out (FIFO) tends to show increased earnings, whereas LIFO shows a decrease. It is important to note that if LIFO is used, certain conformity rules will require that various financial statements of the taxpayer also be presented at LIFO. Further, LIFO is available to financially consolidated corporate groups only if it is used in the parent's statements as well.

Depreciation: The depreciation deduction is based on the modified accelerated cost recovery system (MACRS). For property placed into service before 1987, various depreciation methods could apply. Under the MACRS, property placed into service after 1986 is subject to recovery of capital costs over a number of years which may vary depending on the type of property. Personal property is generally deemed to be placed in service as of the middle of the tax year (the half-year convention), and depreciation deductions are pro-rated accordingly. Overall, the rates differ only marginally from the Canadian rates.

Research and Development Costs: R&D costs may be either capitalized or currently deducted against U.S.-source gross income regardless of whether they were incurred outside the United States. The taxpayer can make a written election to amortize R&D costs ratably over 60 or more months. This election applies to the year of election and all subsequent years. Incremental research expenses, over the average expenses in a base period, may qualify for a 20% tax credit that may not exceed the tax before credits.

Intangibles: The cost of patents, trademarks, franchises and other intangible assets that have a determinable life can be amortized. However, unlike the case with depreciation, the cost is recoverable only on a straight-line basis over the useful life of the intangible asset. Goodwill, although an intangible asset, is not amortizable for tax purposes on the grounds that its life is not determinable.

Corporate Income Tax Rates

The corporate income tax rates on retained and distributed profits are the same, and the rates apply to taxable income of domestic or foreign corporations. (Foreign corporations without effectively connected income may be subject to withholding taxes at the 30% rate or a lower treaty rate on U.S.-source income.)

For corporate taxable income over $75 000, the rate is presently 34% federally. The state taxes vary from 0% to 12% depending on income level and location.

Alternative Minimum Tax

Alternative minimum tax (AMT) is intended to ensure that a taxpayer cannot avoid all tax liability by using excessive deductions, exemptions and credits. Essentially, AMT is a separate tax imposed on certain types of income and deductions. A taxpayer must pay AMT if it exceeds the regular tax. The corporate AMT rate is 20%; certain credits may reduce the tax.

Environmental Tax

Corporations with alternative minimum taxable income over US$2 million pay an additional environmental tax of 0.12% on the excess over US$2 million. This tax is imposed without regard to whether the corporation must also pay AMT.

Accumulated Earnings Tax

If there is excessive retention of corporate earnings, the U.S. Internal Revenue Service (IRS) may impose an accumulated earnings tax. The tax is imposed at 28% on earnings accumulated beyond the reasonable needs of the business. ▼

by Sigrid Feser, Deloitte & Touche, Toronto

German Business Activities in Canada — Quietly Successful

The German journalist, widely travelled and articulate, but on his first visit to Canada, was surprised. "Tell me," he said to the director of the Canadian-German Chamber of Industry and Commerce, "where are all the German companies that are supposed to be here? I have not seen the name or trademark of a single German company anywhere in the streets of Toronto or Montreal, let alone of Ottawa. Sure, I have seen several German car makes — but is that all?"

Of course this is not all. But it is true that German investment in Canada is largely invisible. One does not encounter German company logos at every street corner, and the unsightly giant billboards along city highways rarely or never mention German products. Nevertheless, German firms and German investment have a long tradition in Canada. Companies with well-known names such as Siemens, Bayer, BASF, Hoechst, Volkswagen, Mercedes-Benz, Lufthansa and others have been established in Canada for decades, serving the Canadian market with their products and services. According to a recent publication by the Canadian-German Chamber of Industry and Commerce, there are at present in Canada about 250 German subsidiaries and German companies with significant interests in the manufacturing and/or commercial sectors, or in the service industry. Add to that another 50 unreported firms (there are no official statistics on German companies in Canada), and the number increases to about 300 productive firms established in Canada. The figure of 1 500 German companies, occasionally reported by Canadian sources, includes all "mailbox" companies as well as companies that have been established for the sole purpose of administering individual property and buildings of private investors. These companies of course do not engage in any industrial activity in Canada.

Significant Investments

One important fact is that Germany is a major foreign investor in Canada. German and Canadian statistics differ also with regard to the extent of German investment in Canada. According to statistics from the German Federal Bank[1] [*Deutsche Bundesbank*] based on company balance sheet values, cumulative direct German investment in Canada on 31 December 1991 amounted to DM 6.6 billion.[2] No figures for 1992 are yet available.

The above-mentioned *Bundesbank* statistics should not be confused with the annual net transfer values published by the German Ministry of Economics in Bonn, which are non-cumulative. According to these Ministry statistics, the net value of German direct investment in Canada in 1992 was DM 497 million (1991: DM 544 million).

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[1] *Kapitalverflechtung mit dem Ausland* (Capital Links with Foreign Countries), Supplement to the June 1993 *Bundesbank* Balance of Payments Statistics.

[2] In October 1993, 1 Deutsche Mark (DM) equalled C$0.7883.

At the end of 1992, Canada probably ranked 10th or 11th among the major host countries of German investment, ahead of Brazil and Japan and behind most EC countries. According to the *Bundesbank* statistics,[1] total German direct investment abroad at the end of 1991 amounted to about DM 249 billion. Of this amount, DM 56 billion went to the United States, by far the largest recipient of German capital, followed by Great Britain with DM 22 billion, the Netherlands with about DM 20 billion, and France with about DM 18 billion.

Changing Community of Investors

German investors in Canada can be divided roughly into two categories. On the one hand, there are the large companies, which through their Canadian subsidiaries, want to serve the Canadian market. On the other hand, there are private investors and small and medium-sized family-owned businesses looking for geopolitically safe and financially attractive sites for their money. Both categories have been and still are interested in Canada, although there have been some shifts in recent years. Small and medium-sized businesses, for instance, have almost stopped investing in Canada for geopolitical reasons (i.e. since the perceived or real threat from the East Bloc has lifted following the breakup of the Soviet Union). Multinational companies, by contrast, are intent on adjusting their markets and they are trying to improve their North American positions by taking over existing companies. This approach has less to do with a preference for Canada and instead is aimed solely at achieving company goals, generally the optimization of profits.

Favourable Conditions

Of decisive importance for both categories of investors are the site factors Canada has to offer. Depending on the branch of industry, these factors may be weighted quite differently. Some companies are looking for certain raw materials and for cheap energy, others for easy market access for their products and still others are looking primarily for high returns. Another important factor are taxes — both corporate and personal income taxes. Due to federal and provincial budget deficits, these taxes have recently been raised considerably in the Canadian provinces of Ontario and Quebec, resulting in higher tax burdens and a slowdown of investment activity.

On the other hand, Canada offers a number of advantages that both German and other companies appreciate:

- access to the U.S. and Mexican markets, which will soon be guaranteed by the North American Free Trade Agreement (NAFTA)
- large reserves of raw materials
- sufficient quantities of reasonably priced energy
- a workforce which overall, and compared to the United States, is well trained (despite existing bottlenecks in certain industries and trades and despite the urgent need for reform of the occupational training system)
- smoothly functioning communities and efficient administrative structures

- excellent telecommunications and transport systems
- political and social security
- low crime rate
- little or no racial tension (due to the multicultural character of the country)
- a general environment that is European in character.

A major advantage is the access to the North American market under the already existing Canada-U.S. Free Trade Agreement (FTA), to be expanded under the North American Free Trade Agreement (NAFTA) to include Mexico. Only companies, both foreign and domestic, that have their headquarters and manufacturing facilities in Canada will be able to profit from the advantages offered by the FTA and NAFTA. By contrast, imports from Germany in all three NAFTA countries are governed by different import and customs regulations with no possibility of free exchange among the three countries. Therefore, German companies dealing with North America should lose no time in determining the possible effects the NAFTA may have on their areas of operation. Competition in North America will definitely become more intense, but this will be offset by greater opportunities. The great majority of German companies in Canada view the NAFTA positively. In the future, the border between the United States and Mexico will no longer prevent German companies, with Canada as their business base, from operating in these two countries.

Good Prospects

German companies, as the Canadian-German Chamber of Industry and Commerce knows, generally like the business conditions in Canada. They tend to operate in obscurity, but prosper vigorously nonetheless. They are not as dominating as the large U.S. companies, and are not as visible as the Japanese firms and their products. Perhaps it is precisely because of this situation — and on account of the good reputation of their products — that German companies are welcome in Canada. The profiles of six German companies in Canada in this brochure testify to that.

Canadian subsidiaries of German companies primarily serve the Canadian market, but within the framework of intragroup responsibilities, they have also expanded into international markets. At the end of the recession, German companies will again view the future more optimistically. According to observations by the Canadian-German Chamber of Industry and Commerce, not only sales but also profit margins are rising. Business is not booming, but conditions are distinctly better than in the past two years.

But not even this upturn in business will make German companies and their products more visible in Canadian cities. Such visibility is not the aim and it is not even necessary. It is much better if both sides benefit over the long-term from the steady, more reserved but stable business activities of German companies in Canada. "Substance before appearance" is the motto, and this principle has been successful on the Canadian market. ▼

by Uwe Harnack, Canadian-German Chamber of Industry and Commerce, Toronto

Investment Prospecting in Germany

Germany is a priority market for the Canadian government's initiatives to bring quality investment to Canada. The most dynamic dimension of this effort are the initiatives designed to facilitate strategic partnerships between Canadian and German high-technology companies. The Investment Development Bureau at Foreign Affairs and International Trade Canada is at the forefront of Canada's efforts to carry out this mandate.

These initiatives reflect the trend in international business toward entering new markets through alliances and partnerships, as opposed to relatively expensive and risk-prone greenfield strategies. The approach seeks to assist small and medium-sized Canadian companies to build the international alliances necessary to establish themselves in globally competitive markets. This is done in two steps. First, German companies are introduced to technologies in which Canada's reputation is strong. Second, profiles of partner-seeking Canadian companies in the technologically strong sectors are developed and they are discussed with the German companies that have an interest in doing business in Canada. In the end, alliances may develop for manufacturing or research joint ventures, distribution agreements or product development.

Among the sectors in which Investment Development is active are lasers and optoelectronics, telecommunications and microelectronics, software, remote sensing, medical devices, biotechnology, deep ocean industries and environmental technologies. Below are some recent events where some of these technologies and Canadian companies looking for partners were showcased:

- in Cologne, Canadian capabilities in remote sensing and geomatics were discussed with German companies
- in Hamburg and Lubeck, strategic partnering roundtables were held with German companies in the laser and optoelectronics sectors
- in Berlin, the former Investment Canada worked with the East West Enterprise Institute (translation, Ost-West-Wirtschaftsakademie) to help Canadian and German companies in environmental and telecommunications industries work together to enter the emerging markets of Central and Eastern Europe.

The most prominent event in 1994 at which the Investment Development Bureau will participate will be CeBIT, one of the world's largest information technology trade shows. Canada has been designated a partner country in 1994. CeBIT is held in March in Hanover.

These marketing efforts in Germany have resulted in a number of alliances between German and Canadian businesses and research institutions. Some of these arrangements start with a toe in the water — distribution deals as a means to get product into the respective markets, contract research and development (R&D), licensing deals and technology transfers. Often, if early partnership efforts are fruitful, they develop into more formal and involved partnerships for joint product development or joint manufacturing ventures. For Canadian firms, German companies offer compatible technologies and access to the European Community (EC) market as well as to the emerging markets of the former East Bloc.

The following are examples of alliances that have been established with the help of the Investment Development Bureau.

- The Ontario Laser and Lightwave Research Centre, Canada's leading research facility in this area, and DLR Stuttgart are currently engaged in a joint R&D laser project.
- Lasiris (Canada) and Laser 2000 (Germany) signed an agreement to distribute each others' products.
- Carl Zeiss (Germany) and VX Optronics (Canada) are engaged in joint product development.

Finally, with the recession over in North America but not in Germany and other parts of Europe, Canada becomes an attractive site for those German companies seeking continued growth and a North American presence. Information on investing or partnering in Canada is available from the Canadian Embassy in Bonn or a Canadian Consulate in Berlin, Düsseldorf or Munich. ▼

by Greg Meredith, Investment Development Bureau, Foreign Affairs and International Trade Canada (formerly part of Investment Canada), Ottawa

Canadian Direct Investment in Germany

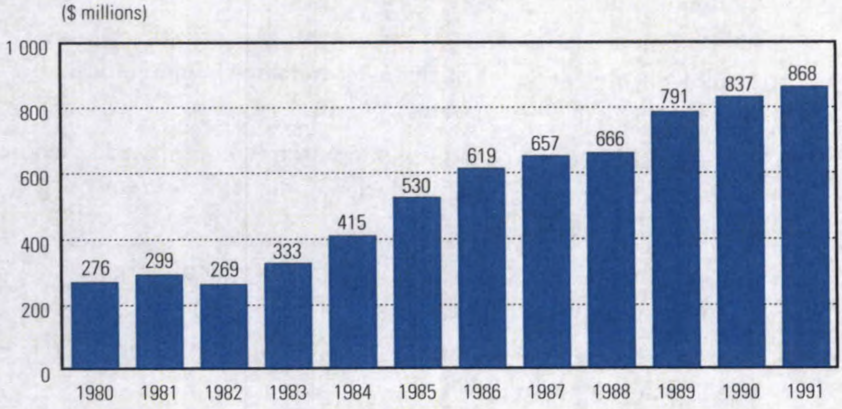
Germany hosts about 8% of the world's stock of inward direct investment. During the 1980s, the value of inward direct investment in Germany grew by 10.7%, below the 12.9% average for industrial countries. Over this period, the United States attracted the largest amount of direct investment. It is home to about 25% of the world's stock of direct investment.

The value of Canadian direct investment abroad (CDIA) at the end of 1991 was $94.4 billion. This was an increase of 250% from 1980. In comparison, foreign direct investment in Canada increased slightly more than 100% over the same period.

Canadian direct investment in Germany (CDIG) is not large. In 1980, the value of CDIG was $276 million. Over the next 11 years, the increase in CDIG kept pace with the overall increase in CDIA. As a result, CDIG reached $868 million in 1991 (see Figure 1). In 1991 as in 1980, CDIG accounted for about 1% of CDIA. The *Bundesbank* reports that Canadian direct investment accounts for less than 1% of all foreign direct investment in Germany.

Although the total is not large, some Canadian companies have very important investments in Germany.

Figure 1 — Canadian Direct Investment in Germany, 1980-1991



Source: Statistics Canada.

Alcan Aluminium Limited is the sixth largest company in Canada. It has operations virtually around the world including by far the largest investment in Germany by a Canadian company. It operates five wholly owned plants in Germany including the largest and most modern sheet mill in Europe and a foil mill in Ohle that opened in 1989. In addition to sheets and foil, Alcan also produces automotive castings. Employment at these plants is about 3 800 people. In addition, Alcan is a 50% partner in Aluminium Norf. This company operates two mills and employs 1 750 people.

CAE Industries Ltd. is well known for its production of flight simulators (on-the-ground equipment for training aviation pilots) and related products. In Stolberg, Germany, it provides maintenance and repair services for flight simulators and sophisticated training programs for aircraft systems in Europe. Total employment at this company in Germany is about 500 people.

A number of Canadian companies have made acquisitions in Germany in the past few years. The list includes:

- Laidlaw Inc., one of North America's leading waste disposal companies, acquired 29.9% of U.K.-based Attwoods plc in August 1992. In Germany, Attwoods operates solid waste removal and disposal services and portable sanitation services.
- Lawson Mardon Group Limited, in June 1990, entered the German market by purchasing the folding carton business of W. Cordes GmbH and Hanse Druck GmbH.
- Maclean Hunter acquired 54% of Bauverlag GmbH in 1989. Bauverlag publishes technical books as well as 14 magazines related to the construction industry.

Canadian companies with sales and marketing business in Germany include McCain Foods, Cognos Incorporated and Northern Telecom Canada Limited. ▼

by Ted Zahavich, Industry Canada, Ottawa

Profiles of Six German Companies in Canada

Six companies have been selected to be profiled in this publication. They represent a cross-section of German businesses in Canada. They have been in Canada various lengths of time, operate in different regions, produce different products and have different operating styles, but they are all important contributors to the Canadian economy.

Bayer Canada Inc.

In the space of 130 years, since its foundation in Germany in 1863, the three-man firm of Friedrich Bayer et comp. has grown into one of the world's largest international chemical companies, with 156 400 employees today. What was initially a modest dyestuffs business had global sales of DM 41.2 billion[1] in 1992. About 460 companies in 70 countries, more than 100 manufacturing plants on five continents, and a portfolio of some 10 000 products testify to the scale and dynamism of Bayer's development.

Research and development (R&D) form a central part of the company's corporate strategy and Bayer has steadily increased its spending in this area in recent years.

In 1992 alone, the Bayer Group spent more than DM 3 billion, or some 7.5% of Bayer sales, on research. This makes Bayer one of the world's most research-intensive companies. About 13 000 of the company's employees worldwide are directly involved in R&D.

Research at Bayer has resulted in many important advances in medicine and chemistry. One of the first was Aspirin™, introduced by Bayer in 1899.

At the beginning of this century, Bayer discovered and later produced synthetic rubber; in the 1930s, polyurethane chemistry was invented. Other important areas of innovation at Bayer are in crop protection and imaging technologies. Today, Bayer's main focus of R&D is in the area of pharmaceuticals.

The Bayer Group's activities worldwide are arranged into six sectors of roughly equal size — polymers, organic products, industrial products, health care, agrochemicals and imaging technologies. With a total of 23 business groups plus affiliated companies in these six sectors, Bayer is one of the most highly diversified companies in the chemical industry worldwide.

Bayer entered Canada in the 1950s by establishing a sales organization for its dyestuff products. Since then, Bayer's position on the Canadian market has grown substantially through the expansion of its sales activities and its local operations and through acquisitions. Today, all six business sectors of Bayer AG are well represented in Canada by the following five entities:

[1] In October 1993, 1 Deutsche Mark (DM) equalled C$0.7883.

Bayer Canada Inc., a chemical distributor and compounder of Bayer's polymer, organic and industrial products sectors, operates Canada-wide. Prominent market positions were attained in the fields of textile dyestuffs, paper products, polyurethanes and engineering plastics.

Miles Canada Inc. was acquired by Bayer in 1978 to become their health care company in Canada. Miles is a major factor in Canada with Bayer's pharmaceuticals, medical diagnostics, blood management systems, consumer self-medication and household products. Alka-Seltzer™, Flintstones™ and One-a-Day™ vitamins, as well as S.O.S.™ soap pads are well-known consumer products of Miles. The Miles position was strengthened through the merger with Cutter Laboratories in 1982 and the acquisition of Technicon Canada Inc. in 1989.

Agfa Canada Inc. represents Bayer's imaging technologies sector in Canada. Agfa Canada Inc. sells and services Canada-wide equipment, software and film for the graphic arts, printing and publishing industries; film and equipment for hospital imaging departments, structural testing and cinematography; colour and black-and-white film; as well as paper, chemicals and photo-processing systems.

Chemagro Limited, a subsidiary of Miles Inc. in the United States, represents Bayer's agrochemicals sector in Canada. It formulates and sells crop protection and animal health products. Chemagro Limited also maintains a research farm in Portage La Prairie, Manitoba.

Polysar Rubber Corporation, one of the world's leading producer of synthetic rubber and formerly a Canadian Crown corporation, was acquired by Bayer from Nova Corporation of Alberta on 1 October 1990 for $1.22 billion. This acquisition was the largest ever made by Bayer anywhere in the world and is the largest in Canada by a German company.

Polysar Rubber Corporation in Sarnia, Ontario, has become Bayer's primary North American centre for synthetic rubber research and production. Since the acquisition of the Canadian business, capital expenditures of approximately $45 million have been made and annual research and development (R&D) expenditures are close to $20 million. Over 200 people work in the R&D area out of a total Polysar Rubber Corporation work force of nearly 1 600 people.

In total, the Bayer Group employs approximately 2 600 people in Canada and has reached sales in excess of $900 million in 1992.

Bayer has a long-term commitment to the Canadian market and will expand its existing businesses by applying its expertise and leading edge technology in a responsible manner.

Special focus is on the synthetic rubber and pharmaceutical business groups. The strategy of Polysar Rubber Corporation is to continue to improve the competitiveness of its rubber business and strengthen its position as one of the world's leading rubber producers. To reach this objective it will maintain a strong R&D capability, make strategic capital expenditures and take full advantage of its position as a member of the Bayer group of companies.

The growth of Bayer's pharmaceutical business in Canada is expected to continue. With the passage of Bill C-91 *(Patent Act Amendment Act, 1992)*, Miles Canada Inc. plans to spend in excess of $100 million on R&D and create approximately 100 new positions over the next five years.

Overall, Bayer considers Canada an attractive country to conduct business.

Boehringer Ingelheim (Canada) Ltd.

Boehringer Ingelheim (Canada) Ltd. (BICL), which was established in Canada in 1972, is a leading pharmaceutical company specializing in the manufacture and sale of respiratory, cardiovascular and animal health products in Canada. Based in Burlington, Ontario, it employs approximately 275 Canadians, with another 100 employed by its research subsidiary, Bio-Mega Inc., in Laval, Quebec, and 30 employed by B.I. Chemicals (Canada) Ltd., in Concord, Ontario. Total sales in 1992 were over $100 million.

With the acquisition of Bio-Mega Inc. in 1989, BICL R&D expenditures were over $26 million, making Boehringer Ingelheim one of the largest investors in pharmaceutical R&D in Canada. The current research program at Bio-Mega includes the development of biochemical targets to combat disease, focusing on cardiovascular drugs and antiviral agents.

BICL is a member of the Boehringer Ingelheim group, a privately held international pharmaceutical organization with headquarters in Germany. Established in 1885, its product line includes pharmaceuticals, natural remedies, veterinary medicines, chemicals and baking products. Eighty percent of its business is in pharmaceutical products. The company is also active in biotechnology.

In 1992, Boehringer Ingelheim was ranked among the top 20 worldwide pharmaceutical manufacturers. It employs a total of 24 500 employees worldwide. The company devotes approximately 18% of its world revenue to R&D, which involves about 3 700 of its employees. On a worldwide basis, over $700 million was spent on R&D in 1992.

Degussa Canada Ltd.

Existing under different names since the 1840s, Degussa AG was founded in 1873 in Germany as a gold and silver coinage refinery. Its name is from the acronym for "Deutsche Gold- und Silber-Scheide-Anstalt," which means "German Gold and Silver Refining Company." Today, the publicly owned company is an international leader in chemical, precious metal and pharmaceutical specialties.

Headquartered in Frankfurt, Germany, the company employs over 32 000 employees in 40 countries. Degussa AG's worldwide annual sales exceed US$8 billion.

Degussa came to North America in 1882, manufacturing bright gold for ceramic applications in New York. That operation grew into what is now Degussa Corporation, the U.S. subsidiary of Degussa AG.

In January 1979, Degussa opened a sales office in Canada and incorporated a subsidiary, Degussa Canada Ltd. Business continued to grow and in 1983 a manufacturing plant and new head office were built in Burlington, Ontario. The plant manufactures automotive catalytic converters.

In 1992, Degussa split its Canadian operations into two separate businesses. Degussa Canada Ltd. continues to import and distribute a wide range of chemical and dental products produced by Degussa AG and its subsidiaries. The production of catalytic converters is carried out by Degussa Catalyst Ltd.

The Canada-U.S. Free Trade Agreement (FTA) implemented on 1 January 1989 benefited both businesses and both have put in place strategies to take advantage of the agreement. Degussa Canada's sales in Canada have increased substantially since the agreement and it is able to serve large Canadian mining and pulp and paper companies more effectively.

Degussa Catalyst Ltd. was originally established to serve Canadian automakers and to take advantage of Canadian trade regulations. It now has North American responsibility for the production and marketing of catalytic converters and in addition to exporting to the United States, it now also exports to Mexico and Japan.

In total, Degussa employs approximately 200 people in Canada and sales were in excess of $100 million in 1992.

Metall Mining Corporation

Metall Mining Corporation ("Metall") is a Canadian mining company listed on the Toronto and Montreal stock exchanges with a market capitalization of approximately $720 million and assets of approximately $1.3 billion. Metallgesellschaft AG of Germany established Metall in 1987 as the head of its worldwide mining interests.

Metallgesellschaft AG is a major Germany-based raw materials, engineering, financial services and industrial company with sales in excess of $20 billion per year, employing more than 60 000 people worldwide. Its interests in raw materials are focused on mining (through Metall), ore trading, smelting, and semifinished and other downstream products. In addition, Metallgesellschaft or its subsidiaries provide a wide range of financial, logistical or engineering services, including sophisticated hedging and derivative products, to the mining and raw materials industry.

Metall is a Canadian-based mining company engaged in the exploration, development and production of minerals internationally. Metall's operations include the Copper Range mine located in Michigan, the Winston Lake zinc-copper mine in Ontario, as well as a number of other mines including gold properties in Australia and three industrial minerals mines in Germany. Metall participates in a number of other joint ventures which include Ok Tedi, a Papua New Guinea copper and gold producer, and Navachab, a gold mine in Namibia. Metall is managing the development of three properties: Cayeli, a copper-zinc ore body in northeastern Turkey; Bougrine, a zinc-lead ore body in Tunisia; and Izok Lake, a zinc-copper deposit in the Northwest Territories in Canada, and participates in the development of Dikili, a gold project in western Turkey. Metall also has an active exploration program in Canada, the United States and Latin America.

Metall has strategic investments in two world class resource companies. It has a 13.8% interest in M.I.M. Holdings Limited, a major Australia-based producer of copper, silver, lead, zinc, gold and coal, and a 7.7% equity interest (28.5% voting interest) in Teck Corporation, a major Canadian producer of gold, copper, coal and other minerals. Metall also maintains an indirect interest in Cominco Ltd., a base metals and fertilizer producer, through its investments in Teck and M.I.M., which together control Cominco. In 1992, Metall's share of metals production was 109 000 tons of copper, 79 000 tons of zinc and 199 000 ounces of gold.

Metall presently employs approximately 2 500 people in Canada and worldwide in its mining activities. Metall has chosen Canada as its base for its worldwide mining interests because of the long mining tradition of Canada, the availability of experienced personnel, and the sophistication and experience of the Canadian mining investment community. Since its creation in 1987, when it had approximately $400 million in assets, Metall has seen a dramatic growth to an asset base of approximately $1.3 billion and shareholders' equity of $750 million today. Because of the large number of new projects under development or in the feasibility study stage, Metall expects to continue or even accelerate its growth.

Like most other Canadian mining companies, Metall has been forced to extend its focus to other regions of the world due to the increasing regulatory pressures in Canada, increasing taxes and the generally less favourable political climate for mining investments, especially in certain areas of Canada. The Canadian and Ontario tax situation makes it increasingly difficult and expensive to attract internationally experienced mining executives to Toronto. Canada, and especially Toronto, therefore risks losing its attractiveness as a base for an internationally operating and thereby mobile mining company.

Note: The Canadian government is reviewing its policies to address the concerns identified by the mining sector.

Siemens Electric Limited

Siemens Electric Limited is a world class supplier of electrical and electronic products, systems and services. It is unique in offering virtually a complete range of products for the electrical/electronic market — one of the world's largest and most diversified markets. The Siemens spectrum includes everything from microchips to turnkey power projects, from in-the-ear hearing instruments to digital telecommunication systems. Its strength, acquired over many decades through pioneering research and practical experience, lies in the development of advanced technologies and in their timely application to a wide range of high quality, innovative and cost-effective solutions.

Ranked by sales, Siemens is currently the number six company in the global electrical and electronic industry. Due to intensively pursued R&D, products and systems less than five years old now account for more than one-half of Siemens' total annual sales.

Siemens has been closely involved with developments at the leading edge of electrical and electronic engineering ever since the pioneering days of company founder Werner Siemens. His invention of the pointer telegraph was a milestone in telecommunications, and the dynamo-electric principle he discovered is one of the cornerstones of all electrical engineering. Semiconductor materials with limitless future potential and industrial robots with vision capabilities are more recent links in the long chain of innovations forged by Siemens.

Siemens and Canada came together as early as 1874, when the Siemens cable ship *Faraday* laid an important underwater telegraph cable between the new and old worlds. The roots of Siemens' activities in Canada were firmly established when the Siemens Company of Canada, Limited received "Letters of Patent by Federal Charter" on 29 August 1912.

Among many other projects, Siemens supplied electric hoists to an Ontario mining company in 1912, a 500 kilowatt (kW) motor generator set to the City of Winnipeg in 1913, and conceptual engineering proposals to the Montreal Tramway for cables in the amount of $100 000 in 1914.

The interests of the Canadian operation began to diversify in the early 1930s when sales and service representatives were located in Toronto and Winnipeg to promote the sales of Siemens' electromedical products.

In 1956, Siemens obtained a significant order from CN/CP Communications for telex switching equipment. Eventually, the CN/CP telex network connected the northern cities of Whitehorse and Yellowknife with southern and eastern Canada. A total of over 50 000 subscribers from Victoria, British Columbia, to St. John's, Newfoundland, were using this Siemens technology for daily business communications. Milestone orders were received in the 1960s and 1970s for Canadian resource industries and large infrastructure projects in Alberta. Siemens engineered, manufactured and commissioned complete electrical systems for the Suncor and Syncrude tar sands operations in northern Alberta. For the transit authorities of Edmonton and Calgary, it designed and manufactured more than 100 innovative light rail transit vehicles. These light rail projects, being the first of their kind in North America, had a major impact on the urban transport industry in Canada and the United States.

In 1989, Siemens reached another milestone when Toronto's SkyDome was opened. It features a unique computerized roof control system based on Siemens' drives and programmable logic controllers, operating the opening and closing of the movable roof panels. In addition, Siemens supplied the complete power distribution and control equipment.

Over the past decades, Siemens has set the pace for marine systems technology in Canada and in spring 1993 it completed the integrated propulsion and automation system for the *Spirit of British Columbia,* a super ferry for 470 cars and over 2 000 passengers to service Vancouver and Victoria in British Columbia.

The Siemens family of companies in Canada currently consists of five operating companies: Siemens Electric Limited, Siemens Automotive Limited, Siemens Hearing Instruments Ltd., NEVE Hearing Instruments Ltd. and NEVE Canada Inc.

Siemens companies in Canada employ more than 4 200 people in 16 plants and 40 offices. Sales in 1992 were over $600 million.

Through investments over the past two decades, Siemens has secured and created many jobs for Canadians. To keep pace with the rapid changes in the world of electrical and electronic engineering, a comprehensive training and continuing education program is implemented at offices and plants from coast to coast. Each year, more than 1 000 employees participate in measures to upgrade professional and personal skills. To attain secure economic growth and prosperity, the skilled labour shortage in Canada must be confronted and Siemens has responded to the challenge. The company supports university and community college programs and is a leader in encouraging the reform and upgrading of apprenticeship training in Canada.

As an investment in the future, Siemens is positioning itself to take full advantage of the opportunities provided through the FTA. Already a number of North American engineering and manufacturing mandates (e.g. shipboard system engineering, industrial drives and fractional horsepower motors for automotive applications) have been given to Siemens' operations in Canada. These function as a "bridgehead" for European technology to North American customers.

As one of the leading innovators in technology, Siemens places strong emphasis on R&D. Worldwide, as much as 10% of annual revenues is devoted to R&D. In Canada, Siemens is involved in a wide range of R&D projects in the automotive, medical, electrical and information technology fields. For example, Toronto operates a product development centre with over 60 staff for the design and development of imaging, text retrieval, communications and banking software products.

Investments into Canada's Future

Siemens has made a strong commitment to the Canadian community, its customers and partners. The company is continually introducing new technologies and creating locally based centres of knowledge and expertise. Through acquisitions and investments over the past five years, Siemens has secured and created over 3 000 jobs in Canada. More than $400 million was invested in mergers and acquisitions, capital spending, R&D, education and training over the past three years.

VIAG

VIAG was founded in 1923 as a holding company for the German government's industrial interests. At that time, it was engaged primarily in the production of electricity and basic materials, such as aluminum. The company was privatized in the late 1980s. Today, it has some 100 000 shareholders, both in Germany and abroad.

In recent years, VIAG has greatly altered its structure and expanded into new areas. VIAG decided to put greater emphasis on value-added manufacturing businesses and to reduce the group's dependence upon business cycles. To the VIAG nucleus, comprising energy, aluminum and chemicals, five new divisions were added primarily through acquisitions of existing companies in Germany.

In 1992, VIAG had sales of some DM 24 billion and employed more than 84 000 people worldwide, making it one of the largest industrial enterprises headquartered in Germany.

The most important acquisitions were Didier-Werke AG (refractories) in 1986, Gerresheimer Glas (glass) in 1989, Klöckner & Co (trading and engineering services) in 1990, Continental Can Europe (metal packaging) in 1991, and Kuehne & Nagel International Ltd. (transport and logistics) in 1992.

The acquisitions of Klöckner & Co. and Kuehne & Nagel International Ltd. represent VIAG's change from a company doing business mainly on a national level to one with activities in more than 60 countries of the world. Today, VIAG's strength lies in the balance between energy businesses with their steady income, industrial businesses that are cyclically dependent but which have the potential for high earnings, and the trading and services sectors that continue to be growth-orientated.

Canada is considered by VIAG as an attractive country for business and investment opportunities. In Canada, VIAG is represented with the following activities:

VAW Aluminium Canada Inc.

The VAW-Group entered Canada in 1989 and became the operating partner of an international consortium that constructed the Aluminerie Alouette Inc. smelter in Sept-Îles, Quebec. Construction took place from 1989 to 1992 and the total investment was $1.4 billion. A total of 110 construction companies were involved and at its peak, the number of workers, engineers and other specialists at the construction site reached more than 2 800 people. The total capacity of the smelter is 215 000 tonnes of aluminum per year. Production started in mid-1992. The smelter employs over 500 people permanently and the VAW-Group provides management and technical services to Aluminerie Alouette Inc.

SKW Canada Inc.

In 1975, SKW Canada Inc. chose the Bécancour Industrial Park in Quebec on the south shore of the St. Lawrence River as the location for the production of ferrosilicon and silicon metal.

SKW Canada Inc. employs about 200 people and is the only silicon metal producer in the country. The plant is still the most recent investment of this type in North America. It supplies silicon metal not only to the North American aluminum industry, but also to producers of silicones, semiconductors and solar cells in the United States, EC and Japan.

Canadian Adhesives Limited

Headquartered in Montreal, Quebec, with a warehouse in Brampton, Ontario, Canadian Adhesives Limited produces caulking, sealants and adhesives for the retail and commercial markets and distributes them throughout Canada under the Bulldog Grip™ brand name.

Narco Canada Inc.

Narco Canada Inc. employs 520 people in Canada and produces basic refractories, as well as providing contracting services. The headquarters are in Dorval, Quebec, with the main plant facility in Bécancour, Quebec.

Narco Canada Inc. — Plibrico Division

The Plibrico Division of Narco Canada Inc. has seven different locations in Canada that handle its monolithic refractory, construction services and international trading businesses. It employs 350 people throughout Canada.

Kuehne & Nagel International Ltd.

Recently acquired Kuehne & Nagel International Ltd. provides international freight forwarding and customs brokerage services through 52 offices across Canada.

Didier Corporation de Produits Réfractaires

Didier Corporation de Produits Réfractaires (DCPR), which has been part of the VIAG group since 1986, decided as well to build a plant in Bécancour, Quebec, in the mid-1970s. At this facility, DCPR produces clay-rich stones and magnesite products for the Canadian and the U.S. market.

Klöckner Stadler Hurter Ltd.

VIAG's Canadian involvement is not limited to the area of primary production, but extends into the service-sector as well. Klöckner & Co. has been a member of the VIAG family since 1990 and is represented in Canada by Klöckner Stadler Hurter Ltd. (KSH). KSH is an engineering company that specializes in the construction of ready-to-operate pulp and paper mills and in solving environmental problems associated with this industry.

Namasco Limited

In addition, Klöckner & Co. has another wholly owned subsidiary in Canada, Namasco Limited. This subsidiary maintains steel service centres in Brantford and Burlington, Ontario, and Winnipeg, Manitoba, through which it services the entire Canadian market.