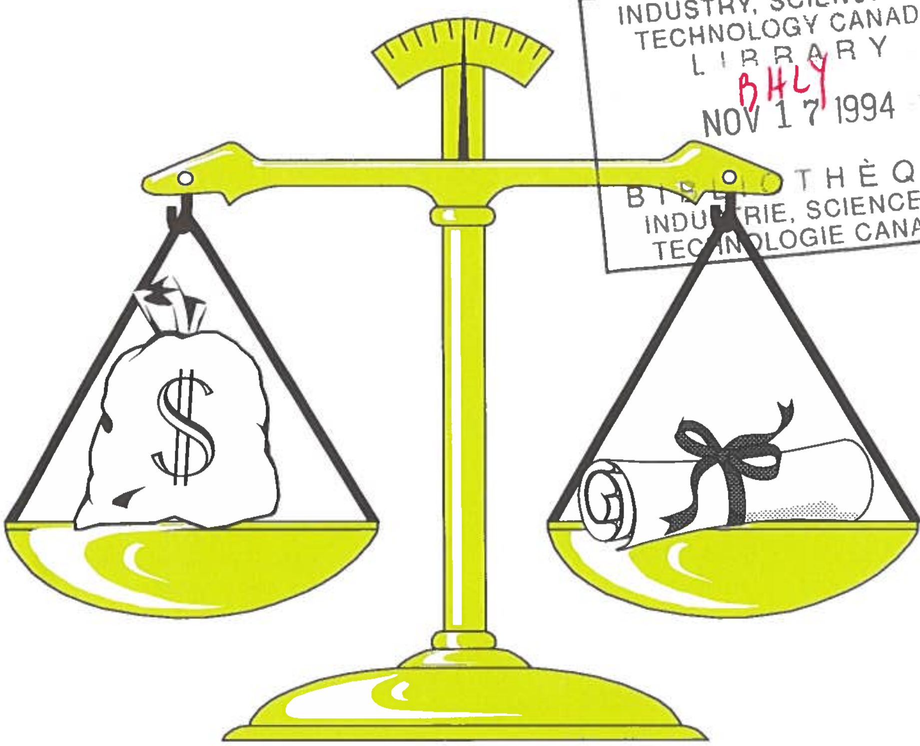
INVESTING IN CANADA

A NEWSLETTER ON CANADA'S INVESTMENT CLIMATE

Vol. 5, No. 4 — Spring 1992

THE FEDERAL BUDGET: ENCOURAGING GREATER INVESTMENT



INSIDE THIS ISSUE

In the face of today's economic challenges, trade and investment have always been two of the key components of Canada's prosperity. In this issue we survey some of the Federal Budget proposals. These measures represent important steps to further improve the investment climate in Canada and to make Canadian business more competitive in the global marketplace.

Canada has also introduced new policies in the oil and gas industry, in order to maintain a healthy and vibrant industry which can meet the challenges of today's economic environment.

The article on Canada's new book publishing policy outlines the new directives concerning foreign investment in the book business. This new approach is designed to give clear and expeditious guidelines for foreigners wishing to invest in Canadian publishing, while at the same time safeguarding Canada's cultural interests.

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Proposals to promote greater investment, initiative and jobs are part of an action plan for recovery and sustained growth put forward in the Federal Budget presented to Parliament on February 25, 1992.

The budget included tax reform proposals to ensure that the Canadian corporate tax regime remains competitive with tax measures in the world community and particularly in the United States.

Among the budget measures "to encourage initiative and productive investment" are:

- ***A Reduction in The Tax Rate on Manufacturing and Processing Profits***

  The Government proposes to reduce the manufacturing and processing tax rate from 23% to 22% on January 1, 1993, with a further one point reduction on January 1, 1994.

  This reduction in corporate income tax will enhance the competitiveness of companies involved in manufacturing and processing activities by freeing up *(p. 2)* ▼

INVESTMENT CANADA INVESTISSEMENT CANADA

THE FEDERAL BUDGET: ENCOURAGING GREATER INVESTMENT (cont'd from p. 1)

funds for reinvestment. A lower corporate income tax rate for manufacturing and processing activities also provides some help to Canadian companies competing in domestic and foreign markets against foreign companies that benefit from export tax incentives. The general tax rate that a jurisdiction applies to manufacturing and processing profits is one of the factors that influences the location of new investment. It is expected that this change will encourage more productive, income-producing investment in Canada by manufacturing and processing firms.

An Increase of The Capital Cost Allowance Rate on Manufacturing and Processing Equipment

The budget proposes to increase the capital cost allowance rate for manufacturing and processing machinery from 25% to 30%, for acquisitions made after February 25, 1992.

An important variable in a firm's decision to invest in Canada is the rate at which acquisitions of equipment and machinery may be deducted in calculating taxable income. If early deductions can take place, after-tax costs are lowered during the important initial years of an investment. This can increase the financial rate of return on a project and enhance the relative attractiveness of an investment.

A Reduction in The Withholding Tax Rate on Direct Dividends

The Government has indicated that it is prepared to negotiate reciprocal agreements with Canada's trading partners to reduce to 5% the withholding tax rate on direct dividends. Direct dividends are those earnings that are paid by a Canadian affiliate to a foreign parent or other corporation with a substantial interest in the affiliate.

With investment becoming increasingly mobile, a high rate of withholding tax can act as a barrier to capital flows. The withholding tax can represent an additional cost to a multinational company that might discourage investment in Canada. Furthermore, since withholding taxes are assessed on a reciprocal basis under the terms of tax treaties, a high rate can also hinder the investment plans of Canadian-based multinational companies.

An Enhancement of Research and Development Tax Measures

The budget includes a commitment to enrich the tax incentives for research and development by $230 million over the next five years. Most of this amount is associated with changes to the tax rules which will lessen the current level of administrative burden imposed on R&D performers.

Canada's tax system for the performance of R&D is one of the most generous in the world. With these contemplated changes, the administration of these tax provisions will be made more efficient, thereby further improving the investment climate for research and development in Canada.

An Extension of The Small Business Financing Program

The Small Business Financing Program was developed to help small businesses in financial difficulty by allowing them to obtain loans at lower interest rates. This program was confined to only those loans received prior to 1988. The new Federal Budget proposes to extend this type of financial aid to loans received after February 25, 1992 and before January 1, 1993. Furthermore, the ceiling for loans to individual small businesses under the *Small Business Loans Act* will be doubled to $200,000.

An Amendment to The Lifetime Capital Gains Exemption

The $100,000 lifetime capital gains exemption will be targeted toward more productive investment. The exemption will no longer be provided to capital gains accrued on real estate after February 1992.

An Encouragement to Investment in Venture Capital Funds

The Government will encourage the growth of labour-sponsored venture capital funds. The maximum income-tax credit for investment in these funds will be increased from $700 to $1,000.

The budget extends the investment limits for contributions by individuals to labour-sponsored venture capital companies to $5,000 from $3,500 per annum. This initiative will assist in augmenting the supply of equity capital for investment in new and growing Canadian companies.

A MORE POSITIVE INVESTMENT CLIMATE

Taxation is one of the major factors in determining the level and location of investment. The above actions, when taken together with earlier tax reform measures, make Canada a more attractive location for investment.

Before the changes proposed in the budget, a Canadian company faced a four-point disadvantage in tax rate vis-à-vis the United States. When the budget measures are fully phased in, the average statutory tax rate on income earned by a Canadian firm would decline by five percentage points, making the rate lower than in the U.S. Firms will now have an increased incentive to allocate more of their investment to Canada.

When marginal effective tax rates are compared, the changes proposed in the budget will lower the marginal tax rate on an investment in machinery and equipment in Canada by about 2.8 percentage points, making it about one percentage point lower than the rate on a comparable new investment in the United States.

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THE FEDERAL BUDGET: ENCOURAGING GREATER INVESTMENT (cont'd from p. 2)

In the recent budget, the Minister of Finance forecast that real growth for 1992 would be 2.7%, followed by a growth rate of 4.5% for 1993. It is expected that these numbers will give Canada's economy the largest rate of growth amongst the G-7 countries over that time.

Inflation is currently running at an annualized rate of 1.6%, its lowest level since the early 1970s. Inflation in Canada is forecast to remain about 1 percentage point lower in the period ahead than in the United States.

Wage settlements also show how inflationary pressures have eased. For the last quarter of 1991, public sector settlements averaged 2.4%. In the private sector, wage settlements fell to 3.3%, down from a first quarter increase of 5.1%.

Prime lending rates are now at their lowest since the early 1970s. The 90-day commercial paper rate is projected to average 6.5% in 1993.

As a result, Canada is able to offer potential investors a low rate of inflation and a low cost of capital environment. The budget measures have been designed to enhance Canada's investment, trade and productivity performance. They recognize the role investment plays in creating prosperity, as well as its importance to the growth of the Canadian economy.

Effective Statutory Tax Rates on M&P Income Earned in Canada and the United States

	Income earned in Canadian subsidiary		Income earned by U.S. parent
	Current	Proposed	
		(per cent)	
Federal[1]	24	22	34
Provincial/state[2]	13	13	5
Total income tax	37	35	39
Net withholding tax[3]	6	3	n/a
Total income and withholding tax	43	38	39

1 Basic M&P tax rate plus the 3 per cent surtax.
2 Provincial and state tax rates are averages. Actual rates will vary across jurisdictions. The state tax rate reflects the fact that state taxes are deductible for federal tax purposes in the United States.
3 The withholding tax applies to dividends paid to the foreign parent out of aftertax income of the subsidiary.

Source: The Budget Papers

INVESTMENT: THE KEY TO PRODUCTIVITY AND ECONOMIC GROWTH

Investment has long been recognized as being an important contributing factor to Canada's economic well-being. Its significance was examined in a recent study prepared for Investment Canada by David Slater, former Chairman of the Economic Council of Canada. The paper, entitled "The Contribution of Investment and Savings to Productivity and Economic Growth in Canada", suggests that Canada is under-saving and under-investing. According to the study, improved productivity performance for the Canadian economy will depend, at least in part, on the following:

- a significant increase in the investment effort;
- a shift in the composition of investment from residential and non-residential construction to investing in machinery and equipment and research and development;
- a significant improvement in the efficiency of investment;
- strengthened investment linkages with the rest of the world, both through international investment in Canada and Canadian direct investment abroad;
- strengthened investment linkages within Canada through the removal or reduction of interprovincial trade and investment barriers.

Foreign investment brings many important benefits to Canada, among them technology transfers, product innovation, access to new markets and job creation. Increasingly, we are becoming aware that international investment by Canadians is also important to competitiveness. Canadian firms need the benefits of economies of scale and the alliances that international investment can bring.

While Canadian investment performance has been generally positive, there is an understanding that an increased investment effort, both in terms of quantity and quality, will have to be part of our response to challenges of the future.

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ERICSSON LAUNCHES R&D PROJECT IN MONTRÉAL

A major world research and development mandate regarding cellular telephone development has been awarded to Ericsson Communications of Montréal by its parent, L.M. Ericsson of Sweden. The project was announced in Davos, Switzerland in February 1992.

L.M. Ericsson is a leading supplier of public switching and mobile telephone systems and cable networks, with some 70,000 employees in 100 countries. Worldwide sales in 1990 totalled some C$9 billion.

Ericsson will launch a research and development project in Montréal to develop an advanced technology centred on the specific needs of cellular telephone users. The project will focus on the digitalization of networks and the development of new cellular services.

The joint announcement was made by Québec Premier Robert Bourassa; federal Minister of Industry, Science and Technology and Minister for International Trade, Michael Wilson; Québec Minister of Industry, Trade and Technology, Gérald Tremblay; and Lars Stalberg, Vice-President, Corporate Affairs at L.M. Ericsson.

"Not only is this an example of co-operation between the Canadian and Québec governments in attracting investment, it is a good example of how governments and the Canadian subsidiaries of multinational companies can work together to gain additional R&D and manufacturing mandates for Canada," said Michael Wilson.

Lionel Hurtubise, President of Ericsson Communications (Courtesy of Ericsson Communications)

This project, initiated over a year ago, was the result of a reorganization and a change in operating philosophy by the parent company, which was planning to transfer product management responsibility for cellular software development from Sweden to North America. Existing facilities in Mexico, the United States and Canada were being considered as possible sites.

A key point in selling the Canadian location was the effective integration of the federal-provincial packages to give L.M. Ericsson a clear picture on which to base its decision. In early 1991, the President of Ericsson Communications in Montréal, Lionel Hurtubise, approached Investment Canada for assistance in putting together a proposal to Ericsson's parent to gain the assignment of a new world product mandate for Ericsson Communications.

Investment Canada co-ordinated and arranged meetings at both the federal and provincial levels ensuring that all the appropriate departments were made aware of Ericsson's proposal. In addition to arranging the meetings, Investment Canada gathered information on various government assistance programs which might be used to provide government funding at the federal and provincial levels.

Through a co-operative effort involving Investment Canada, ISTC, the federal Québec Regional Development Office and the Québec Government, Ericsson Communications was able to put together a proposal to its parent which was sufficiently attractive to win the mandate for Ericsson's Montréal facility.

Montréal was chosen for several reasons, including the availability and quality of university researchers, its pool of specialized researchers working in the field of telecommunications, the calibre of companies likely to act as subcontractors, the R&D carried out by such firms, and access to the Canadian and American markets.

A recent announcement by Cantel has meant even more good news for Ericsson. Cantel will be the first Canadian cellular carrier to provide digital transmission technology coast to coast. It will spend close to $100 million in digital equipment over the next year, and this will be supplied by Ericsson Communications.

PROMOTING INVESTMENT THROUGH VIDEOCONFERENCING

Canadian business people are greeting potential international partners without leaving Canada. Using the two-way audio and video capabilities of videoconferencing, business people from different geographic centres can participate in face-to-face meetings without losing valuable time travelling abroad.

For example, senior executives from eight Canadian telecommunications equipment and related microelectronics firms participated in a three-hour videoconference in Ottawa last December. They were seeking strategic alliance opportunities with a similar number of U.S. firms assembled in New York.

The event was sponsored by Investment Canada, along with the Canadian Consulate General in New York; Industry, Science and Technology Canada (ISTC); and the Department of Communications (DOC). The videoconference was part of a strategy to assist Canadian firms locate strategic partners.

Jean C. McCloskey, President of Investment Canada, offered the welcoming remarks, and Peter Leach, President of the Telecommunications Research Institute of Ontario, followed with a brief overview of the Canadian telecommunications industry and supporting research infrastructure.

On the Ottawa side of the screen, Canadian firms highlighted their strategic alliance interests in 10-minute presentations, followed by a short question and answer period.

Fax machines enabled the exchange of business cards and background material such as copies of presentation slides, and telephones were also available to permit longer, detailed discussions between the parties. In addition, five private one-on-one meetings were held by videoconference following the presentations.

OTTAWA, CANADA

Audrey Turner, Senior Investment Program Manager, moderated the Ottawa program. The Canadian firms included Bayly Communications, CAL Corporation, CARDI Inc., CML Technologies, Glenayre Electronics, Newbridge Microsystems, NII Norsat, and Silcom Research. Deals sought by the Canadian firms include capital investments, joint research and product development, and marketing arrangements.

On the New York City side, participating firms included N.Y. Tel, NYNEX, AT&T, and Grumman. David Lenihan, Senior Investment Adviser with the Canadian Consulate General in New York, moderated the New York program.

NEW YORK, U.S.A.

The videoconference was part of a telecommunications project between Investment Canada and ISTC which has been in progress since 1991. At first a sector expert from NGL Consulting Ltd. was engaged. Using his recommendations, a report was prepared entitled, "The Case for Investing in the Canadian Telecommunications Equipment and Related Microelectronics Industry". This paper serves as background material for potential investors and investment officers abroad.

Also produced was a marketing kit entitled "High Technology Opportunities: Telecommunications Equipment and Related Microelectronics - Canadian Partners for Global Advantage." The kit highlights the favourable environment for doing business in Canada and contains profiles of 30 Canadian companies interested in strategic alliance opportunities with U.S. or other international firms.

Over 3,000 copies of the kit have been distributed through Canadian Embassies, High Commissions and Consulates and at Canadian Government information booths abroad. The information package has also been circulated at important industry trade shows such as TELECOM '91, held in October in Geneva, Switzerland, and at COMNET in Washington, D.C. in late January, 1992. A new version of the kit for the European and Pacific Rim markets is currently in production.

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— *Susan Gates,*
Investment Canada

PROMOTING THE CANADIAN OCEAN INDUSTRY

In the context of federal-provincial initiatives to assist Canada's high technology sector in attracting foreign partners, a new project, focusing on the ocean industry, was recently launched.

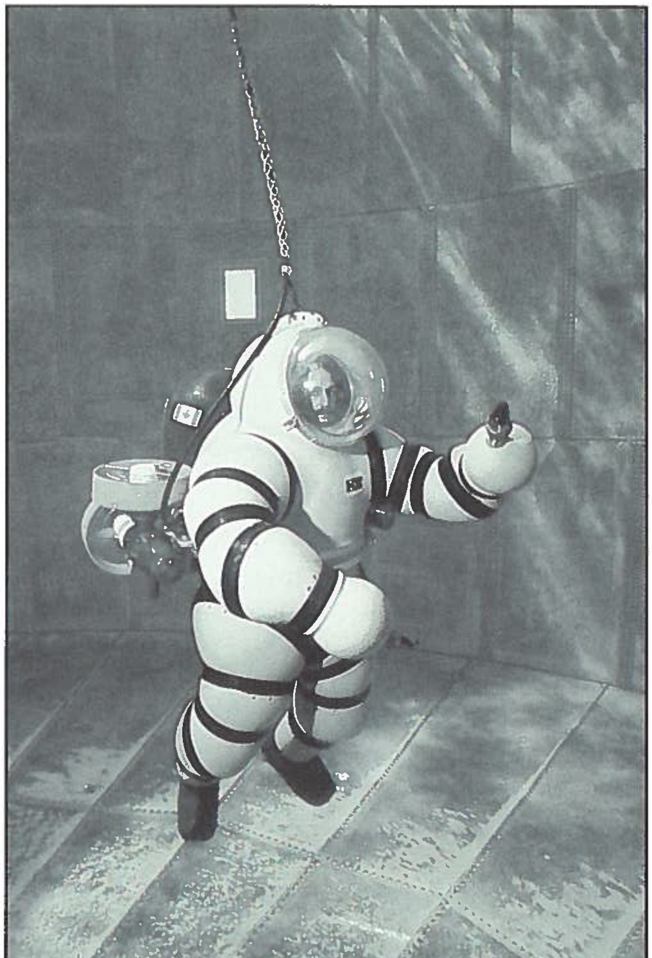
The project is a joint venture with the provincial governments of Newfoundland, Nova Scotia, New Brunswick, British Columbia, the British Columbia Trade Development Corporation, and the federal departments of Industry, Science and Technology Canada (ISTC), External Affairs and International Trade Canada (EAITC), and Investment Canada. This collaborative federal-provincial investment promotion initiative represents a first for the participants.

The project involved three stages: 1) the development and publication of an ocean industry promotional kit; 2) the promotion of the sector using the kit as a focal point; and 3) follow-up activities.

The promotional kit contains profiles of leading Canadian ocean industry players involved in manufacturing, services and research and development. The profiles, which highlight the strengths of the Canadian ocean industry, as well as the advantages of joining forces with Canadian firms, are used as a starting point to promote dialogue between Canadian and foreign ocean-technology firms.

The oceans kit is similar to others produced by Investment Canada over the last three years to facilitate and encourage the formation of strategic alliances, joint ventures, technology transfers and co-marketing agreements with foreign partners. Other sectors highlighted have included laser-based optoelectronics, wastewater management, biotechnology, artificial intelligence, software products and electronic technologies.

The second phase consisted of investment seminars, round tables and one-on-one meetings. These marketing venues have proven to be effective methods of pre-qualifying Canadian firms looking for foreign partners. To ensure that the investment needs and business interests of Canadian companies are served, a private sector industry expert, Dr. Wilson Russell, President of Cabot Management of Vancouver, was engaged for these events.



International Hard Suits of Vancouver designed and manufactures the revolutionary one-atmosphere diving system known as the NEWTSUIT. (Courtesy of International Hard Suits)

Dr. Russell provided an overview and a presentation of the Canadian capabilities and potential opportunities.

A recent example of such a marketing initiative was held in Marseille, France on January 23 to 24, co-sponsored by the Marseille Chamber of Commerce and the Canadian Embassy in Paris. Over 25 French ocean industry company owners and senior managers attended. The round table and ensuing one-on-one meetings clearly demonstrated a strong desire on the part of the French ocean industry to pursue alliances with Canadian firms involved in subsea intervention, ocean information systems manufacturing and R&D, as well as cold ocean and offshore oil and gas activities.

The third phase of the initiative will involve the follow-up efforts of Investment Canada, the posts abroad, the provinces, ISTC's sector group, the consultant, and the firms themselves to ensure that potential opportunities for matchmaking and partnering arrangements are pursued.

The kit was made available to interested foreign firms and institutes at Oceanology International '92, held in Brighton, England on March 10 to 13. As well, the kit will be distributed at Techno-Ocean '92 in Yokohama, Japan on October 21 to 24, with the company and institutional profiles available in Japanese.

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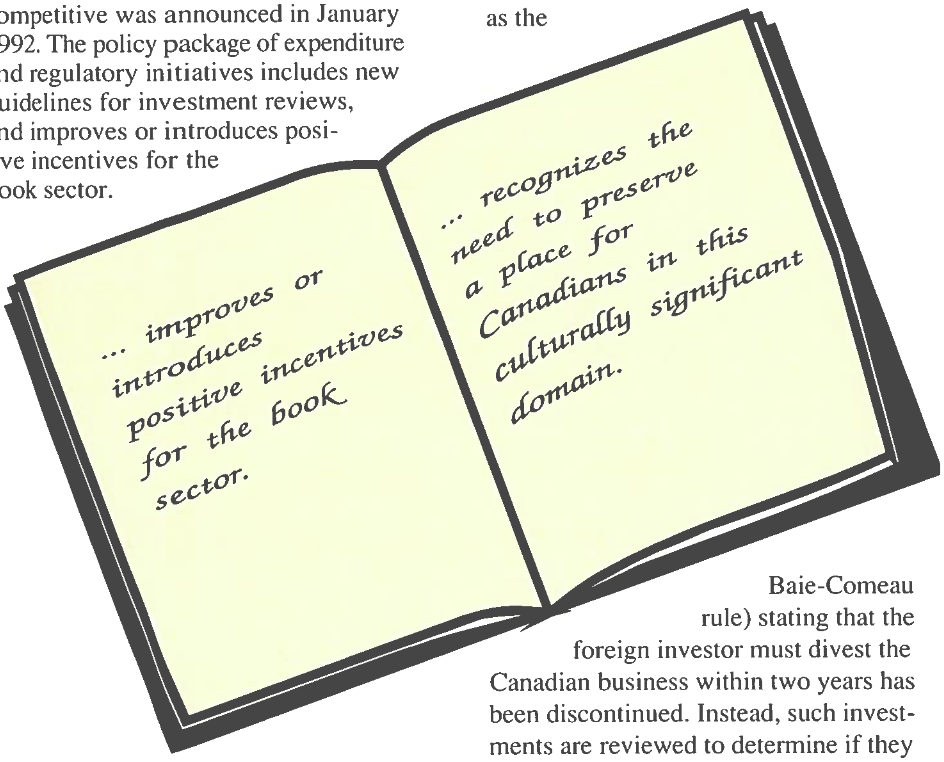
NEW BOOK PUBLISHING POLICY

A policy designed to strengthen Canadian publishing activity and make it more competitive was announced in January 1992. The policy package of expenditure and regulatory initiatives includes new guidelines for investment reviews, and improves or introduces positive incentives for the book sector.



The industrial assistance program, administered by the Department of Communications, is being enhanced in order to improve the financial viability of Canadian-owned publishers who have been particularly constrained by the limited size of the Canadian market. Copyright legislation will be amended to give exclusive distributors (both foreign and Canadian-owned) greater protection of their distribution rights, thereby buttressing their market base for publishing.

The guidelines regulating foreign investment in the book business are brought more into line with the approach used for other cultural sectors such as film and sound recording. The reviewing policy with respect to the publishing industry aims to enhance the contribution to Canadian cultural objectives made by foreign-controlled companies, while at the same time preserving the scope for Canadian-owned ventures.

In the case of indirect acquisitions, the previous directive (popularly referred to as the Baie-Comeau rule) stating that the foreign investor must divest the Canadian business within two years has been discontinued. Instead, such investments are reviewed to determine if they are likely to be of net benefit for Canada (the "net benefit test"), as set out in the *Investment Canada Act*, including a contribution to Canadian cultural objectives.

The types of performance commitments anticipated, which are described in the published guidelines, involve investor support for the Canadian-based distribution network for indigenous and imported books. These performance commitments also include the maintenance of professional development facilities on which the Canadian-owned publishers depend, as well as investment in developing Canadian authors.

In the case of a direct acquisition of a book publishing or distribution business which is already foreign-controlled, the same net benefit test would apply. In addition, there would need to be credible evidence provided with the application to show that Canadian investors were given a full and fair opportunity to bid for the business.

The parameters of the enhanced assistance program reflect the high degree of concentration on Canadian-authored titles characterizing Canadian-owned publishing businesses. This is why the prohibition of foreign-controlled investment in new businesses remains a feature of the policy.

Similarly, acquisitions of Canadian-controlled businesses will not normally be permitted. Only where clear financial distress can be demonstrated, and there has previously been a full and fair opportunity for Canadians to bid, will acquisition of a Canadian-owned business by a foreign investor be considered under the net benefit test.

The continuing limit on the scope for foreign investment in the book industry expressed in these guidelines recognizes the need to preserve a place for Canadians in this culturally significant domain. It complements the stimulus to these activities generated by the other elements of the Government's industry package.

This regulatory reform does not alter the process for screening foreign investments in the book industry. The *Investment Canada Act* will be amended, however, to tighten the definition of what constitutes Canadian control for cultural businesses. This is needed in order to ensure that the guidelines are respected, and that a foreign investor cannot simply avoid the review process by structuring his investment to be nominally, but not effectively, in Canadian hands.

With published guidelines comparable to the approach taken in other cultural sectors, Investment Canada anticipates a review system for the book sector which is clear and expeditious from the foreign investor's vantage point, while safeguarding Canada's cultural interests.

— *Peter Caskey and Lillian Buchanan, Investment Canada*

NEW OIL AND GAS ACQUISITIONS POLICY

Following the February 1992 Federal Budget, the Government announced it had decided to abandon the six-year-old Oil and Gas Acquisitions Policy which prohibited the sale of financially sound Canadian controlled oil and gas businesses to non-Canadians. The policy had been administered by Investment Canada in its review of oil and gas takeovers by international investors.

The Government's overall policy goal, to attain 50 per cent Canadian ownership in the upstream[1] oil and gas industry, was based on the belief that Canadians were not sufficiently benefiting from oil and gas production. The Acquisitions Policy was the primary focus for attaining this goal.

The dominance of international companies in the upstream oil and gas industry has been a high public profile issue since the 1950s. Canadian ownership and control of the industry increased steadily in the 1970s and early 1980s, and reached the highest levels in 1985-86.

According to Government surveys, Canadian ownership levels for the upstream oil and gas industry declined from the peak of 48 per cent reached in 1985, to 42 per cent in 1988, but have rebounded to 44 per cent in 1990 (see graph). When the 10 per cent of small, virtually 100 per cent Canadian-owned businesses not surveyed by the Government is taken into account, the level of Canadian ownership could now be as high as 49 per cent, which almost meets the Government's target.

The rationale for a Canadianization policy was grounded on four factors: (1) a public view that Canadians should have the opportunity to own and control a strategically important industry that was benefiting from significant government assistance; (2) a concern that Canadians share directly in the large profits from oil and gas production; (3) a belief that Canadian-owned companies behave in a manner more sensitive to Canadian national interests; and (4) a distrust of the multinational oil companies.

In today's difficult circumstances, these views are no longer convincing. The best way to ensure a secure supply of oil and gas is to create conditions to foster a healthy and vibrant industry. Canadian ownership restrictions were limiting industry prospects by cutting off important sources of investment capital. Anticipated high profits have not materialized and are unlikely in the foreseeable future.

Behavioural differences between foreign and Canadian-controlled firms have proven to be modest. A more pressing concern is that all oil companies in Canada, regardless of ownership, must be allowed the opportunity to rationalize their operations and invest to improve productivity. Restrictions on ownership were a barrier to this rationalization and investment.

Canadians need not be concerned that elimination of this policy means we are selling out a key industry. The facts are: Canadians are owners of their energy resources and will continue to own them regardless of who may own the companies producing the resource. Canadians will continue to benefit from their ownership of energy resources from the collection of royalties and income taxes which apply equally to all energy producers regardless of their parent's nationality. Canadians will continue to have control over energy resource development and exploitation through their provincial and federal regulatory agencies.

But Canada also needs development capital and new technology. Canadians, unfortunately, have not been willing or prepared to come forward with sufficient new equity investment to fund needed new development. Strategic alliances with international oil companies allow Canadian-based firms to export their expertise, particularly in the areas of seismology, offshore and arctic drilling, and oil sands development, to oil producing areas around the world.

Elimination of the Acquisitions Policy does not, however, mean the elimination of the Government's role in this area. Investment Canada will continue to review international acquisitions in the oil and gas sector under the "net benefit to Canada" criterion as it always has. This requires that a prospective investor submit a detailed business plan to Investment Canada showing how it proposes to develop the business.

Typically, agreements are negotiated with the investor to assure a high level of reinvestment in the business and maintenance of Canadian management and employment. The difference now is that there is no longer a prohibition against the acquisition of Canadian oil and gas businesses which are not in financial difficulty, and less emphasis will be given to the issue of Canadian ownership.

The *Investment Canada Act* will be modified to extend to investors of oil and gas investments the same review thresholds that apply to other sectors of the economy

(p. 9) ▼

[1] "Upstream" refers to the production of oil and gas from wells as opposed to "downstream" which refers to the refining, marketing and distribution of petroleum products and natural gas.

NEW OIL AND GAS ACQUISITIONS POLICY ▲ (cont'd from p. 8)

under the Canada-U.S. Free Trade Agreement. For U.S. investors, this will raise the thresholds above which an acquisition becomes subject to the Act from $5 million to $150 million for direct acquisitions. There will be no review for indirect acquisitions. For all other foreign investors, thresholds for review will remain at $5 million for direct acquisitions and $50 million for indirect acquisitions.

Investment Canada will continue to seek assurances that international investors acquiring Canadian oil and gas businesses and properties are prepared to commit the financial and other resources necessary to carry out exploration and development programs for the properties acquired. Furthermore, Investment Canada will seek to ensure that Canadians will continue to play a prominent role in the direction and management of the businesses being acquired.

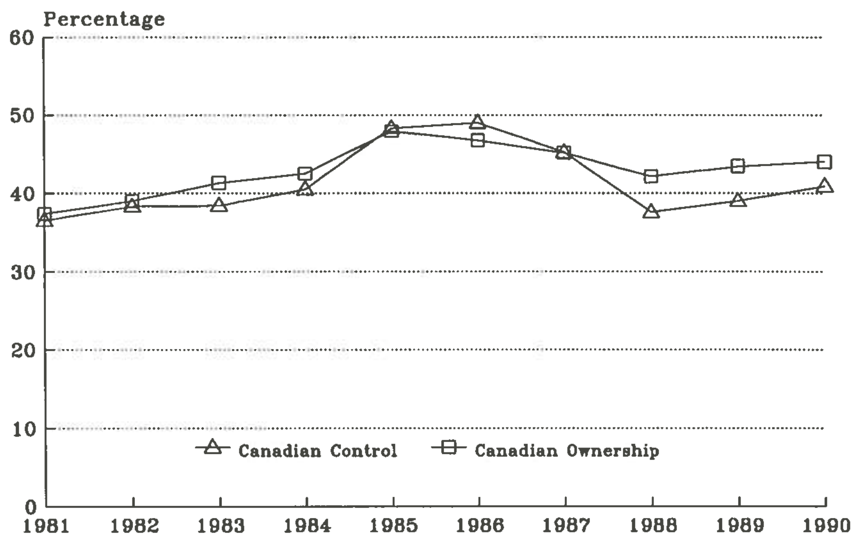
The elimination of the Acquisitions Policy presents new opportunities to Canadian and international investors alike. Canadian owners of oil and gas properties will be able to sell properties to any investor, for the best return, and rationalize their holdings.

Similarly, international owners may now make property acquisitions which have a strategic fit with their existing holdings.

The overall result should be an enhancement of the value of the resource base for all investors and a more productive Canadian exploration and producing industry.

— *Richard Bushnell,*
Investment Canada

Canadian Ownership And Control Of
Oil & Gas Upstream Revenues



Source: Petroleum Monitoring Agency

Hong Kong Investors Attracted to Canadian Oil Patch

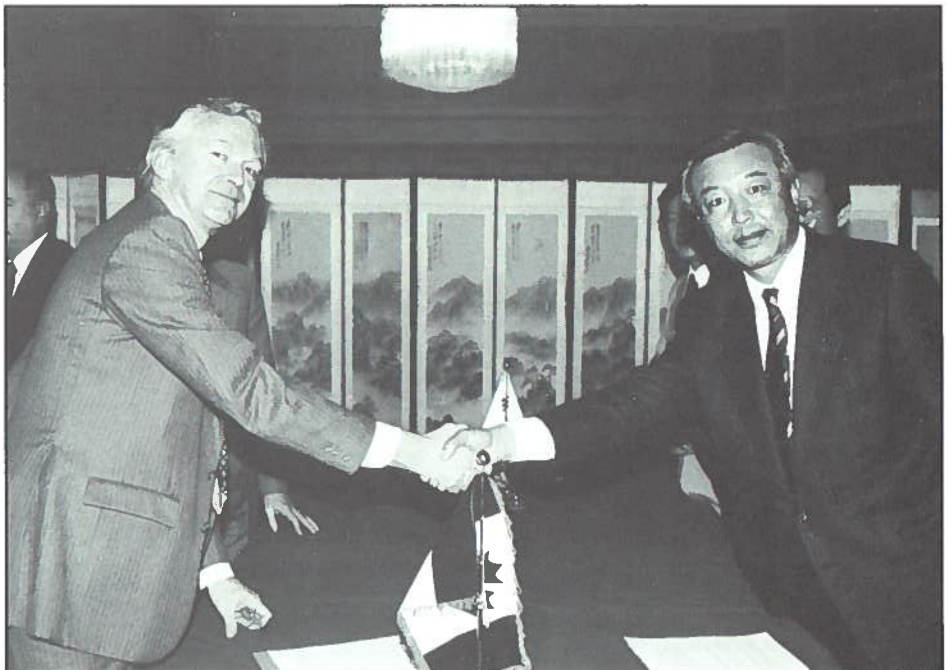
The Canadian oil and gas industry has recently been the beneficiary of major investments by Hong Kong investors. The first of these investments occurred when Mr. Li Ka-shing purchased for $325 million the 43% interest in Husky Oil Limited held by Nova Corporation of Alberta. In March of 1992, a consortium of two Hong Kong based companies, led by Dr. Cheng Yu-Tung, acquired for $70 million the 41% of Numac Oil and Gas Ltd. owned by Consolidated Enfield Corporation. Both transactions were approved under the *Investment Canada Act*.

While Mr. Li was already an investor in the Canadian industry, owning 43% of Husky since 1987, this was Dr. Cheng's first major venture in Canadian oil and gas. This investment was the first acquisition approved following the Government's recent decision to abandon its oil and gas policy which prohibited the sale of healthy Canadian controlled businesses to foreign interests. Commenting on the Numac acquisition, Dr. Cheng said, "This acquisition is the first step towards a major long-term investment in oil and gas. Our ultimate objective is for Numac to become a major force in the Canadian oil and gas industry."

Mr. Li has reinforced his commitment to the industry through his plans to inject $500 million into Husky to stabilize its financial situation and allow it to continue with major energy projects, notably the Bi-Provincial heavy oil upgrader and the Caroline sour gas development project.

While Hong Kong investors have been investing in Canada for many years, their activity has predominantly been in real estate and property management. These latest ventures into oil and gas represent something of a departure and could presage further investments in resource-based and manufacturing businesses.

CANADA AND KOREAN BANK SIGN LETTER OF UNDERSTANDING



Mr. Jung-Jin Yoon, Assistant Governor of the Korea Development Bank, shakes hands with Mr. Jon Church, Vice-President, Investment Development Division, Investment Canada.

Mrs. Jean McCloskey, the President of Investment Canada, and Mr. Hyung-Koo Lee, Governor of the Korea Development Bank (KDB) jointly announced on February 17, 1992, that a Letter of Understanding (LOU) between the two organizations was signed in Seoul. This is the first time that either party has engaged in this type of initiative.

There have been growing economic ties between Canada and the Republic of Korea, and both countries are aware of the importance of domestic and international business investment to their national economies. In this regard, the LOU will help to encourage and facilitate bilateral direct investments in both countries, and foster co-operation between Canadian and Korean companies through the formation of investment alliances in Canada, in Korea, and in third countries.

Under the LOU, Investment Canada and the KDB will exchange views and information to facilitate investment activities of benefit to both Korean and Canadian companies. Activities will involve presentations to potential investors, information dissemination, seminars, identification of investment opportunities, the identification and introduction of potential investment partners, or other mutually agreed upon activities.

The KDB is a leading financing institution, fully owned by the Government of Korea. Established under the *KDB Act*, it furnishes and administers funds for major industrial projects to expedite industrial development and expansion of the national economy.

Investment Canada is the agency of the Government of Canada mandated under the authority of the *Investment Canada Act* to promote business investment in Canada by Canadians and non-Canadians.

Senior officials of both parties will meet on an annual basis and regular contact will be maintained to foster co-operation with each other and offer assistance to clients. Both parties will, as soon as possible, designate representatives to implement these objectives.

"The LOU is a milestone event for Investment Canada," said Mrs. McCloskey. "It will help Canadian companies in forming strategic partnerships with Korean counterparts, thereby enhancing the global competitiveness of both countries."

Mr. Lee added, "the LOU would be very useful for the KDB to encourage business investment by Korean companies in Canada. Furthermore, it will provide an important momentum for enhancing the co-operation between our two organizations."

For further information contact Mr. Henry Yau of Investment Canada at (613) 995-6634.

Investing in Canada *is published quarterly by Investment Canada, the investment development agency of the federal government. The mandate of Investment Canada is to promote investment in Canada, by both Canadians and non-Canadians; to carry out research and provide policy advice on investment matters; and to review major foreign investments to ensure they are of net benefit to Canada.*

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