in Canada is an important source of jobs and economic growth. Foreign direct investment provides capital, new ideas, new technologies and innovative business practices.

In 2001, the United States accounted for $215 billion or 66.9% of foreign direct investment in Canada. The European Union represented $76.3 billion or 23.8% of total foreign direct investment in this country. Other significant investors included Japan ($8.3 billion) and Hong Kong ($4.3 billion). In 2001, the major recipient sectors for foreign direct investment flows into Canada were energy, metallic minerals, machinery and transportation equipment, followed by finance and insurance, food, beverage and tobacco, chemicals and electronics.

Canada's International Investment Agenda

Investment rules play an important role in protecting and facilitating the foreign investment activities of Canadian firms. Canada is a medium-sized economy, whose current and future prosperity depends on open markets, a stable trading environment and a fair and impartial means of settling trade disputes. Investment rules offer a greater measure of security for Canadian investors and ensure that national policies will not be unduly changed or applied in a discriminatory manner. Canadian firms can also mitigate their exposure when making foreign investments in risky regions by purchasing political risk insurance. Political risk insurance is available from commercial insurers, as well as from Export Development Canada (EDC). For more information, please visit the EDC Web site (*www.edc.ca*).

Canadian firms continue to encounter investment barriers abroad, including investment prohibitions, restrictions on the scope of business activity, performance requirements, investment authorizations, residency requirements and restrictions on the movement of business people. Difficulties tend to be most frequently raised with respect to Africa, Central and South America, China and Russia.

Investment agreements do not restrict a country's ability to regulate in the public interest. Foreign investors in Canada (and Canadian investors in foreign markets) must abide by the domestic laws of the host country and obey the same rules as nationals. For example, investors are not exempt from domestic competition laws or local regulations relating to health, labour or the environment.

Canada has a relatively open investment regime, which compares well internationally. Under the Investment Canada Act, a notice or an application for review must be filed for all acquisitions of existing Canadian businesses or establishments of new Canadian businesses. Reviewable transactions are approved by the minister responsible for the Act, once that minister is satisfied that the investment is likely to be of net benefit to Canada. Direct acquisitions of Canadian businesses with assets of $5 million or more are reviewable. Indirect acquisitions are also subject to review if the assets of the Canadian business are at least $50 million or if the assets are between $5 million and $50 million and represent more than 50% of all assets being acquired.

Direct acquisitions by WTO members are subject to a higher review threshold, which was $218 million in 2002. This amount is adjusted annually based on changes in nominal gross domestic product. However, direct and indirect acquisitions by WTO members in designated restricted sectors are subject to the lower review thresholds that apply to non-WTO members, as described above. These restricted sectors are transportation, financial services, culture and uranium.

In the area of financial services, Canada does not maintain foreign ownership restrictions for banks. Acquisitions of Canadian banks are linked to the new size-based ownership regime, which came into force in October 2001. Under the new rules, no single person (Canadian or foreign) may acquire more than 20% of the voting shares or 30% of the non-voting shares in a large bank (i.e. a bank with equity of $5 billion or more). For medium-sized banks (i.e. banks with equity between $1 billion and $5 billion), individual shareholdings are allowed up to 65%, provided that at least 35% of voting shares are listed and traded on a recognized exchange and are widely held. Small banks (i.e. banks with equity of less than $1 billion) have no ownership restrictions other than a "fit and proper" test.