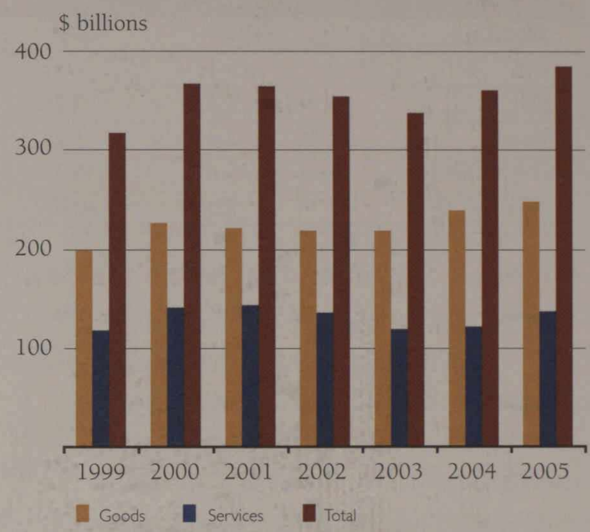
Operations abroad by Canadian foreign affiliates

Canadian goods and services are not only sold abroad as exports, but also through foreign affiliates of Canadian companies. Sales by foreign affiliates (FA) of Canadian businesses[1] are equivalent to approximately three-quarters of the value of Canadian exports of goods and services. These sales abroad are another measure of Canadian interests abroad, and bring important benefits to Canada. These benefits may come not only in the form of repatriated earnings, but also as a means of enabling entry into foreign markets, gaining access to new technologies and/or increasing competitiveness through entry into or development of value chains. These sales do not however have the same impact on the Canadian economy as exports in terms of jobs creation or contribution to Canadian economic growth.

Sales of goods and services by foreign affiliates of Canadian businesses rose to $385 billion in 2005, the most recent year for which data is available. This was an increase of $25 billion (or 6.9 percent) over the previous year, the second consecutive annual increase following three years of decline. It brought total sales to their highest level since foreign affiliate trade statistics were first compiled in 1999 (Figure 1).

Sales for both goods-producers and services-producers advanced. For goods producers, sales edged up $9 billion (or 3.7 per cent) to a record $248 billion while sales for service-producers climbed $16 billion (or 13.2 per cent) to 137 billion. The retail trade (up $12 billion), finance (up $9 billion), manufacturing (up $5 billion), and mining and oil and gas extraction (up $4 billion) sectors were the principal contributors to the higher sales. In the manufacturing sector,

Figure 1
FA Sales of Goods and Services



higher sales were the result of strength in transportation equipment manufacturing and in primary metal manufacturing.

The geographic distribution of FA sales and employment is summarized in Table 1. The share of total sales of affiliates located in the US has declined from 64.3 percent in 1999 to 56.3 percent in 2005. Two factors help to explain this observation. First, Canadian direct investment abroad has been diversifying away from the United States, consistent with falling share of foreign affiliate sales in the United States in the total. Second, the increase of the Canadian dollar relative to the U.S. dollar translates into lower sales values in Canadian dollars.

On the other hand, the share of sales by affiliates situated in the EU territory expanded from 19.6 percent to 23.3 percent over the same period, also accompanied by a growing share of total affiliate sales in Other OECD and Non-OECD countries.

1 The data cover only majority-owned foreign affiliates and exclude depository institutions and foreign branches of firms, consistent with the international practice for measuring foreign affiliate trade statistics.