Canadian Investment Environment for Resources

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The basic objectives of this presentation

- To illustrate Canada’s strengths in natural resources and energy
- To provide an update of resource competition facing Japan in Canada
- To outline Canada’s investment policies and the political environment that shape how they are implemented
- To present some facts and figures illustrating these themes

This presentation will be supplemented with oral comments
• Canada is very rich in resources and energy, accounting for over 11% of GDP.
• We have resources throughout the country
Rankings

- Canada’s global rankings in resources is one of the highest in the world:
  - 1st in potash
  - 2nd in uranium
  - 3rd in nickel
  - 4th in zinc
  - 6th in gold
  - 6th in diamonds
  - 9th in copper
And resource production is expanding, as seen in these growth rates, between 1999 and 2009:

- 68% growth in value of coal production
- 59% growth in value of iron ore production
- 51% growth in value of copper production
- 29% growth in value of nickel production
The services infrastructure – mining company and exploration company headquarters, financial institutions, legal firms – is spread throughout the country.

Toronto is the mining finance capital of the world, Vancouver as a global mining exploration center, Montreal as a leader in aluminum production, Saskatoon is the center for uranium and potash, and Edmonton and Calgary lead on conventional oil, oil sands, and natural gas.

Canada is a world leader in resource development.
• To develop these resources, and bring them to market, we have depended on both domestic and foreign capital, primarily British and American in the past.

• But over the last decades, foreign investment in resources has come from around the world.
• About half of the investment is from foreign sources.
• Indeed, almost 40% of FDI stock held in Canada is in mining and energy extraction.
• Total domestic and foreign investment in Canada in energy and minerals industry.

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<tbody>
<tr>
<td></td>
<td>98,504</td>
<td>120,513</td>
<td>168,052</td>
<td>190,575</td>
<td>187,592</td>
<td>192,851</td>
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Foreign Direct Investment/FDI

• Of the $560 billion in FDI stock in Canada in 2010, just under one fifth is in mining and oil and gas.
• Japan holds a total of $17 billion in FDI stock in Canada, according to Canadian numbers;
• China’s stock of investment is $14 billion, a remarkable rise from just $113 million in 2004.
• India’s share is $6.5 billion, and also rising rapidly.
• Korean investment is also rapidly accelerating.
The stock of Chinese investment in Canada is rising rapidly

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<th>2008</th>
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<td></td>
<td>5,651</td>
<td>12,855</td>
<td>14,056</td>
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(Table from Parliamentary Library)
• Japan has been a part of foreign FDI in Canada since the 1960s.

• Investment objectives included: accessing minerals, forest products and foodstuffs to supply the Japanese market; providing export/import services infrastructure to connect Canadian supplies to Japan and the rest of the world; provide financial services to Japanese companies in Canada, and Canadian firms involved with Japan;
• During the 1970s, investments in high technology and consumer goods became more important;

• In the 1980s, large investments in the automobile sector (Toyota, Honda and GM/Suzuki) were followed closely by Japanese parts suppliers tied to the Original Equipment Manufacturers;
Japanese investment in Canada

• As of the end of September, 2011, and since 1985, there have been 583 Japanese investments registered with Investment Canada;

• Resource investment is just above 7% of total number of investment projects in Canada;
• Globally, Japan has invested heavily in foreign mining operations:
  (in US$; JETRO)

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<th>Year</th>
<th>2005</th>
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But in Canada, Japanese investment in Canadian energy and metallic industries remain relatively low, but are rising.

(in Cdn$ millions; DFAIT)

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<tr>
<th>Year</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<tbody>
<tr>
<td></td>
<td>983</td>
<td>1,023</td>
<td>1,227</td>
<td>1,281</td>
<td>1,413</td>
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Why is Japanese investment comparatively low?

- Trade between Canada and Japan, while steady, has not expanded significantly in the past half decade. Investment usually follows trade.  
  (Cdn$; DFAIT)

### Canadian Exports to Japan

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<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<tbody>
<tr>
<td>Value</td>
<td>9,420,376</td>
<td>9,222,628</td>
<td>11,085,977</td>
<td>8,316,207</td>
<td>9,195,136</td>
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Japanese Exports to Canada

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
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<tbody>
<tr>
<td>2006</td>
<td>15,326,769</td>
</tr>
<tr>
<td>2007</td>
<td>15,458,027</td>
</tr>
<tr>
<td>2008</td>
<td>15,292,310</td>
</tr>
<tr>
<td>2009</td>
<td>12,349,947</td>
</tr>
<tr>
<td>2010</td>
<td>13,449,944</td>
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</table>
• Given a number of resource and energy investment experiences of mixed results in a number of countries – Iran, Russia, even Canada in met coal in the 1980s – Japan has often depended on open markets, rather than captive supply through investments, to meet its resource needs.
• Some Japanese with long memories recall Canada’s Foreign Investment Review Agency, created in 1972, as having discouraged FDI flows to Canada.

• FIRA was abolished in 1984, and replaced with the Investment Canada Act.

• This has created a new investment environment.
• The JBIC Study entitled "Outlook for Japanese Foreign Direct Investment 2009" reported that Canada ranked 20th of "Promising Country/Regions for overseas business operations over the medium term."
• In the meantime, other Asian countries are taking the lead

During the June to August period of this year:

– The China National Offshore Oil Company acquired OPTI Canada and its oil sands project for $2.1B
– Jilin Jienjin has added $400MM to its existing $800MM investment in a nickel mining project in Quebec
– South Korea's NMC Resource Corporation has entered into an option for a molybdenum mine in B.C
– South Korea's POSCO JVed with Fortune Minerals of Canada on a $180MM met coal project
– India’s Tata Steel formalized its investment in New Millenium, a Quebec iron ore project.
• It's not all China or Korea: there are significant Japanese investments drawing a great deal of attention, such as:
  – Mitsubishi Corporation's Cordova Embayment Shale Gas project in Northeast British Columbia
  – Mitsubishi Materials Corporation engagement in the Copper Mountain Mining project, also in BC
  – Marubeni Corporation and Winsway Coking Coal Holding's met coal project in Alberta
• We believe that there is great potential for additional investments from Japan.
• The investment environment in Canada could not be better.
Government Framework for FDI Review

• The *Investment Canada Act* (the “ICA”) establishes the regulatory framework under which the Canadian federal government reviews foreign investments in Canada.

• The ICA requires all foreign investors proposing to acquire “control” of a “Canadian business” to file either a Notification or an Application for Review (“Application”) with the Director of Investments.

• Establishments of new Canadian businesses by non-Canadians are also subject to the ICA, but usually only a notification is required.
A transaction is reviewable if the assets of the Canadian business being acquired equal or exceed the following thresholds:

- For WTO investors in resource investments, including Japanese investors, the threshold is Cdn $312 million for direct acquisitions.
- Indirect acquisitions by WTO Investors are generally only subject to notification.
- The threshold can be increased every year.
• If an Application is required, the Investment Review Division ("IRD") of Industry Canada must review the proposed transaction, and the federal Minister of Industry must ultimately determine that it is of "net benefit" to Canada in order for the transaction to be allowed.

• The Minister is required to consider the following six economic factors in conducting his or her assessment:
  – The effect of the investment on the level and nature of economic activity in Canada;
  – The degree and participation by Canadians;
  – The factors of productivity, efficiency, technological development, product innovation and variety;
  – The effect of the investment upon competition in Canada;
  – The compatibility with national industrial, economic and cultural policies;
  – Canada’s ability to compete in world markets
• The mandatory 45 day review period can be extended for a further 30 days, and sometimes longer.
• Approval by Industry Canada is required to close the deal.
• With two exceptions, the Government has never used the net benefit review process under the ICA as a means to block a proposed transaction.
• However, the Government frequently seeks undertakings from foreign investors before approving a proposed transaction agreements.
• Broadly, the types of undertakings commonly given relate to matters such as employment, capital expenditure, Canadian participation in the business, head office location, the use of Canadian goods and services, and the establishment, maintenance or expansion of research and development facilities in Canada.
• It should also be noted that the Government has issued sector specific legislation and/or policies with respect to foreign investment, for example, in broadcasting. In some cases, these policies restrict or act as *de facto* blocks on foreign investment, and include those relating to uranium mining.

• Foreign State Owned Enterprises must also meet certain transparency requirements upon review. These are set out in Guidelines entitled “Investment by State-Owned Enterprises – Net Benefit Assessment”
• The ICA also includes a separate national security test, similar to the US CFIUS process.
• National security test requires that the Federal Cabinet be satisfied a foreign investment is not “injurious to national security”, but there is no definition of the term.
• Rarely used to date – national security test has not been applied in major SOE acquisitions of resources.
• Japanese investments are highly unlikely to raise national security concerns, unlike certain Chinese or Russian investments.
In general, Canada is receptive to foreign acquisitions of Canadian companies in virtually all sectors where there are no formal restrictions.

Some industries remain protected, but the extractive sector is generally open for foreign investment with the exception of uranium mining.

Canada has avoided some of the regulatory excesses of jurisdictions such as Australia with respect to foreign investment in the mining sector.

Existing rules are designed to require firm commitments to the Government and, if SOE/SWF foreign investors, provide assurances of their commercial motivations and transparency.
• Acquisitions involving Chinese, Russian and Middle Eastern SOEs still face some timing and political risk.

• These entities are sometimes uncomfortable providing full transparency of ownership structures or commitments requested, especially in first acquisitions in Canada, and so may face timing issues.
• Chinese entities often structure investments to reduce regulatory risk.

• Korean investment has been very positively received in the oil and gas sector, with recent acquisitions by KNOC, KOGAS and KIC approved with little controversy or difficulty.
• Japanese investment in Canadian extractive industries do not face the political and timing challenges of Chinese and Middle East investors.
Conclusion

• It is in Canada’s interest and in the interests of companies such as Heenan Blaikie to encourage Japanese investment in resources
  – to encourage greater flows of investment capital;
  – to promote FDI opportunities in an increasing number of markets;
  – to benefit from Japan’s positive public profile in Canada.
The future of resource investments

- McKinsey and Company has recently stated that “resource prices will remain high and volatile for the next 20 years...as global resource markets oscillate in response to surging global demand and inelastic supplies.”

- “Demand for energy, food, metals, and water should rise inexorably as three billion new middle-class consumers emerge in the next two decades...Demand for urban infrastructure also will soar.”
The future of resource investments

• Part of the solution to the resource crunch will be an expansion of supply from stable, resource rich countries with reliable legal systems, and friendship and respect for Japan.

• Canada is one of the few countries that combine all of these characteristics.
• Japan should give greater consideration to the advantages of investing in Canada:
  – a stable majority government in Ottawa, and business friendly administrations in all of Canada’s provinces;
  – a track record of welcoming investments in resources, with only two refusals during the 26 years of operation of the Investment Canada Act, neither involving Japan;
  – quality, consistency and cost-competitiveness of Canadian labor;
  – the wealth in resources and energy;
  – Canada does not use access to resources trade or investment as diplomatic or negotiating bargaining chips or pressure
Canadians know that there are alternative, non-Canadian suppliers for everything that we produce; so getting our policies right has been the key to our success.

Japanese companies, for their part, have to remember that there are alternative investors for all of our resources;

There is no better time for Japanese and Canadian companies to work together to shape our resource and energy futures.
Thank you