

Intelligence MEMOS



From: Benjamin Dachis and Aaron Jacobs

To: Minister Chrystia Freeland

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Re: CANADIAN INVESTMENTS TO THE UK ARE CRITICAL, BUT DON'T FORGET ABOUT THE CONTINENT

The result of last week's Brexit vote has put global and Canadian financial markets into turmoil. So how much Canadian investment, both here and abroad, could be affected? There is both good and bad news.

First, the bad news; the UK is by far the largest of Canadian foreign direct investment (FDI) to Europe. In 2015, Canadian firms invested \$93 billion into the UK. That is more than the combined Canadian investments into the financial hubs of Luxembourg, the Netherlands, Ireland and Switzerland.

If you make the reasonable assumption that a large share of Canadian investment in the UK is oriented towards other EU countries, you can get a sense of what is at risk. Canadian pension plans, for example, are invested in [UK ports](#), [numerous airports](#), and the [London to Europe](#) rail line. These investments that link the UK to Europe look especially at risk, and Canadians could feel resulting pain in their pensions.

Canadian FDI in the UK has also been rising in relative terms. The total amount of Canadian FDI in the UK as a share of Canada's GDP has gone from less than 2 percent in the 1980s to a recent peak of 5 percent (Figure 1). On the flip side, UK companies have less invested here, steady at 2 percent of Canadian GDP for the last 25 years (Figure 2).

Now, the good news. Canada's investment relationship with the rest of Europe is strong, and getting stronger. 25 years ago, UK investment to and from Canada was as large as the amount from the rest of Europe. Since then, however, total investment to and from Canada and the rest of Europe has grown much faster.

UK investment into Canada still punches above its overall weight relative to the rest of Europe. Canada may have a special historical relationship with the UK, but we should not forget that our modern investment relationship is increasingly with the rest of Europe. That's why the focus should still be on securing an EU trade deal.

Figure 1:
Stock of Canadian FDI in Europe (% of GDP)

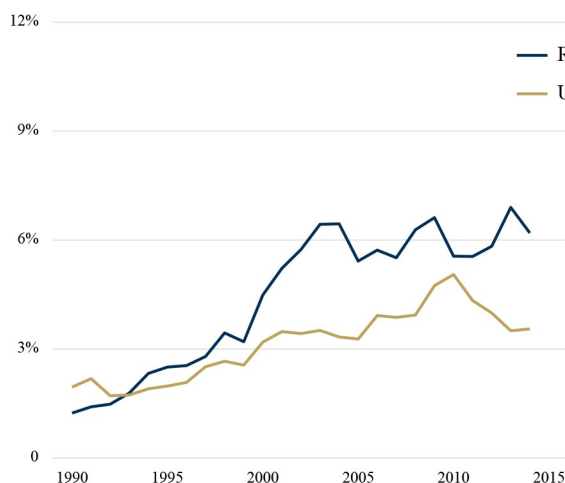
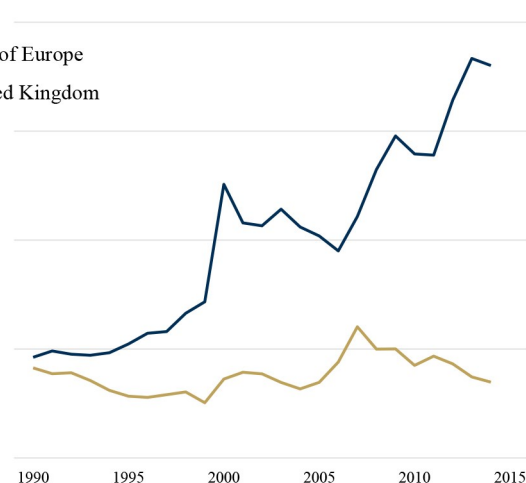


Figure 2:
Stock of European FDI in Canada (% of GDP)



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