1 Overview

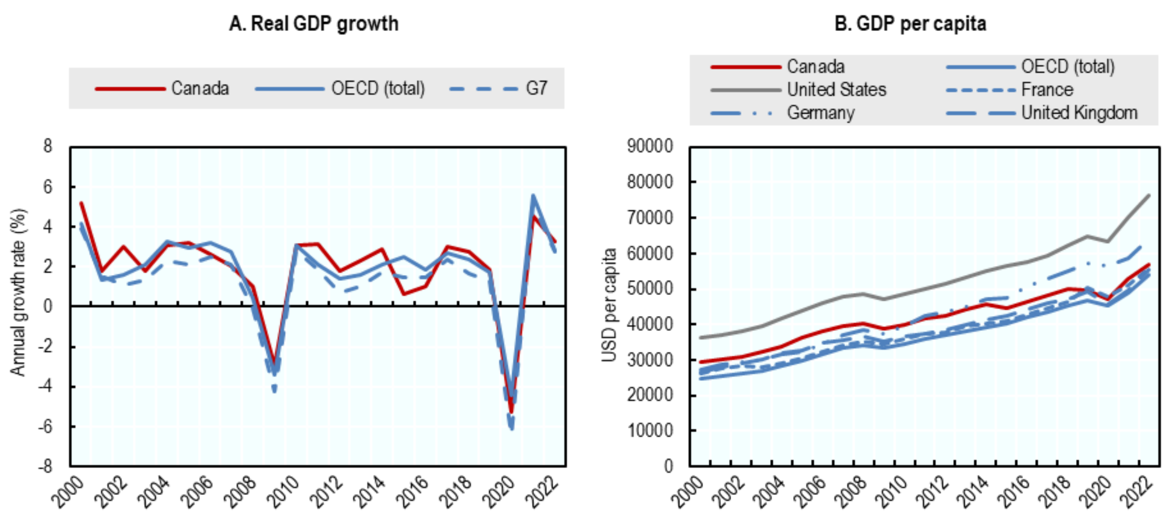
This chapter provides an overview of Canada's current state of sustainable development and discusses how FDI can contribute to Canada's sustainable growth. It provides a summary of key findings from the assessment of the impact of FDI on trade, productivity and innovation; employment, job quality and skills; diversity and inclusion of vulnerable groups; and the transition to a net-zero emissions economy.

1.1. FDI can support Canada's sustainable development trajectory

1.1.1. Canada faces several pressing sustainability challenges

The Canadian economy has recovered quickly after the COVID-19 crisis, with real GDP growth exceeding pre-pandemic levels in 2021 (Figure 1.1, Panel A) (OECD, 2023[1]). Yet, Canada is facing several pressing socio-economic and environmental challenges. These include weak productivity growth, significant labour market imbalances, persistent socio-economic inequalities, an ageing population, and the need to reduce net greenhouse gas emissions.

Figure 1.1. The Canadian economy has recovered rapidly after the recent shocks



Source: OECD National Accounts (2023[2]), https://stats.oecd.org/

In recent years, Canada's GDP per capita has grown in step with that of OECD countries, including several leading economies such as France and the United Kingdom. However, the gap with some G7 economies such as the United States and Germany has widened (Figure 1.1, Panel B), partly reflecting weak productivity performance. Canada's productivity measured in terms of GDP per hour worked is similar to the OECD average, but about 20% below the average of G7 countries. In recent years, the Canadian economy has demonstrated a limited ability to increase output through innovation (OECD, 2023[1]). Gross domestic spending on R&D, an indicator of the resources invested in R&D by all residents (companies, research institutes, university, government laboratories, etc.), accounts for only 1.7% of GDP in Canada, compared to the 2.7% OECD average and the 2.3% G7 average.

The labour market recovered rapidly after the COVID-19 crisis. Canada has one of the highest employment rates in the OECD area and among the G7 countries. Canada also has the most highly educated workforce in the world: 62% of the workforce aged 25 to an OECD average of 40%. The pandemic, however, has exacerbated existing skills shortages in several sectors, especially in medium-skilled occupations (e.g., electricians, mechanics) (OECD, 2020[3]). Canada also has a high percentage of workers who have a qualification or field of study that does not match the requirements of their job, also known as skill mismatches (38% compared to the 34% OECD average and the 32% G7 average) (OECD, 2020[4]). Such skills mismatches are particularly severe in manufacturing, wholesale and retail trade, and scientific services. In addition, in Canada as in the rest of the OECD and G7 countries, the ageing population poses a further challenge to sustainable growth due to strong pressures on public spending (Crowe et al., 2022[5]).

The demographic old-age dependency is expected to reach 45 in 2050 (meaning 45 individuals aged 65 and over per 100 persons of working age).

The pandemic has also exacerbated pre-existing socio-economic gaps within the population and highlighted the vulnerabilities of some disadvantaged groups in the labour market (OECD, 2021[6]). However, Canada took important steps including through new legislation (e.g. the 2021 Pay Equity Act) and leadership development programs that help address the remaining gender pay gap. In Canada, the difference between men's and women's median annual earnings relative to men's median annual earnings is 17%, compared to the OECD average of 12% and the G7 average of 15%. Indigenous people also remain marginalised in many socio-economic dimensions. For instance, labour force participation of Indigenous people is 7 percentage points lower than that non-Indigenous people. Canada has one of the largest shares of foreign-born population among OECD countries, particularly immigrants (i.e., foreign-born people with permanent resident status). Although immigrants contribute significantly to economic growth, recent immigrants in particular tend to have lower-skilled jobs than the Canadian-born even with the same educational qualifications (Statistics Canada, 2022[7]).

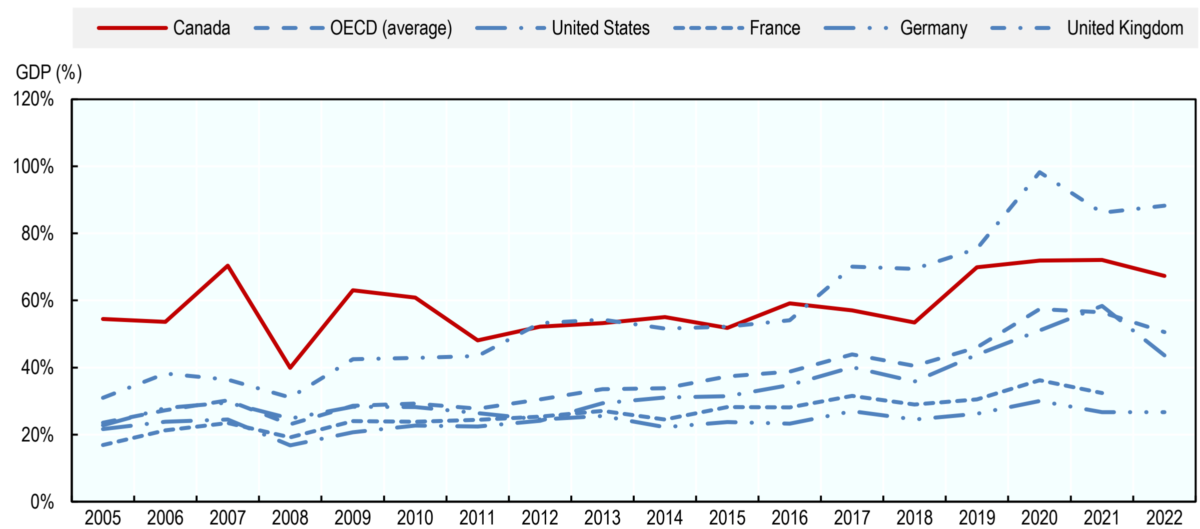
Canada has an ambitious plan to reduce 2005 levels of greenhouse gas (GHG) emissions by 40--45% by 2030 and has committed to achieving net zero emissions by 2050 (Government of Canada, 2023[8]). Its GHG emissions per capita are higher than the OECD average (15.6 tonnes of CO2 equivalent per capita, compared to an OECD average of 8.5 tonnes of CO2 equivalent per capita). Canada's current energy and economic profile presents both challenges and opportunities for achieving these environmental GHG reduction targets, given its status as a large energy producer, consumer and exporter. Energy is fundamental to the Canadian economy and is a major source of capital investment and trade flows, as well as a key generator of middle-class jobs, including for Indigenous peoples (IEA, 2022[9]). Canada is also a leader in the production of renewable energy, particularly hydropower, which is key to reducing GHG emissions. Renewable energy sources (excluding solid biofuels) currently provide about 13% of Canada's total primary energy supply, compared to about 8% in the OECD and 7% in G7 countries.

1.1.2. The importance of FDI and trade to the Canadian economy has increased in the past decades

Canada has historically been open to investment and trade. The importance of foreign direct investment (FDI) for Canada, as measured by the stock of FDI relative to gross domestic product (GDP), is well above the average for OECD countries and some leading economies such as the United States, Germany and France (Figure 1.2, Panel A). Similar to what has been observed in other countries, this ratio has increased over the last decade. In 2021, the ratio of FDI stock to GDP reached 72%, the highest value since the global financial crisis of 2008--09. Between 2021 and 2022, the ratio of FDI to stock decreased slightly (OECD, 2023[10]). In 2007, there was a strong surge in FDI flows in Canada, similar to that observed in many other countries. In Canada, this was mainly due to a series of cross-border M&As in the mining sector, stimulated by its strong economic growth, tax cuts and competitive business environment (UNCTAD, 2007[11]). Thereafter, FDI flows were largely stable and high (with a few outliers during crisis years), contributing to a growing importance of FDI for Canada's economy.

Figure 1.2. The FDI stock to GDP ratio has increased in the past decade

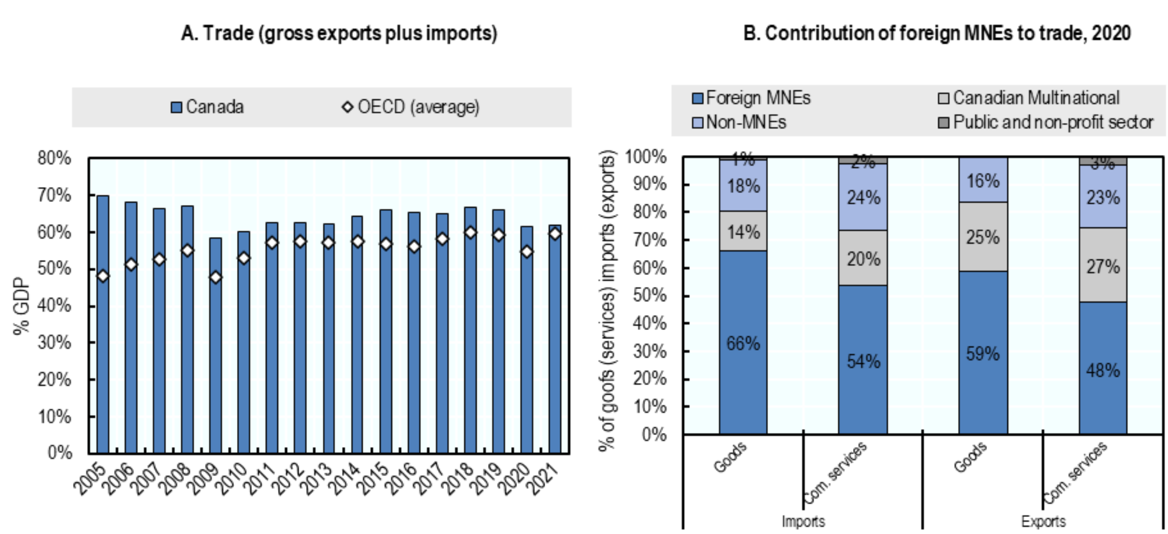
FDI stock to GDP (%)



Source: OECD FDI Statistics (2023[12]), https://stats.oecd.org/

Canada's reliance on international trade has also grown over the past decade. The ratio of trade (gross exports plus imports) to GDP has increased steadily since 2009, reaching 66% of GDP in 2019 (Figure 1.3, Panel A). This ratio declined slightly in 2020-21 in Canada as in many other countries due to the global pandemic and resulting disruptions in companies' operations and global supply chains (GVCs) (OECD, 2021[13]). Canada's increased openness to FDI and international trade are strongly linked. Globally, foreign multinationals are the main drivers of global value chains and are responsible for the majority of international trade flows. Foreign companies also contribute significantly to Canada's trade and integration in GVCs. Statistics Canada indicators show that foreign multinationals are responsible for most Canadian exports and imports of goods and commercial services (Figure 1.3, Panel B).

Figure 1.3. Foreign firms are an important driver of Canada's trade



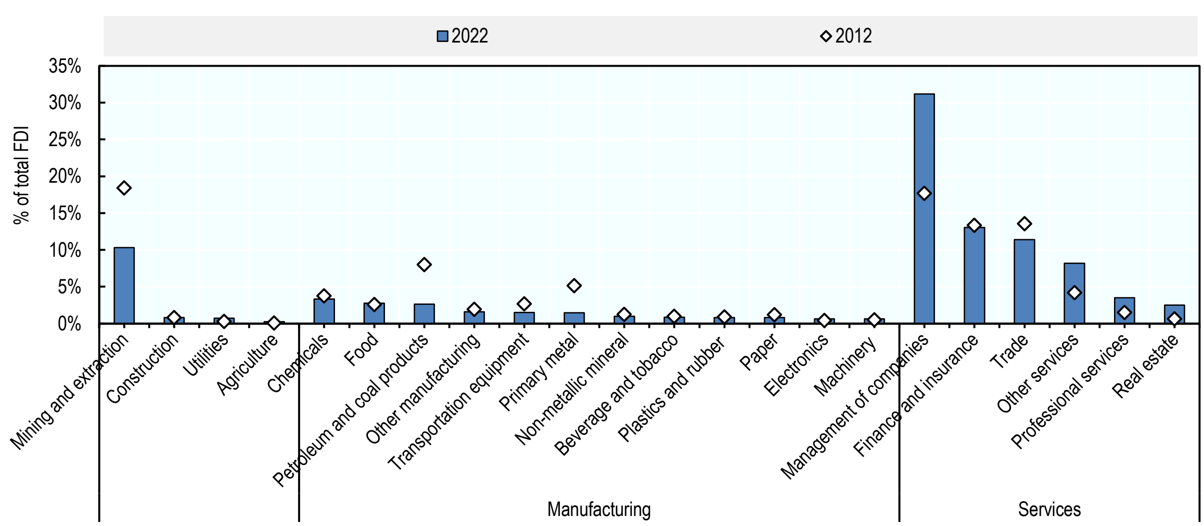
Source: OECD Trade in goods and services (2023[14]), https://stats.oecd.org/; Statistics Canada, Activities of MNE per type of multinational (2023[15]), https://www150.statcan.gc.ca/n1/en/type/data?MM=1

1.1.3. FDI is unevenly distributed across sectors…

A few sectors attract the majority of FDI in Canada. The FDI stock is mainly concentrated in services (70%), manufacturing (18%) and mining and oil and gas extraction (10%) (Figure 1.4). Within services, management of companies and enterprises holds the largest share (31% of total FDI), followed by finance (13% of total FDI) and trade (11% of total FDI). Over the past ten years, the share of investments classified in management of companies and enterprises has increased significantly, by about 14 percentage points. At the same time, investment shares in manufacturing and mining and oil and gas extraction have decreased by 11 and 8 percentage points respectively (although investment in absolute values increased in both sectors between 2012 and 2022). Management of companies and enterprises consists of head offices and special purpose entities (SPEs), such as holding companies. SPEs are set up to channel investments through an intermediary country and generally have no physical presence or activities in the host country. According to Statistics Canada, however, the role of SPEs in Canada is marginal and investments classified in this category are ultimately redistributed to corporate group companies associated with other sectors, such as mining, oil and gas extraction, and manufacturing (Government of Canada, 2022[16]). This implies that FDI shares for these sectors are likely to be underestimated.

Figure 1.4. The largest share of FDI stock is in services, particularly management of companies and enterprises

FDI positions by sector (NAICS)

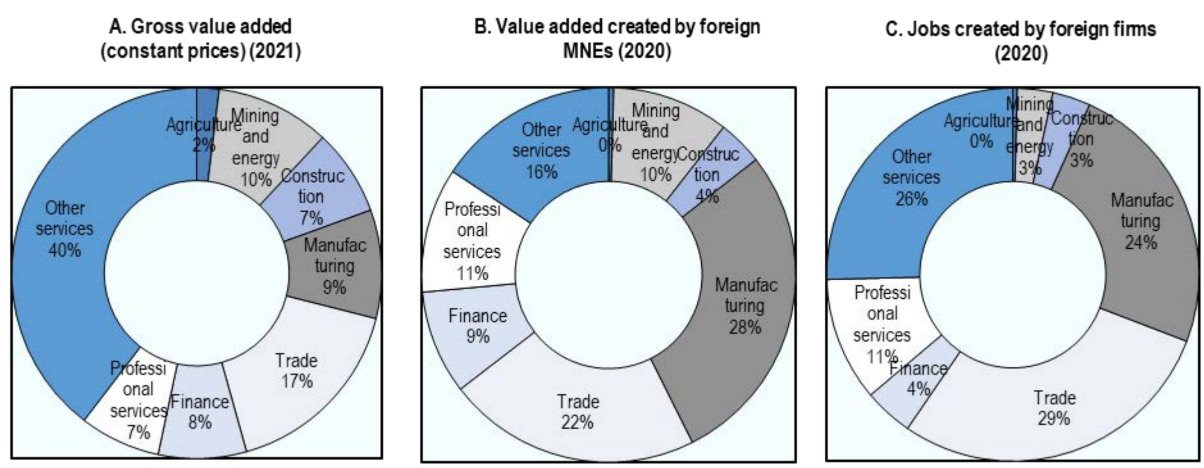


Note: Management of companies and enterprises includes head offices and special purpose entities (SPEs).
Source: OECD elaboration based on Statistics Canada, International investment position (2022[17]), https://doi.org/10.25318/3610000901-eng.

The contribution of FDI to economic activity (measured in terms of value added and jobs) also varies greatly among sectors. In 2020, foreign firms in Canada were responsible for approximately 15% of GDP and 13% of employment. The value added and jobs created by foreign firms mainly benefited services and manufacturing. Almost 60% percent of the value added and 70% of the jobs created by foreign firms were in the services sector, which is responsible for 71% of domestic economic activity (as measured by real domestic value added) (Figure 1.5, Panel B and C). 28% of the value added and 24% of the jobs created by foreign enterprises were generated in the manufacturing sector. This is a significant contribution considering that this sector is responsible for only 9% of economic activity in Canada (Figure 1.5, Panel A). About 10% of value added and 3% of jobs were created in the mining, and energy sector, while smaller contributions both in terms of value added and jobs were made in construction and agriculture.

The extent to which FDI influences the economic activity of the host economy also depends on the mode of entry of foreign investors. Greenfield investments (new establishment and expansions of foreign companies) are often associated with increased employment generation, particularly in manufacturing and services, and especially in the short term. According to data on greenfield FDI announcements from the Financial Times, the manufacturing sector (mainly transport equipment, electronics, food & beverages) received 33% of total announced greenfield FDI over 2003-22, and business support services received around 15% over the same period. These investments were responsible for 43% (manufacturing) and 33% (business support services) of total jobs associated with announced greenfield FDI in Canada (Figure 1.6).

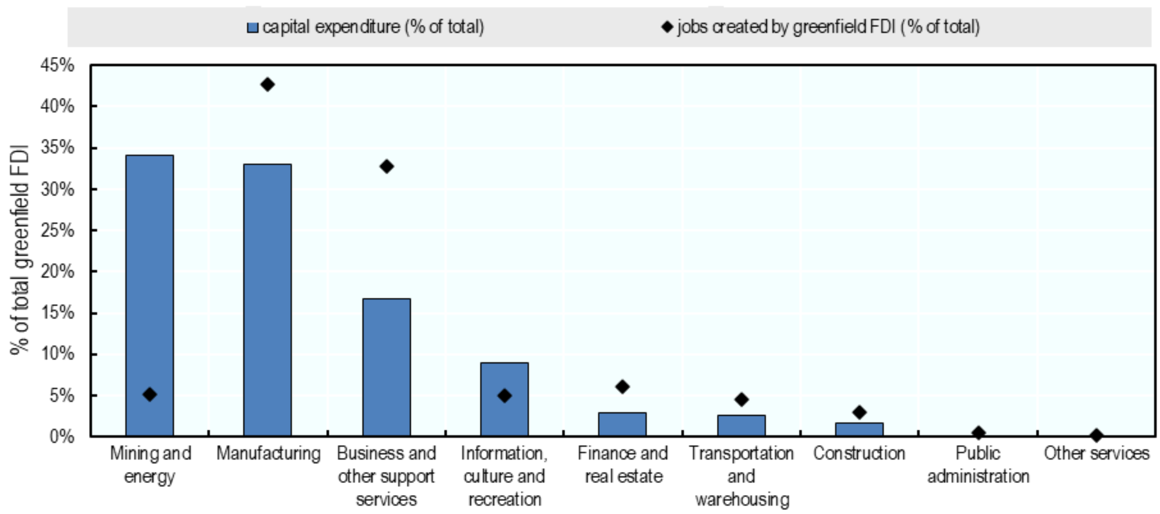
Figure 1.5. Foreign MNEs created the largest shares of value added and employment in services and manufacturing



Source: OECD elaboration based on Statistics Canada, Activities of MNE per type of multinational (2023[15]), https://www150.statcan.gc.ca/n1/en/type/data?MM=1, OECD National Accounts (OECD, 2023[2])

Figure 1.6. Most jobs created by greenfield FDI between 2003 and 2022 were in manufacturing and business and other support services

Cumulative capital expenditure and jobs of greenfield FDI over the period 2003-22



Source: OECD elaboration based on Financial Times (2023[18]), https://www.fdimarkets.com/

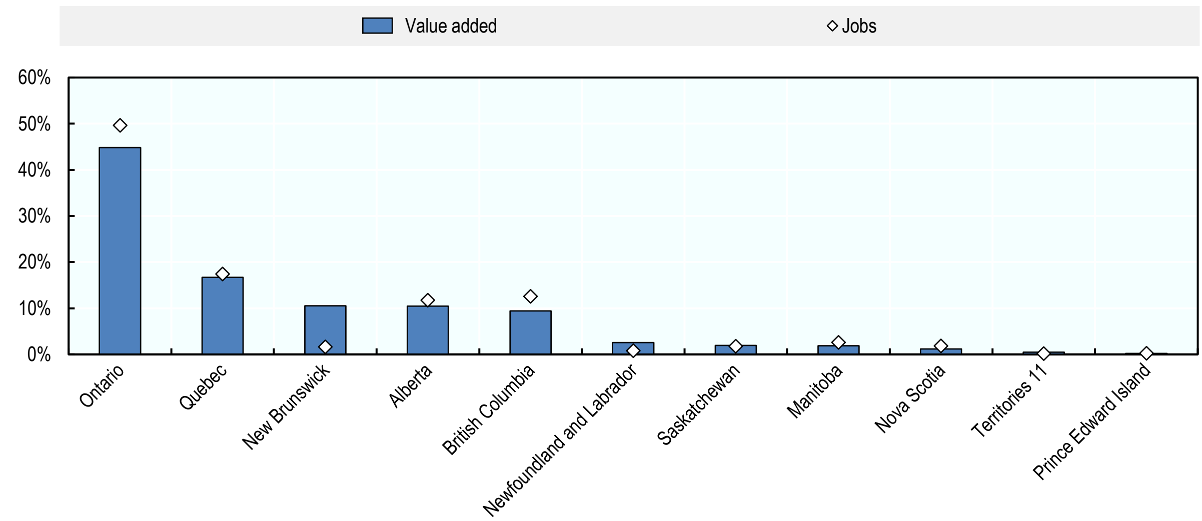
1.1.4. …and provinces

According to Statistics Canada data, about 90% of value added generated by foreign multinational enterprises in Canada is concentrated in five provinces: Ontario (45%), Quebec (17%), New Brunswick (11%), Alberta (10%), and British Columbia (9%), (Figure 1.7). A similar distribution across provinces is found when looking at announced greenfield FDI data from the Financial Times. Significant geographical concentration of FDI is not unique to Canada and is observed in most OECD countries. FDI tends to concentrate near major economic centres (Toronto, Vancouver, Montreal, Edmonton, Calgary), which tend to have better infrastructure and services and where many suppliers and buyers are located. Moreover, Ontario, Alberta, British Columbia and Quebec also account for the largest share of population and economic activity in Canada.

The jobs created by foreign multinational enterprises are also concentrated in the same regions (except New Brunswick). 50% of the jobs are in Ontario, 17% in Quebec, 13% in British Columbia and 12% in Alberta. Only about 8% of jobs created by foreign firms are located in other regions. Looking at Financial Times data, however, greenfield FDI has created more jobs per US dollar invested in New Brunswick, Nova Scotia and Manitoba. This is due to several investment projects in business services (particularly companies providing costumer support services), software and IT services, and transport and logistics, which have created a significant number of jobs in these provinces as also revealed in the OECD business consultation for this study.

Figure 1.7. Activities of foreign multinational enterprises are concentrated in Ontario, Alberta, British Columbia and Quebec

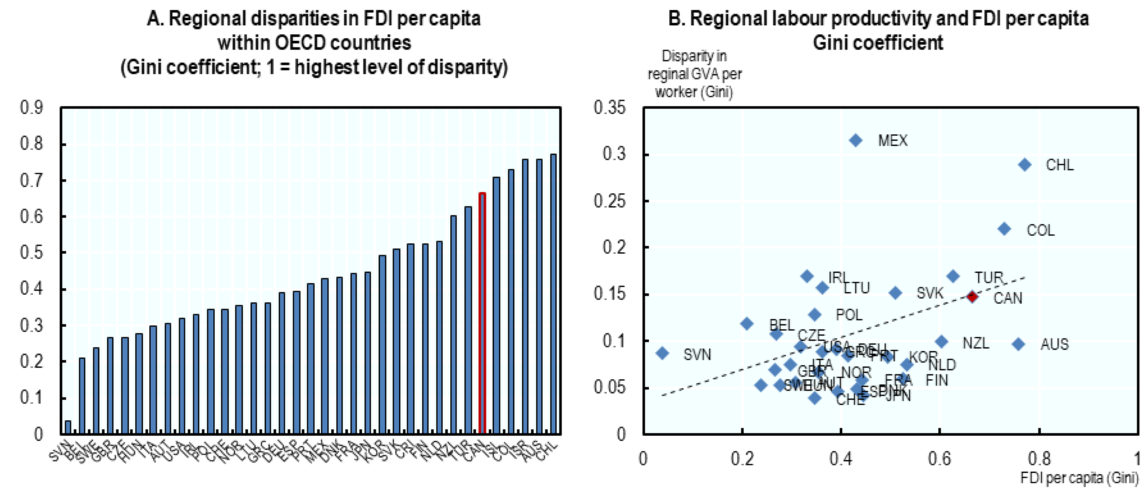
Activities of foreign multinational enterprises by province (2020) Greenfield FDI expenditure and jobs (% of total greenfield FDI expenditure/jobs created by greenfield FDI)



Source: OECD elaboration based Statistics Canada, Activities of MNE per type of multinational (2023[19]), https://www150.statcan.gc.ca/n1/en/type/data?MM=1 Financial Times (2023[18]),

Regional (or inter-provincial as in the case of Canada) disparities in FDI tend to be higher in Canada than in other OECD countries. The Gini coefficient calculated based on greenfield FDI per capita provides a useful measure of FDI disparities between regions or provinces in a country, which takes into account differences in population levels (OECD, 2022[19]). The coefficient ranges from 0 (perfect equality in the regional distribution of FDI per capita) to 1 (perfect inequality). The indicator shows that in Canada FDI per capita is more unevenly distributed than in most OECD countries (Figure 1.8, Panel A). Such disparities appear to be related to regional productivity differences, explained by the concentration of FDI in few places with high productivity but low population such as regions with natural resources (Figure 1.8, Panel B). As such, revealed regional disparities of FDI and productivity reflect differences in sectoral compositions among provinces. Moreover, Canada's extensive geographical size, combined with a relatively low population, further contributes to the uneven distribution of FDI across the country

Figure 1.8. Canada' high provincial disparities in FDI per capita are associated with regional productivity differences



Note: For more details on the calculation of the Gini coefficient for FDI per capita, see OECD (2022[19]).
Source: OECD elaboration based on Financial Times (2023[18]), https://www.fdimarkets.com/; and OECD Regional Database (2023[20])

1.2. Impacts of FDI by areas of sustainable development

1.2.1. Foreign firms support trade, are on average more productive and innovative, and create extensive linkages with Canadian firms

FDI is an important driver of Canada's trade and integration into GVCs. A significant share of FDI in Canada, particularly greenfield FDI, is attracted to export oriented sectors such as mining and energy (including metals), ICT and electronics and transport equipment. Moreover, foreign multinational enterprises (MNEs) in Canada are responsible for a significant share of merchandise exports and commercial service exports (in 2020, about 60% of merchandise exports and close to 50% of commercial service exports). Foreign firms are also more involved in GVCs than domestic firms, especially in terms of backward linkages.

Overall, foreign firm activity in Canada is concentrated in sectors with lower labour productivity levels. However, affiliates of foreign MNEs (henceforth simply foreign firms or foreign companies) are on average more productive than domestic firms in most sectors of the economy. Productivity levels among domestic Canadian firms within sectors are likely to vary significantly, which is not analysed in this report. It is likely that larger domestic firms have productivity levels that are similar to those of foreign firms, while smaller firms have typically lower productivity levels. The foreign premium is especially large in finance and insurance, construction and utilities, where foreign MNEs are 50% more productive than domestic firms. Foreign companies are also an important catalyst for innovation in Canada. On average, foreign multinationals have a higher R&D intensity than Canadian firms. The results of an OECD business consultation conducted for this study (Box 1.1) show that foreign firms engage more often in innovative activities, particularly in product and process innovation and joint product development with other firms. This foreign premium in relation to R&D appears to be particularly high in the professional, scientific and technical sectors and in the information and culture industries. Moreover, over 2018--22, R&D investments made up the bulk of greenfield FDI in creative industries (91%), financial services (42%) and ICT and electronics (34%).

Value chain linkages between foreign MNEs and domestic firms, i.e. when foreign MNEs buy or sell goods and services from/to domestic firms, can be an important channel for knowledge and technology transfer and encourage positive productivity spillovers. Foreign firms established in Canada source a considerable share of their inputs from the domestic market, particularly from Canadian non-MNEs (about 40% of total inputs in 2016), similar to what has been observed for other large open economies such as the United States, the United Kingdom, France and Italy. In contrast, while over 60% of the output of foreign firms in Canada feeds back into domestic value chains, only 22% is used as input by domestic non-MNE firms, a lower share than observed in several large OECD economies (24% in the United States; 31% in Australia for example).

Canadian firms, particularly SMEs, appear to have the capabilities to become successful suppliers and partners to foreign MNEs and absorb the knowledge, skills and technologies that FDI brings to the host economy. Canadian SMEs appear to be more engaged in product and business process innovation than many peers in economies such as Australia, the United States, Japan and the European Union. Among Canadian firms, smaller ones have a higher R&D capacity (21% of R&D expenditure and 25% of R&D personnel). However, the digital capacities of Canadian SMEs appear to lag behind that of peer OECD economies, including with regard to the use of Artificial Intelligence and cloud computing services as well as the provision of ICT training to their employees, pointing towards potential weaknesses in fostering strategic partnerships with technology-intensive investors.

Policy efforts to diversify the type of FDI that Canada attracts towards high-productivity and R&D-intensive sectors and activities could continue and be scaled up further. Canada can play an important role in strengthening the contribution of FDI to productivity and innovation by developing investment promotion tools and processes to target and prioritise investments with higher technological intensity. Canada could also consider facilitating market access to FDI that may limit its positive impact on productivity growth, innovation, and integration in GVCs. Canada could collaborate with federal and provincial government agencies responsible for innovation and entrepreneurship development to help design supplier development programmes in line with investors' needs and strengthen the productive and innovative capacities of Canadian firms, in particular SMEs. Policy efforts could also focus on facilitating knowledge-intensive investments from already established foreign MNEs, by developing ties with universities, applied research institutions, science and technology parks; participating in entrepreneurial networks; and establishing open innovation infrastructures.

Box 1.1. The OECD consultation on the sustainability practices of foreign and domestic companies in Canada

The assessment of the impacts of FDI in Canada draws on the qualitative insights from an OECD business consultation on the corporate sustainability practices of a group of domestic and foreign companies. The consultation was conducted in 2022 in collaboration with Invest in Canada. It involved an online survey and telephone interviews of 23 Canadian companies and 33 foreign companies with operations in Canada, selected to be representative of a variety of industries, company sizes and countries of origin. The sample of Canadian firms include large firms and SMEs, but we have no information on whether or not these firms are MNEs themselves, i.e. whether or not they have investments abroad.

The survey contains questions related to four sustainability clusters, namely (i) trade, productivity and innovation; (ii) employment, job quality and skills; (iii) diversity and inclusion of vulnerable people (women, Indigenous peoples, people with disabilities, and foreign workers); (iv) and low-carbon transition. The questions are based on the conceptual framework and measurement methodology developed under the OECD FDI Qualities Initiative and build on the experience of other business consultations conducted by the OECD in similar studies.

It is important to keep in mind that the consultation is not based on a representative sample of companies and therefore does not allow for generalisation of the results to the entire population of companies operating in Canada. It offers original information on company practices in four areas of sustainability – including job quality, skills, diversity and inclusion, and the low-carbon transition – for which company-level information from official statistical sources is scarce or difficult to access. The findings of the consultation are used throughout the study to complement other statistical information and enrich the assessment with qualitative insights and examples of sustainable development practices by foreign companies in Canada. Annex 1.A provides further information on the methodology of the consultation and summary statistics on the group of companies that participated in the consultation.

Source: OECD (2019[21]), FDI Qualities Indicators: Measuring the sustainable development impacts of investment, https://www.oecd.org/fr/investissement/fdi-qualities-indicators.htm; OECD (2022[22]), FDI Qualities Policy Toolkit, https://doi.org/10.1787/7ba74100-en.; OECD (2021[23]), Investment Policy Reviews: Thailand, https://doi.org/10.1787/c4eeee1c-en.; OECD (2021[24]), The Impact of Regulation on International Investment in Finland, https://doi.org/10.1787/b1bf8bee-en.

1.2.2. Foreign firms create more quality jobs and contribute to upskilling, but persistent skill imbalances limit the benefits of these job opportunities

Foreign firms contribute importantly to job creation in Canada. They employed about 13% of the workforce in 2020, despite representing less than 1% of the total population of firms. Their contribution to job- creation differs across sectors, provinces and occupations. Most jobs are in manufacturing, wholesale and retail trade, and services related to IT and R&D. The bulk of jobs created by FDI is concentrated in the province of Ontario (see Sections 1.1.3 and 1.1.4). Many of these jobs are created in high-tech and knowledge-intensive activities and are likely to be well-paid – 25% of jobs created by greenfield FDI in the past 20 years were in software and IT ((Financial Times, 2023[18]).

Foreign firms in Canada have a mixed impact on job quality, such as wages, job security and employer-worker relations. The OECD business consultation conducted for this study provides anecdotal evidence that foreign firms may pay on average higher wages than domestic firms and have a lower proportion of workers with temporary and part-time jobs (Box 1.1). This finding would need to be confirmed with more representative data on job quality at the firm level. For example, the sector of activity of foreign and domestic firms matters: Foreign firms are key employers in the retail trade sector, where job tenures are relatively low. Job quality, particularly of vulnerable groups, is also affected by workers' voice arrangements and collective bargaining, for which coverage rates have been falling in sectors where large foreign firms operate. Furthermore, the sample of domestic firms includes large firms and SMEs but no information is available on whether or not they are MNEs themselves. It is likely that practices and conditions related to job quality vary depending on the type of domestic firms. The business consultation conducted for this report does not allow to make this distinction.

Canada has the most educated workforce in the OECD area, which is a major attractiveness factor for FDI that can itself support upskilling for the digital and green transitions. However, large foreign employers in Canada face significant skills imbalances – a combination of skills shortages and mismatches – in tech-related industries and in skilled tradespeople, potentially affecting Canada's attractiveness to FDI. Aligning the investment promotion, employment and skills development strategies will help ensure that labour demand generated by foreign firms in promoted sectors is met with available and adequately trained labour to realise the contribution of FDI and limit potential adverse impacts. This also requires improving data collection and integrating FDI, as a forward-looking indicator of future skill needs, into skill anticipation mechanisms.

Foreign MNEs in Canada are less severely affected by skill shortages than domestic firms as they rely on their larger size and global experience to deploy more sophisticated strategies to scout talent and train their workers. They can mobilise specialised talent from their headquarter or other subsidiaries to facilitate their establishment in markets facing severe skill shortages and can provide global networking and mentoring opportunities and classroom and curriculum-based training. They also often partner with Canadian colleges and universities to provide technical apprenticeships or work-integrated learning opportunities. Further facilitating partnerships between foreign firms and education providers and encouraging new investors to transfer specialised staff from other subsidiaries in early stages of their operations could contribute to lowering skill imbalances.

1.2.3. FDI is prevalent in sectors where vulnerable workers are less likely to work and foreign firms have a less diverse workforce than Canadian firms

A workforce that is representative of people of all genders, sexual orientations, ethnicities, races, religions and abilities is not only ethically desirable, but also offers a variety of talents and perspectives, which can positively impact business performance and productivity. Inclusion of vulnerable groups is a key value and an important policy priority for the Government of Canada (Government of Canada, 2022[25]). FDI in Canada is prevalent in sectors with less participation of vulnerable groups. These are the primary sectors, particularly mining and oil and gas extraction, business and support services (i.e. management of companies and enterprises), manufacturing, finance and trade. Less than a third of women and just over a third of Indigenous peoples, people with disabilities and immigrants work in these sectors. On the contrary, these categories of workers are over-represented in sectors –such as health and social care, educational services, wholesale and retail trade, and public administration – that benefit less from FDI. Improving the representation of these vulnerable groups where Canada attracts or wants to attract more investment (high-tech and R&D-intensive sectors, green sectors, etc.) is crucial to ensure that the job opportunities created by foreign investors benefit all segments of the population.

The OECD business consultation conducted for this study indicates that Canadian companies are more aware of the importance of having a diverse workforce. While foreign and domestic companies have on average a comparable share of vulnerable employees, domestic companies have a higher share of women, Indigenous peoples, and persons with disabilities. On the other hand, foreign companies have a higher share of foreign workers (i.e., foreign nationals with permanent resident status or study/work-visa status).[1] Canadian companies also have a higher proportion of women, Indigenous peoples and persons with disabilities among their managers and are more likely to use inclusive workplace practices (e.g. inclusive hiring strategies, diversity training) than foreign companies. However, the survey reveals that the foreign companies attach more importance to employee training. A higher proportion of foreign companies offer formal training and foreign companies have on average higher percentages of employees from vulnerable groups who have received training, compared to Canadian companies. In addition, a higher percentage of foreign companies have female representation in ownership, although further analysis indicates that this appears to be related to company size, sectors and origin of foreign companies.

Overall, the survey results show that values of diversity and inclusion of vulnerable people are more ingrained in the corporate culture of Canadian companies. Conveying the importance of these values to foreign companies, for example through information campaigns, initiatives, and events, is important to improve the contribution of foreign companies on diversity and inclusion. Another policy consideration involves giving priority to investments by foreign companies that exhibit a commitment to promoting inclusion among vulnerable workers. This can be achieved, for instance, by integrating diversity objectives into existing investment incentive programs.

1.2.4. FDI has the potential to accelerate the green transition in Canada

Canada has an ambitious plan to reduce the economy's net emissions to zero by 2050. As economic activity in Canada remains carbon- and energy-intensive, a plan to mitigate the impact of climate change on the most vulnerable population groups and to significantly reduce emissions will be necessary to honour international climate commitments. Foreign investors can play a key role in Canada's green transition by investing in low- and zero -emission technologies and transferring knowledge and technologies to domestic companies through supply chain relationships, market interactions and labour mobility.

In recent years, the country has made progress in phasing out coal-fired power while expanding renewable energy capacity, generating more than 80% of its electricity from non-emitting sources. However, the Canadian economy remains carbon-intensive due to oil and gas extraction, road transport and residential heating, which still account for 61% of Canada's greenhouse gas emissions. Electrification of key sectors such as transport, buildings and industry, and the upgrade of the electricity grid will be crucial for Canada to meet its environmental goals. Canada is a global leader in the development and deployment of new low- and zero emission technologies, with potential applications across a wide array of carbon-intensive industries that have been challenging to decarbonise, such as steel, cement, and heavy transport. Further advancement of these technologies will be critical in meeting the objectives of the Paris Agreement.

Foreign direct investment (FDI) can provide the financial and technological resources needed to accelerate Canada's green transition, but FDI in Canada remains concentrated in relatively more carbon-intensive activities compared to domestic investment, especially in mining, chemicals, and pharmaceuticals value chains. Moreover, the stock of FDI in green technology is low compared to other OECD countries and green FDI inflows have been very volatile over the past decade. At the same time, fossil fuels still account for a large share (about 84%) of FDI in the Canadian energy sector, and investments in green R&D are small compared to FDI in other forms of R&D. This indicates that there is still ample scope for improving the contribution of FDI to de-carbonisation in Canada. Nevertheless, the OECD business consultation reveals that foreign companies are more likely to invest in green technology training than domestic ones, contributing to the development of the skills needed for the green transition.

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Annex 1.A. The OECD business consultation on sustainability practices: methodology and summary statistics

A consultation on the sustainable practices of Canadian and foreign companies operating in Canada was conducted by the OECD in collaboration with Invest in Canada from October to November 2022. The consultation consisted of an online questionnaire (30 questions) and a 30-minute telephone interview. 24 Canadian and 33 foreign companies participated in the consultation. A foreign company is a company resident in Canada of which an investor resident in another economy owns, directly or indirectly, 10% or more of the voting power.

Some companies were contacted from a list provided by Invest in Canada. Others were contacted through Business at OECD (BIAC), chambers of commerce, foreign embassies and consulates, trade and investment offices in Canada, as well as directly through companies' contact information available on their websites (via e-mail or telephone). The companies were selected taking into account various criteria, in particular a diverse selection of size, sector, geographical distribution within Canada and, in the case of foreign companies, their country of origin and date of entry into the Canadian market.

The questionnaire is structured in five sections:

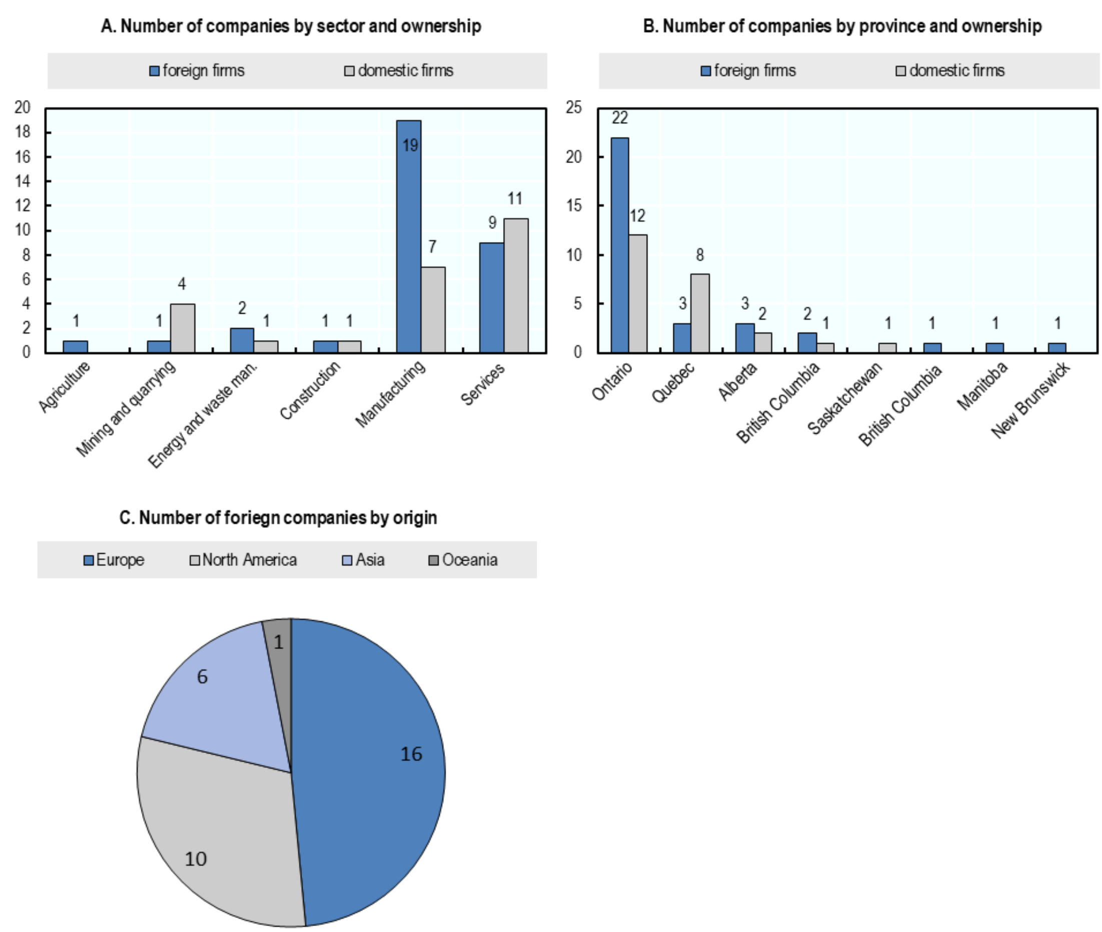
1. **General information:** it includes questions on the company name, sector, location, ownership and total annual turnover;
2. **Employment, job quality and skills**: it includes questions on number of employees, cost of labour, type of contract (e.g. full time permanent, part-time), skills distribution and training practices; the skills distribution included three levels:
    a. High-skilled: employees whose tasks require extensive theoretical and technical knowledge. For example, engineers, lawyers, technicians.
    b. Mid-skilled: employees whose tasks require some level of skills and training. For example, clerical support workers, sales workers, machine operators and assemblers.
    c. Low-skilled: employees whose tasks require no specific skills and training. For example, agricultural forestry and fishery labourers, construction workers.
3. **Diversity and inclusion**: it includes questions on vulnerable employees (women, Indigenous peoples, immigrants and foreign workers/students, and people with disabilities), such as numbers of employees among these groups of workers, number of managers, number of employees who received training, and on the diversity and inclusive workplace practices of companies;
4. **Carbon footprint and energy transition**: it includes questions on sustainability staff, green training, environmental certifications, strategic objectives and targets, recent environmental audits, and recent adoptions of various environmental measures;
5. **Trade, GVC integration, productivity and innovation**: it includes questions on recent innovation activities, partnerships with domestic firms on joint product development and/or service provision (including on R&D partnerships, size of partner firm, and staff exchanges), and supplier training;

Companies were sent an e-mail invitation to participate in the consultation and a link to the online questionnaire. After completing the survey, companies were invited to participate in a 30-minute telephone interview whose objective was to gain a deeper perspective of their practices and activities in these areas of sustainable development. Interview participants included CEOs and general managers, as well as corporate heads of sustainability, communications, innovation, accounting and human resources.

Since the sample of companies surveyed is not representative of the entire population of Canadian and foreign companies operating in Canada, the analysis and indicators derived from the survey must be interpreted with care. Information is used in the report to add anecdotal evidence and to supplement the analysis of quantitative information from official statistical sources, especially in areas where statistical information tends to be scarce or difficult to access.

Most of the companies surveyed operate in the manufacturing and service sectors (Annex Figure 1.A.1, Panel A). Within manufacturing there are companies in the pharmaceutical, automotive, other transport, chemical, food and electronics sectors. Companies in services operate in professional and administrative services, retail trade, information and communication, and financial and insurance activities. In the mining and quarrying sector, there are companies involved in oil and gas and metal extraction. Companies in the energy sector deal with green energy and waste management, while the construction sector includes two companies that are involved in infrastructure and construction. Finally, the company in the agricultural sector is an agro-technical company.

Annex Figure 1.A.1. Distribution of firms by sector, province and origin

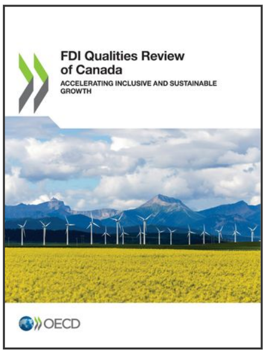


Source: OECD (2022[26])

Most of the firms which participated in the consultation are headquartered or have their Canadian subsidiary in Ontario (Annex Figure 1.A.1, Panel B). Quebec, Alberta and British Columbia, are the second, third and fourth more represented provinces, respectively. Only a minority of companies are located in Saskatchewan, Manitoba, and New Brunswick. Approximately half of foreign companies are headquartered in Europe (Austria, Denmark, Finland, France, Germany, Ireland, the Netherlands, Spain, and the UK). Ten companies come from north America, seven of which from Canada's largest FDI contributor, the US. A smaller number of companies are from Asia and Oceania, namely India, Japan, Korea, New Zealand, Taiwan, and the United Arab Emirates.

Notes

[1] Foreign workers include immigrants (i.e. people born outside Canada with permanent resident status), and temporary foreign workers (i.e. people on temporary work or study visas or who have applied for refugee status). Not all foreign workers can be considered 'vulnerable' workers and some of them may be highly educated and have well-paid jobs.



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