"A NEW PARTNERSHIP WITH THE EU: CETA AND DIGITAL FDI OPPORTUNITIES FOR CANADA"
STUDY OVERVIEW

STUDY SCOPE

A New Partnership with the EU: CETA and Digital FDI Opportunities for Canada focusses on the prospects and challenges for attracting digital tech Foreign Direct Investment (FDI) to Canada.

It provides insights into Canada’s regional tech ecosystems from coast to coast, the European Union’s digital and high-tech priorities, and EU country profiles.

Drawing upon primary research consisting of 37 interviews with tech business leaders across the European Union, this study also explores the following:

- Critical sentiments and willingness of European businesses to invest in Canada
- The role of CETA (Canada-European Union Comprehensive Economic and Trade Agreement) in spurring investment
- Recommendations for improving Canada’s FDI strategy.

CONTEXT

Canada’s GDP exceeded US$1.8 Trillion in 2019, ranking Canada as the 10th largest economy in the world. The European Union’s GDP is tenfold this size at US$18 Trillion. It represents one of the largest global economies and a significant opportunity for Canada’s tech industry.

FDI represents 52% of Canada’s total GDP in 2018, which is among the highest FDI percentages among OECD countries. Canada has historically been successful in attracting
resources-sector investment (notably for oil and gas development).

Recent escalation of global trade tensions and geopolitical conflicts underscores Canada’s need to diversify its FDI-attraction strategy. CETA, ratified in 2017, represents a strong opportunity for diversification.

CETA includes the following provisions:

- Eliminates approximately 98% of the duties between Canada and the EU
- Supports for cross-border investment
- Access to government procurement markets
- Enhanced worker mobility
- Improved protections for intellectual property

**STUDY FINDINGS**

Canada has become a top international jurisdiction for European tech-focused FDI. Canada’s advantages include the following factors:

- Strong consumer purchasing power
- Availability of skilled talent
- Trade openness
- Proximity and access to U.S. and Latin American markets under free trade agreement
- CETA free trade agreement in place

The combination of these advantages has earned Canada an almost identical “investment attractiveness score” to that of the U.S., and far above Mexico. Over the past five years, tech FDI from the EU has grown by 130%.

In 2018, European FDI to Canada shifted from traditional resource-extraction sectors to other economic areas, such as lean manufacturing, clean technologies, chemicals, and food manufacturing.

**CHALLENGES TO FDI**

These are the top 3 identified challenges to European tech FDI to Canada:

- Insufficient knowledge or information related to government support and incentive programs
- High cost of living in the most attractive cities for FDI
- Government regulation and protectionism, particularly in sectors like telecommunication
Other factors discouraging investment included the small size of the Canadian market and the 2019 trade uncertainties with major Canadian trading partners such as the U.S. and China.

**OPPORTUNITIES FOR ATTRACTING FDI FROM EUROPE**

Many interviewed EU tech leaders said Canada lacked “visibility” as an investment destination compared to some other jurisdictions. As one pointed out, “Unknown is unloved.”

Of the three top challenges, Canada can immediately take steps to improve its marketing of Canada’s advantages. Part of this effort should focus on creating better awareness of Canada’s regional strengths and collaborative efforts to strengthen various tech ecosystems.

An example is the Government of Canada’s $950 million Innovation Superclusters Initiative, which is projected to create more than 50,000 jobs and $50 billion in GDP over the next 10 years.

Canada’s regional superclusters are relatively well known domestically, but few interviewed EU tech leaders were aware of them.

**Superclusters Summary**

Currently five regional Superclusters represent more than 450 businesses, 60 post-secondary institutions, and another 180 participants in this sector grouping.

- Digital Technology Supercluster: (British Columbia) Engaged in virtual, mixed and augmented reality, big data analytics, quantum and cloud computing, and machine learning.

- Ocean Supercluster: (Atlantic Canada) Harnesses emerging technologies such as autonomous marine vehicles, marine engineering and biotechnologies to strengthen Canada’s ocean sector—also includes marine renewable energy, fisheries, aquaculture, oil and gas, defence, shipbuilding, and transportation.

- Protein Industries Supercluster: (Prairies) Applies agri-food technologies in the production of plant protein and plant-based coproducts.
Recognized by FDI Magazine as a top location for FDI
Highly skilled workforce, vibrant startup community, numerous specialized R&D centres
In 2017, attracted over $2 billion in foreign direct investment, 40% of it in the digital sector—notable arrivals are Facebook and Google
Home to leading global experts in artificial intelligence
Based on the primary research, Montreal is perceived as a good fit for companies in Digital Industries (especially those investing in AI), and in Life Sciences (particularly R&D). Montreal offers ready access to skilled talent, a relatively low cost of living, and high quality of life

Quebec City (pop. 817,400)
- Over 500 high-tech companies, generating nearly $2 billion annual revenue
- State-of-the art research centres with supports for technology entrepreneurs
- Canada’s highest ratio of researchers to population, more than 5,500 researchers; 400 laboratories, research centres and institutes; 120 R&D companies; five universities
- Based on the primary research, Quebec City is of interest to EU investors, particularly those in Life Sciences. Of interest to French-speaking countries and those building out their research and product development capacity. The city offers a highly skilled workforce, a high quality of life and an even lower cost of living than Montreal.

TOP 6 CANADIAN LOCATIONS FOR TECH-BASED EU INVESTMENT

Better promotion of Canada’s tech centres could lead to more FDI from the EU. Here is a snapshot of these Canada’s major tech hubs:

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Next Generation Manufacturing Supercluster: (Ontario) Incorporating advanced technologies in product development and process design in manufacturing sector—includes machine learning, advanced robotics, and 3D printing.

AI-Powered Supply Chains Supercluster: (Quebec): Integrates manufacturing, transportation, and tech sectors in creating intelligent supply-chain networks primarily through the application of artificial intelligence and robotics technology.

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Ottawa (pop. 1,074,500)
- Top Canadian city for adults aged 25 to 64 with a bachelor’s degree or higher (43.5% in 2016)
- Almost one-tenth of the workforce is employed in technology-based roles
- Considered one of the most technology-intensive cities in Canada
- Leader in autonomous vehicles, telecommunications, and digital media
- Home to companies such as Mitel Networks Corporation (telecom) and Shopify
- Internationally recognized centre for R&D, with more than 90% of Canada’s telecommunications-related research
- Based on interviews with EU investors, Ottawa is perceived to be a good fit for companies in digital industries, especially in telecom and ICT manufacturing

Toronto (pop. 6,341,900)
- Largest Canadian tech hub, referred to as the Silicon Valley of the North
- One of the most significant clusters of mobile app companies in North America
- Despite Montreal’s focus on AI, Toronto has the highest concentration of AI startups in the world
- Also strong in fintech, blockchain, smart cities development, media and entertainment
- According to interviewees, Toronto is a good fit for all tech sectors, with proximity and access to other markets, and availability of skilled and diverse talent. High cost of living and labour are downsides

Waterloo (pop. 567,700)
- Ranked among the top 20 technology clusters in the world
- University of Waterloo has one of the best co-op programs in North America and collaborates with over 7000 employers
- The city specializes in AI, big data, fintech, advanced manufacturing and robotics
- Home to Blackberry, D2L, VueReal
- Communitech is a public-private innovation supporting a community of more than 14,000 companies, ranging from startups to large global players
- Based on interviews, Waterloo is a good fit for Advanced Manufacturing and Digital Industries

Vancouver (pop. 2,650,000)
- Canada’s third-largest city, aka “Gateway to the Pacific”
- Known for high-tech industry, film and entertainment, and natural resources
- The Digital Technology Supercluster is based in Vancouver, with more than 60 visual effects (VFX) and animation studios
- Branch offices of Microsoft, Amazon, Sony, Lucasfilm
- Proximity to Seattle and Silicon Valley adds appeal as a destination for FDI
According to interviews, Vancouver is a good fit for companies in Digital Industries and Media and Entertainment, particularly video-game development and data visualization. Labour costs lower than Toronto, but an even higher cost of living.

A New Partnership with the EU also describes a dozen other Canadian cites—Victoria, Calgary, Winnipeg, London, Halifax and others.

**EU Digital and Technology Priorities**

- Canadian tech business looking to the EU for expansion should be aware that Europe has significant initiatives for growing a sustainable and competitive economy, including the €77 billion Horizon 2020 R&D initiative.

- EU key digital sub-sector strengths include the following:
  - **Digital Industries**—in 2018, more than one in 10 EU enterprises analyzed big data, more than one in four used cloud computing services, one in five reported making electronic sales.
  - **Advanced Manufacturing**—the second-largest contributor to the EU economy, comprising 2.1 million enterprises, over 30 million people, contributing approximately 15% of EU’s GDP.
  - **Life Sciences**—the study of living organisms, a subsector spread across agriculture, forestry, food, energy, chemical, health and the bio economy.
  - **Clean Technologies**—the EU is on track to produce 20% of its energy from renewable sources by 2020, set to grow to 32% by 2030.
  - **Media and entertainment**—increasingly influenced by emerging technologies such as 3D, Virtual Reality (VR), and Augmented Reality (AR), as well as disruptive ICT technologies such as IoT, Big Data, 5G, and others. The European video games market was worth over €21B in 2018.

**EU Country Profiles**

Opportunities for Canadian tech FDI in Europe also requires an understanding of regional European strengths. Here is a brief summary:
GERMANY: Digital Industries, Advanced Manufacturing, and Media & Entertainment. The German ICT market is the fifth largest in the world. In 2018, Germany was ranked the most innovative economy globally by the World Economic Forum.

- Specific market opportunities include fintech (fourth largest fintech market in the world), big data, cloud services, cybersecurity, AI, and other digital services

FRANCE: Digital Industries and Advanced Manufacturing. France is the top importer of telecommunications services in the EU. The most prominent telecommunications industries in France are mobile phones and broadband.

- 5G is a central focus of the French telecommunications sector. France is expected to roll out 5G mobile phone service across the country in 2020

NETHERLANDS: Digital Industries, a European hub for ICT companies. Some 60% of Forbes’ Global 2000 ICT companies have operations in the Netherlands. Currently, ranked the most connected country in the EU.

- Over 400 cybersecurity companies located in the Netherlands, with top organizations such as the Hague Security Delta (the world’s leading security cluster), the EU European Cybercrime Centre, the European Network for Cyber Security, the NATO Cyber Security Agency, and the Cyber Security Academy. The Netherlands is also emerging as a fintech leader, with a focus on blockchain

SPAIN: Clean Technologies and Advanced Manufacturing. Spain is Europe’s second-largest automobile manufacturer and eighth largest in the world, with an annual vehicle production of close to 3 million units. Spain is also a major player in clean technologies, particularly renewable energy.

- Home to the world’s largest solar industry. In 2018, wind energy was the second-largest source of electricity in Spain. The country is ranked fifth in the world in wind-power generation. Clean technologies exports from Spain are worth over €2.5 billion per year. Also, a significant player in aerospace. Home to Airbus Defence and Space

SCANDINAVIA: Life Sciences, Digital Industries and Media & Entertainment. The UN’s 2019 Global Innovation Index ranks Sweden the second most innovative country in the world (after Switzerland). In 2017, Sweden received some of the highest per capita R&D investment among EU member countries, totalling more than €14 billion, or approximately 3.1% of the country’s GDP.

- With world-leading companies such as Diamyd Medical, Calliditas Therapeutics, and Getinge, Sweden is a leader in life sciences, digital health, and medical technology. Home to 800-plus tech companies, employing approximately 40,000 employees.
BELGIUM and LUXEMBOURG: Digital Industries and Life Sciences. In 2018, the Digital Economy & Society Index ranked Belgium eighth among 28 countries in digital-economy development. Belgium’s total ICT market size in 2016 was assessed at $13.5 billion, employing approximately 70,000 people.

- Demonstrated strong political will to develop the ICT sector. The "Digital Belgium" initiative is moving toward faster connectivity, next-generation mobile data, and digital skills. Over the past five years, e-commerce in Belgium has skyrocketed. Grocery shopping leads the way, up 165% since 2015

**Recommendations from EU-based Tech Businesses**

Based on primary research extracted from interviews, these are four recommendations for increasing investment in Canada:

1. Canada should boost marketing and engagement with EU technology companies. There should be a focus on increasing awareness of key business activities, highlighting incentives available to investors, and relating Canadian success stories.

2. Canada should focus on designing FDI-specific incentives for EU businesses.

3. A targeted campaign highlighting the benefits of CETA would be helpful (particularly the worker mobility provision).

4. Canada needs a comprehensive national FDI strategy for attracting EU investment. Regional economic development agencies should play a key role in crafting this strategy.