

# Canadian Government Blocks Chinese Foreign Investment Due to National Security Concerns

May 24, 2018

On May 23, 2018, it was announced that the Canadian government has used the national security provisions of the Investment Canada Act ("ICA") to block a proposed \$1.5 billion takeover of Aecon Group Inc. by CCCC International Holding Ltd., a Chinese **state-owned company and one of the world's largest engineering and construction firms**. This major decision highlights the fact that the national security review process has become increasingly relevant for potential investors into Canada, particularly those which are state-controlled or which appear to have close ties to the government of a foreign state.

The national security review of the deal was launched earlier this year after the takeover was publicly opposed by, among others, Canadian construction competitors and by former directors of the Canadian Security Intelligence Service. Under the ICA, the Minister of Innovation, Science and Economic Development Canada ("ISED") can launch a national security review of any investment by a non-Canadian to acquire any part of an entity with a place of operations in Canada, employees in Canada or assets in Canada, if he "has reasonable grounds to believe" that the investment could be injurious **to national security**. If, following consultations with Canada's national security agencies, **certain other government entities and potentially Canada's allies**, an investment is found to pose a threat to national security, the government may block the investment entirely, **as it has regarding CCCC's takeover of Aecon**, or impose any conditions on its implementation that are deemed necessary to mitigate the risks to national security.

Although this decision has been made public, many are not. A key issue for state-owned or influenced investors seeking to invest in Canada, and the parties with whom they are attempting to transact, is the lack of transparency provided by the government as to the real criteria for determining which investments potentially threaten national security. There is also little clarity on the basis by which the government determines which investors it considers to be "influenced" by a foreign state, other than that it has made **clear that actual or de facto** control by a foreign state is not required for a concerning level of state-influence to arise.

Parties considering investing in Canada whose investments may be subject to a national **security review also need to consider the extent to which the United States' interests** may be considered in the ICA process. Although the Canadian government cannot block investments at the behest of other sovereign nations, ISED is clear that the concerns

and views of allies are taken into account. Canada's failure to block – or even conduct a national security review of – the 2017 acquisition by a Chinese company of Canadian high-tech firm Norsat, which sold satellite-communications systems to the American military, was harshly criticized as a threat to American national security by American politicians, even though the deal was not subject to their national security review process. Following this, particularly given what some believe may be a desire to ensure that ongoing relations with the Trump administration on sensitive matters such as NAFTA are not impacted by concerns with the scrutiny Canada places on foreign state-influenced investment, it is reasonable for parties to consider whether American interests and potential concerns may be given significant weight in the national security review process. Although it is not known whether ISED consulted with the U.S. government in coming to its decision to block the Aecon acquisition, there is a strong possibility that such discussions did in fact occur.

**The Canadian government's blocking of the deal due to national security interests** appears to reflect a global trend toward protection of domestic entities in the face of Chinese foreign investment. The European Union recently proposed a new Foreign Direct Investment screening framework, which would allow for a more streamlined process for screening investments that could affect security or public order, giving the European Union the ability to block deals that are "likely" to affect critical infrastructure or technology.

It remains to be seen what CCCC and China will do in response to the Canadian **government's decision**. A spokesperson for the Chinese government, Lu Kang, stated shortly after the decision was announced that "if Chinese interests are undermined, we will take necessary actions to safeguard our rights and interests." They may seek a **court's review of the decision, which was a remedy that was recently successfully taken** by another Chinese investor in 2015 whose acquisition of a Canadian company was sought to be unwound on the basis of national security concerns under the ICA.

The decision threatens to exacerbate an ongoing sore point between China and Canada as they take tentative steps toward a potential trade agreement. Previous ICA blocks of Chinese investments have been flagged by China as protectionism masquerading as **national security concerns, and the initial Chinese reaction to the block of CCCC's Aecon takeover** was in the same vein. The Chinese government spokesperson stated that China is "opposed to political interference under the pretext of national security" and that they "hope the Canadian side can abandon prejudices and create a level playing field for Chinese enterprises."

By

[Subrata Bhattacharjee](#), [Denes A. Rothschild](#), [Danielle Ridout](#)

Expertise

[Competition/Antitrust and Foreign Investment](#)

## BLG | Canada's Law Firm

As the largest, truly full-service Canadian law firm, Borden Ladner Gervais LLP (BLG) delivers practical legal advice for domestic and international clients across more practices and industries than any Canadian firm. With over 725 lawyers, intellectual property agents and other professionals, BLG serves the legal needs of businesses and institutions across Canada and beyond – from M&A and capital markets, to disputes, financing, and trademark & patent registration.

[blg.com](http://blg.com)

## BLG Offices

### Calgary

Centennial Place, East Tower  
520 3rd Avenue S.W.  
Calgary, AB, Canada  
T2P 0R3

T 403.232.9500  
F 403.266.1395

### Ottawa

World Exchange Plaza  
100 Queen Street  
Ottawa, ON, Canada  
K1P 1J9

T 613.237.5160  
F 613.230.8842

### Vancouver

1200 Waterfront Centre  
200 Burrard Street  
Vancouver, BC, Canada  
V7X 1T2

T 604.687.5744  
F 604.687.1415

### Montréal

1000 De La Gauchetière Street West  
Suite 900  
Montréal, QC, Canada  
H3B 5H4

T 514.954.2555  
F 514.879.9015

### Toronto

Bay Adelaide Centre, East Tower  
22 Adelaide Street West  
Toronto, ON, Canada  
M5H 4E3

T 416.367.6000  
F 416.367.6749

The information contained herein is of a general nature and is not intended to constitute legal advice, a complete statement of the law, or an opinion on any subject. No one should act upon it or refrain from acting without a thorough examination of the law after the facts of a specific situation are considered. You are urged to consult your legal adviser in cases of specific questions or concerns. BLG does not warrant or guarantee the accuracy, currency or completeness of this publication. No part of this publication may be reproduced without prior written permission of Borden Ladner Gervais LLP. If this publication was sent to you by BLG and you do not wish to receive further publications from BLG, you may ask to remove your contact information from our mailing lists by emailing [unsubscribe@blg.com](mailto:unsubscribe@blg.com) or manage your subscription preferences at [blg.com/MyPreferences](http://blg.com/MyPreferences). If you feel you have received this message in error please contact [communications@blg.com](mailto:communications@blg.com). BLG's privacy policy for publications may be found at [blg.com/en/privacy](http://blg.com/en/privacy).

© 2025 Borden Ladner Gervais LLP. Borden Ladner Gervais LLP is an Ontario Limited Liability Partnership.