

**COMMITTEE ON
FOREIGN INVESTMENT
IN THE UNITED STATES**

**ANNUAL REPORT
TO CONGRESS**

Report Period: CY 2016 and CY 2017

PUBLIC / UNCLASSIFIED VERSION

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CFIUS ANNUAL REPORT TO CONGRESS

Report Period: CY 2016 and CY 2017

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The Committee on Foreign Investment in the United States (CFIUS)

CFIUS Authority and Composition

The Committee on Foreign Investment in the United States (CFIUS) is a government body authorized by law to review certain transactions involving foreign investment in the United States. The review is solely to determine the effect of the transaction on the national security of the United States.

CFIUS member agencies include the Departments of Treasury (chair), State, Defense, Justice, Commerce, Energy, and Homeland Security; the Office of the United States Trade Representative; and the White House Office of Science and Technology Policy. The Office of the Director of National Intelligence and the Department of Labor are ex-officio members, and five White House offices are observers. As needed to assess the national security effects of a transaction, CFIUS involves other federal government agencies in its reviews, such as the Departments of Transportation, Health and Human Services, and Agriculture.

CFIUS Process

On August 13, 2018, the Foreign Investment Risk Review Modernization Act of 2018 (FIRRMA) was signed into law. FIRRMA makes various amendments and changes to the CFIUS review process and jurisdiction. Certain of the amendments and changes made by FIRRMA took effect immediately upon enactment of the statute, while others will take effect at a later date. This Annual Report covers transactions filed in calendar years 2016 and 2017, and thus describes the CFIUS process as it existed prior to the enactment of FIRRMA.

Generally, prior to FIRRMA, parties voluntarily submitted notices of transactions to CFIUS. CFIUS also has the authority to review pending or completed transactions even absent a voluntary notice, if CFIUS determines that the transaction could raise national security concerns.

In 2016 and 2017, the period covered by this report, CFIUS was required to complete a "review" of a notified transaction within 30 days. CFIUS could initiate an "investigation" that could last up to 45 additional days if CFIUS determined that it needed additional time to complete its assessment following the conclusion of the "review" period.

CFIUS will conclude all action with respect to a transaction (i.e., clear it to proceed) if it determines that the transaction does not pose any national security concerns, that any national security concerns are adequately addressed by other laws, or that mitigation measures agreed to or imposed by CFIUS resolve any national security concerns. If CFIUS determines that the transaction poses national security concerns that cannot be resolved, it will refer the transaction to the President, unless the parties choose to abandon the transaction. The President may suspend or prohibit the transaction, including by requiring divestment. By law, the President has 15 days after completion of CFIUS's investigation to make a decision. The President must publicly announce his decision.

CFIUS will seek mitigation measures or refer a transaction to the President only after such action is justified in a detailed written analysis of the national security risk posed by the transaction. CFIUS determinations are confirmed at senior levels by all CFIUS member agencies.

With limited exceptions, any transaction submitted to CFIUS for review that CFIUS determines is a "covered transaction" under 31 C.F.R. 800.301 and for which it concludes all action receives "safe harbor." This means that CFIUS and the President will not subject the transaction to review again, absent certain unusual circumstances.

By law, CFIUS does not publicly disclose information provided to CFIUS by parties to a transaction, nor does it reveal the fact that the parties have submitted the transaction for review.

SECTION I: COVERED TRANSACTIONS

Introduction

This section of the CFIUS Annual Report to Congress has been prepared in accordance with section 721(m) of the Defense Production Act of 1950, as amended by the Foreign Investment and National Security Act of 2007, or "FINSA" (Pub. L. No. 110-49). Section 721(m)(2) requires that the annual report on covered transactions provide:

- A. a list of all notices filed and all reviews or investigations completed during the period, with basic information on each party to the transaction, the nature of the business activities or products of all pertinent persons, information about any withdrawal from the process, and any decision or action by the President under this section;
- B. specific, cumulative, and, as appropriate, trend information on the numbers of filings,¹ investigations, withdrawals, and decisions or actions by the President under this section;
- C. cumulative and, as appropriate, trend information on the business sectors involved in the filings which have been made and the countries from which the investments have originated;
- D. information on whether companies that withdrew a notice to the Committee in accordance with subsection (b)(1)(C)(ii) later re-filed such notices, or, alternatively, abandoned the transaction;
- E. the types of security arrangements and conditions the Committee has used to mitigate national security concerns about a transaction, including a discussion of the methods that the Committee and any lead agency are using to determine compliance with such arrangements or conditions; and
- F. a detailed discussion of all perceived adverse effects of covered transactions on the national security or critical infrastructure of the United States that the Committee will take into account in its deliberations during the period before delivery of the next report, to the extent possible.

¹ For purposes of this Annual Report, "filings" means notices filed under Section 721.

A. Information Regarding 2016 and 2017 Covered Transactions

For 2016:

- CFIUS conducted a “review” with respect to the 172 notices of covered transactions filed with CFIUS.
- CFIUS conducted a subsequent “investigation” with respect to 79 of those 172 notices.
- CFIUS concluded action on 17 of the 172 notices after adopting mitigation measures pursuant to Section 721 to resolve national security concerns.
- 27 of the 172 notices were withdrawn. In 11 of these instances, the parties filed a new notice in 2016. In four of these instances, the parties filed a new notice in 2017. In three instances, the parties withdrew the notice and abandoned the transaction after either CFIUS informed them that it was unable to identify mitigation measures that would resolve its national security concerns or it proposed mitigation measures that the parties chose not to accept. In five instances, the parties withdrew the notice and abandoned the transaction because they failed to satisfy CFIUS process requirements. In four instances, the parties withdrew their notice and abandoned the transaction for commercial reasons unrelated to CFIUS review.
- CFIUS referred one transaction to the President. The President issued an order prohibiting the acquisition of the U.S. businesses of Aixtron SE, a German company, by Grand Chip Investment GmbH, a privately held German company whose ultimate parent is Fujian Grand Chip Investment Fund LP, a privately held Chinese company.

For 2017:

- CFIUS conducted a “review” with respect to the 237 notices of covered transactions filed with CFIUS.
- CFIUS conducted a subsequent “investigation” with respect to 172 of those 237 notices.
- CFIUS concluded action on 29 of the 237 notices after adopting mitigation measures pursuant to Section 721 to resolve national security concerns.
- 74 of the 237 notices were withdrawn. In 35 of these instances, the parties filed a new notice in 2017. In nine of these instances, the parties filed a new notice in 2018. In 24 instances, the parties withdrew the notice and abandoned the transaction after either CFIUS informed them that it was unable to identify mitigation measures that would resolve its national security concerns or it proposed mitigation measures that the parties chose not to accept. In two instances, the parties withdrew their notice and abandoned the transaction because they failed to satisfy CFIUS process

requirements. In four instances, the parties withdrew their notice and abandoned the transaction for commercial reasons unrelated to CFIUS review.

- CFIUS referred one transaction to the President. The President issued an order prohibiting the acquisition of Lattice Semiconductor Corporation by Canyon Bridge Merger Sub, Inc. a privately held Delaware company ultimately owned and controlled by China Venture Capital Fund Corporation Limited, a Chinese corporation owned by various state-owned entities.

B. Specific, Cumulative, and Trend Data for Covered Transactions, Withdrawals, and Investigations

From 2009 through 2017, companies filed 1,179 notices of transactions that CFIUS determined to be covered transactions under Section 721. About 3 percent (36) of the notices were withdrawn during the review stage, 12 percent (145) were withdrawn during the investigation stage, and 47 percent (561) resulted in an investigation. Withdrawal of a notice is a function of the particular facts and circumstances of the transaction being reviewed by the committee and is not necessarily indicative of a trend.

A sustained upward trend has continued from 2009 through 2017 in the number of notices filed. As shown in Table I-3, the number of notices increased from 65 in 2009 to 237 in 2017. The upward trend was interrupted only twice, with a modest decline in 2013 and a minimal decline in 2015. The proportions of notices proceeding to investigation in 2016 and 2017 were about 46 percent and 72 percent respectively.

Apart from a general correlation between the number of notices and macroeconomic conditions—that is, when economies are strong, transaction quantity tends to increase—the information in the table below is not indicative of any discernible CFIUS trends. CFIUS considers each transaction on a case-by-case basis, and the disposition of any particular case—be it withdrawal, closing in review or investigation, or presidential decision—depends on the particular facts and circumstances of that case.

Table I-3. Covered Transactions, Withdrawals, and Presidential Decisions, 2009-2017

Covered Transactions, Withdrawals, and Presidential Decisions* 2009-2017					
Year	Number of Notices	Notices Withdrawn During Review Phase	Number of Investigations	Notices Withdrawn During Investigation Phase	Presidential Decisions
2009	65	5	25	2	0
2010	93	6	35	6	0
2011	111	1	40	5	0
2012	114	2	45	20	1
2013	97	3	48	5	0
2014	147	3	51	9	0
2015	143	3	66	10	0
2016	172	6	79	21	1
2017	237	7	172	67	1
Total	1,179	36	561	145	3

*Please see Section 1-D on page 22 for a discussion of reasons by which parties may seek to withdraw a notice.

C. Covered Transactions by Business Sector and Country

1. Covered Transactions by Business Sector of U.S. Companies, 2009-2017

The notices of covered transactions filed with CFIUS from 2009 through 2017 involved a wide range of industries.² About three fourths of the notices were in either the Manufacturing (474, or 40 percent) and the Finance, Information, and Services sectors (419, or 36 percent). The remainder of the notices were in the Mining, Utilities, and Construction sector (183, or 16 percent) and the Wholesale Trade, Retail Trade, and Transportation sector (103, or 9 percent).³ These figures, and those in the tables below and in Section I.C.2 of this report, reflect the number of notices filed with CFIUS and are not adjusted to account for those transactions that were the subject of more than one notice—i.e., where the original notice was withdrawn and then re-filed, as discussed in Section I.D of this report.

The table and chart on the next page provide data by sector and by year of the 1,179 covered transaction notices filed with CFIUS from 2009 through 2017. In 2016-2017, the relative proportions of notices in each sector did not change dramatically. Nonetheless, for the first time since 2009, the greatest number of filings in 2016 and 2017 occurred in the Finance, Information, and Services sector, accounting for 40 and 46 percent of transactions, respectively. The proportion of notices in the Manufacturing sector decreased slightly to 39 percent in 2016 and 35 percent in 2017. The proportion of notices in the Mining, Utilities, and Construction sector also decreased modestly in 2016 and 2017 (to 10 percent in 2016 and 12 percent in 2017). The proportion of notices in the Wholesale Trade, Retail Trade, and Transportation sector remained near its historical range at 11 percent in 2016 and 8 percent in 2017.

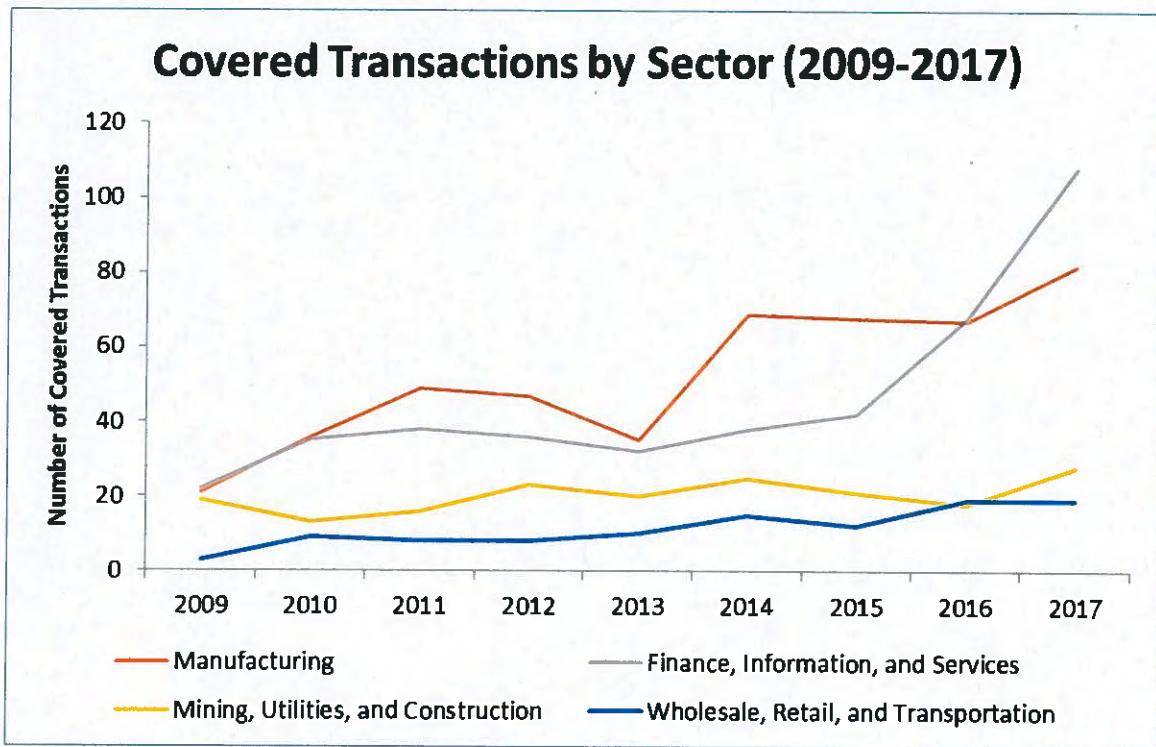
² In this report, industry sectors and subsectors are defined using 2012 and 2017 North American Industry Classification System (NAICS) codes of the target company. Whenever possible, the NAICS code assigned to each target company is based upon information provided in the notice. If no NAICS code was provided, CFIUS determined the most appropriate NAICS code using public Internet searches and the www.naics.com database.

³ Figures add to more than 100 percent due to rounding.

Table I-4. Covered Transactions by Sector and Year, 2009-2017

Covered Transaction by Sector and Year, 2009-2017					
Year	Manufacturing	Finance, Information, and Services	Mining, Utilities, and Construction	Wholesale Trade, Retail Trade, and Transportation	Total
2009	21 (32%)	22 (34%)	19 (29%)	3 (5%)	65
2010	36 (39%)	35 (38%)	13 (14%)	9 (10%)	93
2011	49 (44%)	38 (34%)	16 (14%)	8 (7%)	111
2012	47 (39%)	36 (33%)	23 (20%)	8 (7%)	114
2013	35 (36%)	32 (33%)	20 (21%)	10 (10%)	97
2014	69 (47%)	38 (26%)	25 (17%)	15 (10%)	147
2015	68 (48%)	42 (29%)	21 (15%)	12 (8%)	143
2016	67 (39%)	68 (40%)	18 (10%)	19 (11%)	172
2017	82 (35%)	108 (46%)	28 (12%)	19 (8%)	237
Total	474 (40%)	419 (36%)	183 (16%)	103 (9%)	1,179

Graph I-1. Covered Transactions by Sector and Year (2009-2017)



Manufacturing Sector

In 2016, Manufacturing accounted for 39 percent (67) of all CFIUS notices. The Manufacturing subsector with the most notices was again Computer and Electronic Product Manufacturing with 25 (37 percent, down from 49 percent in 2015). Other significant subsectors included Machinery Manufacturing with 11 notices and Chemical Manufacturing with eight notices.

In 2017, Manufacturing accounted for 35 percent (82) of all CFIUS notices filed. As in 2016, Computer and Electronic Product Manufacturing was the largest subsector with 27 (33 percent). Other significant subsectors included Chemical Manufacturing with 16 notices and Transportation Equipment Manufacturing with nine notices.

Table I-5. Covered Transactions from the Manufacturing Sector, 2013-2017

Manufacturing	NAICS Code	2017 Notices	2016 Notices	% of Total Manufacturing			
				2017	2016	2015	2013-17
Food Manufacturing	311	0	0	0	0	0	0
Textile Mills	313	0	0	0	0	1	1
Textile Product Mills	314	0	0	0	0	1	0
Apparel Manufacturing	315	0	0	0	0	1	0
Leather and Allied Product Manufacturing	316	0	0	0	0	0	0
Paper Manufacturing	322	0	1	0	1	0	0
Printing and Related Support Activities	323	0	0	0	0	0	0
Petroleum and Coal Products Manufacturing	324	2	0	2	0	0	1
Chemical Manufacturing	325	16	8	20	12	12	13
Plastics and Rubber Products Manufacturing	326	2	2	2	3	4	4
Nonmetallic Mineral Product Manufacturing	327	1	0	1	0	0	1
Primary Metal Manufacturing	331	4	2	5	3	0	2
Fabricated Metal Product Manufacturing	332	6	6	7	9	1	6
Machinery Manufacturing	333	8	11	10	16	12	13
Computer and Electronic Product Manufacturing	334	27	25	33	37	49	39
Electrical Equipment, Appliance, and Component Manufacturing	335	6	5	7	7	3	6
Transportation Equipment Manufacturing	336	9	5	11	7	12	11
Miscellaneous Manufacturing	339	1	2	1	3	3	2

Finance, Information, and Services Sector

In 2016, the Finance, Information, and Services sector accounted for 40 percent (68) of all CFIUS notices filed. Professional, Scientific, and Technical Services continued to be the largest subsector with 20 notices (29 percent). Other significant subsectors included Publishing Industries, Telecommunications, and Real Estate, with nine notices each.

In 2017, the Finance, Information, and Services sector accounted for 46 percent (108) of all CFIUS notices filed. As with 2016, Professional, Scientific, and Technical Services was the largest subsector with 40 notices (37 percent). Publishing Industries, Telecommunications, and Real Estate remained the next most significant subsectors, with nine, 11, and nine notices, respectively.

Table I-6. Covered Transactions from the Finance, Information, and Services Sector, 2013-2017

Finance, Information, and Services	NAICS Code	2017 Notices	2016 Notices	% of Total Finance, Information, and Services			
				2017	2016	2015	2013-17
Publishing Industries (except Internet)	511	9	9	8	13	21	13
Motion Picture and Sound Recording Industries	512	2	0	2	0	0	1
Telecommunications	517	11	9	10	13	17	12
Data Processing, Hosting, and Related Services	518	5	1	5	1	5	4
Other Information Services	519	4	1	4	1	0	2
Credit Intermediation and Related Activities	522	3	0	3	0	0	1
Securities, Commodity Contracts, and Other Financial Investments and Related Activities	523	4	2	4	3	0	2
Insurance Carriers and Related Activities	524	5	4	5	6	7	4
Funds, Trusts, and Other Financial Vehicles	525	2	1	2	1	0	1
Real Estate	531	9	9	8	13	10	9
Rental and Leasing Services	532	2	1	2	1	0	3
Lessors of Nonfinancial Intangible Assets (except Copyrighted Works)	533	2	1	2	1	0	1
Professional, Scientific, and Technical Services	541	40	20	37	29	29	35
Management of Companies and Enterprises	551	1	2	1	3	0	1
Administrative and Support Services	561	1	3	1	4	7	4
Waste Management and Remediation Services	562	1	1	1	1	2	1
Educational Services	611	0	1	0	1	0	0

Finance, Information, and Services	NAICS Code	2017 Notices	2016 Notices	% of Total Finance, Information, and Services			
				2017	2016	2015	2013-17
Ambulatory Health Care Services	621	3	0	3	0	2	1
Repair and Maintenance	811	3	3	3	4	0	2
Personal and Laundry Services	812	1	0	1	0	0	0

Mining, Utilities, and Construction Sector

In 2016, the Mining, Utilities, and Construction sector accounted for 10 percent (18) of all CFIUS notices filed. With 13 notices, the Utilities subsector accounted for nearly three fourths of the sector, a marked increase from its roughly 50 percent share in 2015. The Heavy and Civil Engineering Construction subsector was next largest, with two notices.

In 2017, the Mining, Utilities, and Construction sector accounted for 12 percent (28) of CFIUS notices filed. While the proportion declined somewhat from 2016, Utilities remained the largest subsector with 64 percent (18 notices). The Oil and Gas Extraction subsector grew considerably from one notice in 2016 to five in 2017, tripling its portion of the Mining, Utilities, and Construction sector overall (to 18, from 6 percent).

Table I-7. Covered Transactions from the Mining, Utilities, and Construction Sector, 2013-2017

Mining, Utilities, and Construction	NAICS Code	2017 Notices	2016 Notices	% of Total Mining, Utilities, and Construction			
				2017	2016	2015	2013-17
Animal Production and Aquaculture	112	0	1	0	6	0	1
Forestry and Logging	113	0	0	0	0	0	2
Oil and Gas Extraction	211	5	1	18	6	14	14
Mining (except Oil and Gas)	212	0	0	0	0	14	8
Support Activities for Mining	213	1	1	4	6	10	4
Utilities	221	18	13	64	72	52	60
Construction of Buildings	236	1	0	4	0	5	4
Heavy and Civil Engineering Construction	237	2	2	7	11	5	4
Specialty Trade Contractors	238	1	0	4	0	0	3

Wholesale Trade, Retail Trade, and Transportation Sector

In 2016, the Wholesale Trade, Retail Trade, and Transportation sector accounted for 11 percent (19) of all CFIUS notices filed. The Merchant Wholesalers, Durable Goods, and Support Activities for Transportation subsectors remained the largest, accounting for 28 percent and 22 percent, respectively, of notices filed within the sector.

In 2017, the Wholesale Trade, Retail Trade, and Transportation sector accounted for 8 percent (19) of all CFIUS notices filed. As with 2016, the Merchant Wholesalers, Durable Goods and Support Activities for Transportation subsectors remained the largest. Both modestly increased their relative proportion within the sector, each accounting for 33 percent of notices.

Table I-8. Covered Transactions from the Wholesale, Retail, and Transportation Sector, 2013-2017

Wholesale Trade, Retail Trade, and Transportation	NAICS Code	2017 Notices	2016 Notices	% of Total Wholesale Trade, Retail Trade, and Transportation			
				2017	2016	2015	2013-17
Merchant Wholesalers, Durable Goods	423	6	5	33	28	25	21
Merchant Wholesalers, Nondurable Goods	424	1	2	6	11	17	11
Motor Vehicle and Parts Dealers	441	0	0	0	0	8	1
Nonstore Retailers	454	0	1	0	5	0	1
Air Transportation	481	1	0	6	0	0	1
Rail Transportation	482	1	0	5	0	0	1
Water Transportation	483	1	2	6	11	0	5
Truck Transportation	484	0	1	0	6	17	4
Transit and Ground Passenger Transportation	485	0	0	0	0	0	0
Pipeline Transportation	486	1	2	6	11	0	7
Support Activities for Transportation	488	6	4	33	22	25	36
Couriers and Messengers	492	0	0	0	0	8	1
Warehousing and Storage	493	0	0	0	0	0	3
Accommodation	721	2	2	11	11	0	7

**Covered Transactions by Business Sector of
U.S. Companies, 2013-2017**

Table I-9 on the following pages provides a breakdown by subsector and by the three most recent reporting years for the covered transactions cumulatively filed with CFIUS from 2013 through 2017.

Table I-9. Covered Transactions by Business Sector of U.S. Companies, 2013-2017

Business Sector	4-Digit NAICS	3-Digit NAICS	3-Digit NAICS Category	2017 Notices	2016 Notices	% of 3-Digit Corresponding NAICS Code ⁴			
						2017	2016	2015	2013-17
Hog and Pig Farming	1122	112	Animal Production and Aquaculture	0	1	N/A	100	N/A	100
Oil and Gas Extraction	2111	211	Oil and Gas Extraction	5	1	100	100	0	38
Support Activities for Mining	2131	213	Support Activities for Mining	1	1	100	100	0	40
Electric Power Generation, Transmission and Distribution	2211	221	Utilities	15	11	83	85	100	55
Natural Gas Distribution	2212	221	Utilities	1	2	6	15	0	12
Water, Sewage and Other Systems	2213	221	Utilities	2	0	11	0	0	7
Residential Building Construction	2361	236	Construction of Buildings	1	0	100	N/A	0	25
Utility System Construction	2371	237	Heavy and Civil Engineering Construction	2	1	100	50	100	80
Land Subdivision	2372	237	Heavy and Civil Engineering Construction	0	1	0	50	0	20
Foundation, Structure, and Building Exterior Contractors	2381	238	Specialty Trade Contractors	1	0	100	N/A	N/A	33
Converted Paper Product Manufacturing	3222	322	Paper Manufacturing	0	1	N/A	100	N/A	100
Petroleum and Coal Products Manufacturing	3241	324	Petroleum and Coal Products Manufacturing	2	0	100	N/A	N/A	67
Basic Chemical Manufacturing	3251	325	Chemical Manufacturing	1	2	6	25	0	8
Resin, Synthetic Rubber, and Artificial Synthetic Fibers and Filaments Manufacturing	3252	325	Chemical Manufacturing	4	1	25	13	13	15
Pesticide, Fertilizer, and Other Agricultural Chemical Manufacturing	3253	325	Chemical Manufacturing	4	2	25	25	0	15
Pharmaceutical and Medicine Manufacturing	3254	325	Chemical Manufacturing	5	3	31	38	38	28
Other Chemical Product and Preparation Manufacturing	3259	325	Chemical Manufacturing	2	0	13	0	0	5
Plastics Product Manufacturing	3261	326	Plastics and Rubber Products Manufacturing	2	2	100	100	0	50

⁴ For cells marked "N/A," there were no transactions corresponding to the 3-digit NAICS code for the given time period.

Business Sector	4-Digit NAICS	3-Digit NAICS	3-Digit NAICS Category	2017 Notices	2016 Notices	% of 3-Digit Corresponding NAICS Code ⁴			
						2017	2016	2015	2013-17
Cement and Concrete Product Manufacturing	3273	327	Nonmetallic Mineral Product Manufacturing	1	0	100	N/A	N/A	33
Iron and Steel Mills and Ferroalloy Manufacturing	3311	331	Primary Metal Manufacturing	1	0	25	0	N/A	17
Alumina and Aluminum Production and Processing	3313	331	Primary Metal Manufacturing	1	2	25	100	N/A	50
Nonferrous Metal (except Aluminum) Production and Processing	3314	331	Primary Metal Manufacturing	1	0	25	0	N/A	17
Foundries	3315	331	Primary Metal Manufacturing	1	0	25	0	N/A	17
Architectural and Structural Metals Manufacturing	3323	332	Fabricated Metal Product Manufacturing	0	2	0	33	0	11
Machine Shops; Turned Product; and Screw, Nut, and Bolt Manufacturing	3327	332	Fabricated Metal Product Manufacturing	2	1	33	17	0	26
Other Fabricated Metal Product Manufacturing	3329	332	Fabricated Metal Product Manufacturing	4	3	67	50	0	42
Agriculture, Construction, and Mining Machinery Manufacturing	3331	333	Machinery Manufacturing	1	3	13	27	0	10
Industrial Machinery Manufacturing	3332	333	Machinery Manufacturing	3	6	38	55	0	26
Commercial and Service Industry Machinery Manufacturing	3333	333	Machinery Manufacturing	4	0	50	0	25	14
Metalworking Machinery Manufacturing	3335	333	Machinery Manufacturing	0	1	0	9	0	2
Other General Purpose Machinery Manufacturing	3339	333	Machinery Manufacturing	0	1	0	9	0	7
Computer and Peripheral Equipment Manufacturing	3341	334	Computer and Electronic Product Manufacturing	4	4	15	17	12	10
Communications Equipment Manufacturing	3342	334	Computer and Electronic Product Manufacturing	5	6	19	25	15	17
Audio and Video Equipment Manufacturing	3343	334	Computer and Electronic Product Manufacturing	2	0	7	0	3	2
Semiconductor and Other Electronic Component Manufacturing	3344	334	Computer and Electronic Product Manufacturing	12	12	44	48	55	43

Business Sector	4-Digit NAICS	3-Digit NAICS	3-Digit NAICS Category	2017 Notices	2016 Notices	% of 3-Digit Corresponding NAICS Code ⁴			
						2017	2016	2015	2013-17
Navigational, Measuring, Electromedical, and Control Instruments Manufacturing	3345	334	Computer and Electronic Product Manufacturing	4	3	15	13	15	21
Electric Lighting Equipment Manufacturing	3351	335	Electrical Equipment, Appliance, and Component Manufacturing	0	1	0	17	0	10
Electrical Equipment Manufacturing	3353	335	Electrical Equipment, Appliance, and Component Manufacturing	1	3	17	50	0	24
Other Electrical Equipment and Component Manufacturing	3359	335	Electrical Equipment, Appliance, and Component Manufacturing	5	1	83	17	50	43
Motor Vehicle Manufacturing	3361	336	Transportation Equipment Manufacturing	2	1	22	20	0	12
Motor Vehicle Parts Manufacturing	3363	336	Transportation Equipment Manufacturing	4	1	44	20	13	18
Aerospace Product and Parts Manufacturing	3364	336	Transportation Equipment Manufacturing	3	2	33	40	50	44
Railroad Rolling Stock Manufacturing	3365	336	Transportation Equipment Manufacturing	0	1	0	20	0	3
Medical Equipment and Supplies Manufacturing	3391	339	Miscellaneous Manufacturing	1	0	100	0	0	17
Other Miscellaneous Manufacturing	3399	339	Miscellaneous Manufacturing	0	2	0	100	100	83
Motor Vehicle and Motor Vehicle Parts and Supplies Merchant Wholesalers	4231	423	Merchant Wholesalers, Durable Goods	1	0	17	0	0	6
Professional and Commercial Equipment and Supplies Merchant Wholesalers	4234	423	Merchant Wholesalers, Durable Goods	1	2	17	40	33	25
Household Appliances and Electrical and Electronic Goods Merchant Wholesalers	4236	423	Merchant Wholesalers, Durable Goods	4	1	67	20	33	50
Machinery, Equipment, and Supplies Merchant Wholesalers	4238	423	Merchant Wholesalers, Durable Goods	0	2	0	40	33	19
Chemical and Allied Products Merchant Wholesalers	4246	424	Merchant Wholesalers, Nondurable Goods	1	2	100	100	50	50
Electronic Shopping and Mail-Order Houses	4541	454	Nonstore Retailers	0	1	N/A	100	N/A	100

Business Sector	4-Digit NAICS	3-Digit NAICS	3-Digit NAICS Category	2017 Notices	2016 Notices	% of 3-Digit Corresponding NAICS Code ⁴			
						2017	2016	2015	2013-17
Nonscheduled Air Transportation	4812	481	Air Transportation	1	0	100	N/A	N/A	100
Rail Transportation	4821	482	Rail Transportation	1	0	100	N/A	N/A	100
Deep Sea, Coastal, and Great Lakes Water Transportation	4831	483	Water Transportation	1	2	100	100	N/A	100
Specialized Freight Trucking	4842	484	Truck Transportation	0	1	N/A	100	50	67
Pipeline Transportation of Crude Oil	4861	486	Pipeline Transportation	1	0	100	0	N/A	40
Pipeline Transportation of Natural Gas	4862	486	Pipeline Transportation	0	2	0	100	N/A	60
Support Activities for Air Transportation	4881	488	Support Activities for Transportation	2	2	33	50	0	26
Support Activities for Rail Transportation	4882	488	Support Activities for Transportation	1	0	17	0	0	4
Support Activities for Water Transportation	4883	488	Support Activities for Transportation	2	0	33	0	0	19
Support Activities for Road Transportation	4884	488	Support Activities for Transportation	1	0	17	0	0	4
Freight Transportation Arrangement	4885	488	Support Activities for Transportation	0	2	0	50	0	7
Software Publishers	5112	511	Publishing Industries (except Internet)	9	9	100	100	100	95
Motion Picture and Video Industries	5121	512	Motion Picture and Sound Recording Industries	2	0	100	N/A	N/A	100
Wired Telecommunications Carriers	5171	517	Telecommunications	2	3	18	33	0	26
Wireless Telecommunications Carriers (except Satellite)	5172	517	Telecommunications	1	0	9	0	14	9
Wired and Wireless Telecommunications Carriers	5173	517	Telecommunications	1	0	9	0	0	3
Satellite Telecommunications	5174	517	Telecommunications	6	3	55	33	0	29
Other Telecommunications	5179	517	Telecommunications	1	3	9	33	0	15
Data Processing, Hosting, and Related Services	5182	518	Data Processing, Hosting, and Related Services	5	1	100	100	100	91
Other Information Services	5191	519	Other Information Services	4	1	100	100	N/A	83
Activities Related to Credit Intermediation	5223	522	Credit Intermediation and Related Activities	3	0	100	N/A	N/A	75

Business Sector	4-Digit NAICS	3-Digit NAICS	3-Digit NAICS Category	2017 Notices	2016 Notices	% of 3-Digit Corresponding NAICS Code ⁴			
						2017	2016	2015	2013-17
Securities and Commodity Contracts Intermediation and Brokerage	5231	523	Securities, Commodity Contracts, and Other Financial Investments and Related Activities	3	1	60	50	N/A	63
Securities and Commodity Exchanges	5232	523	Securities, Commodity Contracts, and Other Financial Investments and Related Activities	0	1	0	50	N/A	13
Other Financial Investment Activities	5239	523	Securities, Commodity Contracts, and Other Financial Investments and Related Activities	1	0	20	0	N/A	13
Insurance Carriers	5241	524	Insurance Carriers and Related Activities	5	4	100	100	0	75
Insurance and Employee Benefit Funds	5251	525	Funds, Trusts, and Other Financial Vehicles	0	1	0	100	N/A	33
Other Investment Pools and Funds	5259	525	Funds, Trusts, and Other Financial Vehicles	2	0	100	0	N/A	67
Lessors of Real Estate	5311	531	Real Estate	8	5	89	56	100	77
Activities Related to Real Estate	5313	531	Real Estate	1	4	11	44	0	19
Automotive Equipment Rental and Leasing	5321	532	Rental and Leasing Services	1	0	50	0	N/A	10
Commercial and Industrial Machinery and Equipment Rental and Leasing	5324	532	Rental and Leasing Services	1	1	50	100	N/A	80
Lessors of Nonfinancial Intangible Assets (except Copyrighted Works)	5331	533	Lessors of Nonfinancial Intangible Assets (except Copyrighted Works)	2	1	100	100	N/A	100
Accounting, Tax Preparation, Bookkeeping, and Payroll Services	5412	541	Professional, Scientific, and Technical Services	0	1	0	5	0	1
Architectural, Engineering, and Related Services	5413	541	Professional, Scientific, and Technical Services	17	4	43	20	25	24
Specialized Design Services	5414	541	Professional, Scientific, and Technical Services	0	0	0	0	0	0

Business Sector	4-Digit NAICS	3-Digit NAICS	3-Digit NAICS Category	2017 Notices	2016 Notices	% of 3-Digit Corresponding NAICS Code ⁴			
						2017	2016	2015	2013-17
Computer Systems Design and Related Services	5415	541	Professional, Scientific, and Technical Services	10	7	25	35	42	34
Management, Scientific, and Technical Consulting Services	5416	541	Professional, Scientific, and Technical Services	0	1	0	5	8	3
Scientific Research and Development Services	5417	541	Professional, Scientific, and Technical Services	9	4	23	20	25	20
Advertising, Public Relations, and Related Services	5418	541	Professional, Scientific, and Technical Services	1	0	3	0	0	1
Other Professional, Scientific, and Technical Services	5419	541	Professional, Scientific, and Technical Services	3	3	8	15	0	7
Management of Companies and Enterprises	5511	551	Management of Companies and Enterprises	1	2	100	100	N/A	100
Investigation and Security Services	5616	561	Administrative and Support Services	0	3	0	100	67	67
Other Support Services	5619	561	Administrative and Support Services	1	0	100	0	0	8
Remediation and Other Waste Management Services	5629	562	Waste Management and Remediation Services	1	1	100	100	0	50
Technical and Trade Schools	6115	611	Educational Services	0	1	N/A	100	N/A	100
Offices of Physicians	6211	621	Ambulatory Health Care Services	2	0	67	N/A	0	50
Outpatient Care Centers	6214	621	Ambulatory Health Care Services	1	0	33	N/A	0	25
Traveler Accommodation	7211	721	Accommodation	2	2	100	100	N/A	100
Electronic and Precision Equipment Repair and Maintenance	8112	811	Repair and Maintenance	1	1	33	33	N/A	33
Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	8113	811	Repair and Maintenance	2	2	67	67	N/A	67
Other Personal Services	8129	812	Personal and Laundry Services	1	0	100	N/A	N/A	100

2. Covered Transactions by Country or Economy, 2015-2017

Table I-10 organizes covered transaction notices from 2015 through 2017 by country or geographic economy. Acquisitions by investors from China accounted for the largest proportion of notices filed for the three-year period with 25.9 percent (143). Chinese investors also accounted for the most notices filed each year from 2015 to 2017 (29, 54, and 60, respectively). Investors from Canada, Japan, and the United Kingdom accounted for the second-, third-, and fourth-most notices filed from 2015 to 2017 with 12.0 percent, 8.3 percent, and 8.0 percent (66, 46, and 44, respectively).

Table I-10. Covered Transactions by Acquirer Home Country or Geographic Economy, 2015-2017

Covered Transactions by Acquirer Home Country or Geographic Economy, 2015-2017				
Country/Economy	2015	2016	2017	Total
Australia	4	4	5	13
Austria	0	1	2	3
Belgium	1	0	3	4
Bermuda	0	1	0	1
Brazil	0	1	1	2
British Virgin Islands	0	6	4	10
Canada	22	22	22	66
Cayman Islands	7	5	8	20
China	29	54	60	143
Denmark	1	0	0	1
Finland	1	3	0	4
Finland	1	0	0	1
France	8	8	14	30
Germany	1	6	7	14
Guernsey	0	0	1	1
Hong Kong	2	3	0	5
Hungary	0	0	1	1
India	0	1	3	4
Indonesia	2	0	0	2
Ireland	2	3	3	8
Israel	3	3	4	10
Italy	2	0	2	4
Japan	13	13	20	46
Jersey	0	1	3	4
Korea	0	1	0	1
Kuwait	0	1	2	3
Lebanon	0	1	0	1

Covered Transactions by Acquirer Home Country or Geographic Economy, 2015-2017				
Country/Economy	2015	2016	2017	Total
Malta	0	1	0	1
Mexico	0	1	2	3
Netherlands	5	3	7	15
Norway	0	2	2	4
Papua New Guinea	0	0	1	1
Portugal	1	0	5	6
Russia	0	0	3	3
Saudi Arabia	1	0	1	2
Seychelles	0	1	0	1
Singapore	3	2	6	11
South Africa	2	0	2	4
South Korea	1	6	6	13
Spain	2	1	1	4
Sweden	3	1	6	10
Switzerland	2	0	7	9
Taiwan	0	1	0	1
Turkey	2	2	0	4
United Arab Emirates	1	1	2	4
United Kingdom	19	7	18	44
Total	143	172	237	552

Table I-11 on the next two pages shows the geographic concentration of notices in each of four industry sectors for the period 2015 to 2017. Overall, the Manufacturing and Finance, Information, and Services sectors each accounted for 39 percent of all notices. The Mining, Utilities, and Construction sector accounted for about 12 percent, and the Wholesale Trade, Retail Trade, and Transportation sector accounted for 9 percent. Notices from Canada, China, and Japan, which accounted for 46 percent of the notices from 2015 to 2017, were generally consistent with this general distribution across sectors. However, China accounted for a higher proportion of Finance, Information, and Services transactions, while Canada accounted for a large proportion of Mining, Utilities, and Construction sector transactions.

Table I-11. Covered Transactions by Acquirer Home Country or Economy and Target Sector, 2015-2017

Covered Transactions by Acquirer Home Country or Geographic Economy, by Target Sector (2015-2017)					
Country/Economy	Finance, Information, and Services	Manufacturing	Mining, Utilities, and Construction	Wholesale Trade, Retail Trade, and Transportation	Total
Australia	6	2	3	2	13
Austria	2	1	0	0	3
Belgium	2	2	0	0	4
Bermuda	0	1	0	0	1
Brazil	0	2	0	0	2
British Virgin Islands	5	2	3	0	10
Canada	22	17	22	5	66
Cayman Islands	9	8	1	2	20
China	50	71	9	13	143
Denmark	0	0	0	1	1
Finland	1	4	0	0	5
France	13	11	3	3	30
Germany	3	10	0	1	14
Guernsey	0	1	0	0	1
Hong Kong	1	3	1	0	5
Hungary	0	1	0	0	1
India	2	2	0	0	4
Indonesia	2	0	0	0	2
Ireland	8	0	0	0	8
Israel	4	6	0	0	10
Italy	0	4	0	0	4
Japan	20	20	4	2	46
Jersey	1	3	0	0	4
Korea	1	0	0	0	1
Kuwait	2	0	0	1	3
Lebanon	0	0	0	1	1
Liechtenstein	1	0	0	0	1
Luxembourg	5	3	1	0	9
Malta	0	1	0	0	1
Mexico	1	0	0	2	3
Netherlands	8	4	3	0	15
Norway	1	2	0	1	4
Papua New Guinea	0	0	1	0	1
Portugal	0	0	6	0	6
Russia	2	0	0	1	3
Saudi Arabia	0	2	0	0	2
Seychelles	1	0	0	0	1
Singapore	5	4	0	2	11

Covered Transactions by Acquirer Home Country or Geographic Economy, by Target Sector (2015-2017)					
Country/Economy	Finance, Information, and Services	Manufacturing	Mining, Utilities, and Construction	Wholesale Trade, Retail Trade, and Transportation	Total
South Africa	0	1	2	1	4
South Korea	5	4	2	2	13
Spain	1	1	2	0	4
Sweden	8	1	0	1	10
Switzerland	2	4	3	0	9
Taiwan	0	1	0	0	1
Turkey	2	1	1	0	4
United Arab Emirates	1	2	0	1	4
United Kingdom	21	15	0	8	44
Total	218	217	67	50	552

D. Withdrawn Notices

Parties may withdraw an accepted notice of a transaction if the Committee approves a written request for withdrawal from the parties. Over time, parties have requested withdrawals for a number of reasons. For example, in some cases in which the parties are unable to address all of the Committee's outstanding national security concerns within the initial review period⁵ or subsequent 45-day investigation period, the parties might request to withdraw and re-file their notice to provide themselves with additional time to answer questions or to attempt to resolve the Committee's national security concerns. In other cases, the parties might request to withdraw and re-file their notice because a material change in the terms of the transaction warrants the filing of a new notice. In still other cases, the parties might request to withdraw their notice because they are abandoning the transaction for commercial reasons, or because the parties do not want to abide by CFIUS's proposed mitigation, or in light of a CFIUS determination to recommend that the President suspend or prohibit the transaction. When appropriate, the Committee has established processes to track the status of a withdrawn transaction or interim protections to address specific national security concerns identified during the review or investigation of the withdrawn transaction.

In 2016, CFIUS approved the withdrawal of 27 notices. The parties withdrew six notices during the 30-day review period and 21 notices after the commencement of the 45-day investigation period.

Of the 27 notices, in 11 instances the parties filed a new notice in 2016. CFIUS concluded action in 10 of those cases and referred one case to the President, who blocked the transaction, as detailed on page 2 above. In three instances, the parties withdrew their notice and abandoned their transaction after CFIUS informed them that it was unable to identify mitigation measures that would resolve its national security concerns or CFIUS proposed mitigation terms that the parties chose not to accept. In five instances, the parties withdrew their notice and abandoned the transaction because they failed to satisfy CFIUS process requirements. In four instances, the parties withdrew their notice and abandoned the transaction for commercial reasons unrelated to CFIUS review. In four instances, the parties filed a new notice in 2017; these cases are included in the 2017 data below.

In 2017, CFIUS approved the withdrawal of 74 notices. The parties withdrew four notices during the 30-day review period and 70 notices after the commencement of the 45-day investigation period.

Of the 74 notices, in 35 instances the parties filed a new notice in 2017. CFIUS concluded action in 34 of those cases and referred one case to the President, who blocked the transaction, as detailed on page 3 above. In 24 instances, the parties withdrew their notice and abandoned their transaction after CFIUS informed them that it was unable to identify mitigation measures that would resolve its national security concerns or CFIUS proposed mitigation terms that the parties chose not to accept. In two instances, the parties withdrew their notice and abandoned the transaction because they failed to satisfy CFIUS process requirements. In four instances,

⁵ As noted previously, for the years covered in this Annual Report, the review period was 30 days. The passage of FIRRMA in 2018 subsequently extended the review period to 45 days.

the parties withdrew their notice and abandoned the transaction for commercial reasons unrelated to CFIUS review. In nine instances, the parties filed a new notice in 2018.

As noted previously, the number of withdrawals in both years is a function of the specific facts and circumstances of the particular transactions reviewed by the Committee.

E. Mitigation Measures

In 2016, CFIUS concluded action after adopting mitigation measures with respect to 18 notices of covered transactions (about 13 percent of the total number of 2016 notices). Five CFIUS agencies served as the USG signatories to these measures as well as one non-CFIUS agency. In 2017, CFIUS concluded action after adopting mitigation measures with respect to 29 notices of covered transactions (about 12 percent of the total number of 2017 notices). Six CFIUS agencies served as the USG signatories to these measures as well as two non-CFIUS agencies.

The Committee has adopted procedures to evaluate and ensure that parties to a covered transaction remain in compliance with any risk mitigation measure under Section 721 that CFIUS negotiates with or imposes on the parties. For all mitigation measures executed since FINSA became effective, Treasury, as Chair of CFIUS, has designated at least one USG signatory to a mitigation measure as a lead agency for monitoring compliance with that measure. Lead agencies carry out their monitoring responsibilities on behalf of the Committee and report back to the Committee on at least a quarterly basis. In addition, signatories to mitigation measures that were entered into before FINSA's effective date also report to CFIUS quarterly on compliance with those measures. As described below, all lead agencies for monitoring mitigation compliance have implemented processes to carry out their responsibilities.

Mitigation measures negotiated and adopted in 2016 and 2017 required the businesses involved to take specific and verifiable actions, including, for example:

- Prohibiting or limiting the transfer or sharing of certain intellectual property, trade secrets, or know-how.
- Establishing guidelines and terms for handling existing or future USG contracts, USG customer information, and other sensitive information.
- Ensuring that only authorized persons have access to certain technology; that only authorized persons have access to USG, company, or customer information; and that the foreign acquirer not have direct or remote access to systems that hold such information.
- Ensuring that only U.S. citizens handle certain products and services, and ensuring that certain activities and products are located only in the United States.
- Establishing a Corporate Security Committee and other mechanisms to ensure compliance with all required actions, including the appointment of a USG-approved security officer or member of the board of directors and requirements for security policies, annual reports, and independent audits.
- Notifying, for approval, security officers or relevant USG parties in advance of foreign national visits to the U.S. business.
- Security protocols to ensure the integrity of goods or software sold to the USG.
- Notifying customers regarding the change of ownership.

- Assurances of continuity of supply for defined periods, and notification and consultation prior to taking certain business decisions, with certain rights in the event that the company decides to exit a business line. Establishing meetings to discuss business plans that might affect USG supply or national security considerations.
- Exclusion of certain sensitive assets from the transaction.
- Divestiture of all or part of the U.S. business.⁶

CFIUS agencies use a variety of means to monitor and enforce compliance by the companies that are subject to the measures, including:

- Periodic reporting to USG agencies by the companies;
- On-site compliance reviews by USG agencies;
- Third-party audits when provided for by the terms of the mitigation measures; and
- Investigations and remedial actions if anomalies or breaches are discovered or suspected.

Due to the number and complexity of mitigation measures implemented to date, individual CFIUS agencies monitor compliance through a number of internal procedures, including:

- Assigning staff responsibilities for the monitoring of compliance;
- Designing tracking systems to monitor required reports; and
- Instituting internal instructions and procedures to ensure that in-house expertise is drawn upon to analyze compliance with measures.

⁶ Divestiture of all of a U.S. business is typically effectuated through a withdrawal of the notice and abandonment of the transaction. For this reason, such divestitures are not included in data on cases cleared with mitigation.

F. Perceived Adverse Effects of Covered Transactions

Section 721(m) requires that this Annual Report include a discussion of all perceived adverse effects of covered transactions on the national security or critical infrastructure of the United States that the Committee will take into account in its deliberations during the period before delivery of the next report, to the extent possible. In reviewing a covered transaction, CFIUS evaluates all relevant national security considerations identified by its member agencies during the review and does not conclude action on a covered transaction if there are unresolved national security concerns.

As discussed in the Guidance Concerning the National Security Review Conducted by CFIUS, which CFIUS published in the *Federal Register* on December 8, 2008, the transactions that CFIUS had thus far reviewed presented a broad range of national security considerations. CFIUS examines the national security considerations to determine whether, in light of the specific facts and circumstances related to the transaction, the transaction would adversely affect national security and pose a national security risk. Among the considerations presented by transactions reviewed by CFIUS are the following:

Foreign control of U.S. businesses that:

- Provide products and services to an agency or agencies of the U.S. Government, or state and local authorities that have functions that are relevant to national security.
- Provide products or services that could expose national security vulnerabilities, including potential cyber security concerns, or create vulnerability to sabotage or espionage. This includes consideration of whether the covered transaction will increase the risk of exploitation of the particular U.S. business's position in the supply chain.
- Have operations, or produce or supply products or services, the security of which may have implications for U.S. national security, such as businesses that involve infrastructure that may constitute critical infrastructure; businesses that involve various aspects of energy production, including extraction, generation, transmission, and distribution; businesses that affect the national transportation system; and businesses that could significantly and directly affect the U.S. financial system.
- Have access to classified information or sensitive government or government contract information, including information about employees.
- Are in the defense, security, and national security-related law enforcement sectors.
- Are involved in activities related to weapons and munitions manufacturing, aerospace, satellite, and radar systems.
- Produce certain types of advanced technologies that may be useful in defending, or in seeking to impair, U.S. national security, which may include businesses engaged in the design and production of equipment or components that have both commercial and military applications. Such transactions have included, for example, businesses engaged in the design, production, or provision of goods and services involving network

and data security. They have also included businesses that produce semiconductor manufacturing equipment, design integrated circuits, and fabricate integrated circuits, in light of the fact that semiconductors are an enabling technology for a range of national security critical devices, systems, and functions. They have also included businesses that are in the biotechnology sector, given the potential military applications of such technology and the sensitivity of the information such companies may collect.

- Engage in the research and development, production, or sale of technology, goods, software, or services that are subject to U.S. export controls.
- Are in a field with significant national security implications where there are few alternative suppliers or where a loss in U.S. technological competitiveness would be detrimental to national security.
- With respect to the various technologies described above, could facilitate their transfer to third parties not directly related to the buyer, to the detriment of national security.
- Have operations or facilities that are in proximity to military or other sensitive USG facilities.
- Hold substantial pools of potentially sensitive data about U.S. persons and businesses that have national security importance. Such businesses could be in any number of sectors, including, for example, the insurance sectors, health services, and technology services.
- Otherwise facilitate foreign intelligence collection against U.S. targets.

Acquisition of control by foreign persons that:

- Are controlled by a foreign government.
- Are from a country with a record on nonproliferation and other national security-related matters that raises concerns.
- Have historical records of taking or intentions to take actions that could impair U.S. national security.
- Have a history of doing business in sanctioned countries.

CFIUS reviews all relevant national security considerations and the particular facts and circumstances of a transaction to determine whether the transaction will pose a national security risk. Among the factors that CFIUS takes into account are the following, listed in section 721(f) of the Defense Production Act of 1950, as amended:

- 1) domestic production needed for projected national defense requirements;
- 2) the capability and capacity of domestic industries to meet national defense requirements, including the availability of human resources, products, technology, materials, and other supplies and services;

- 3) the control of domestic industries and commercial activity by foreign citizens as it affects the capability and capacity of the United States to meet the requirements of national security;
- 4) the potential effects of the proposed or pending transaction on sales of military goods, equipment, or technology to any country –
 - a. identified by the Secretary of State –
 - i. under section 6(j) of the Export Administration Act of 1979, as a country that supports terrorism;
 - ii. under section 6(l) of the Export Administration Act of 1979, as a country of concern regarding missile proliferation; or
 - iii. under section 6(m) of the Export Administration Act of 1979, as a country of concern regarding the proliferation of chemical and biological weapons;
 - b. identified by the Secretary of Defense as posing a potential regional military threat to the interests of the United States; or
 - c. listed under section 309(c) of the Nuclear Non-Proliferation Act of 1978 on the “Nuclear Non-Proliferation-Special Country List” (15 C.F.R. Part 778, Supplement No. 4) or any successor list;
- 5) the potential effects of the proposed or pending transaction on United States international technological leadership in areas affecting United States national security;
- 6) the potential national security-related effects on United States critical infrastructure, including major energy assets;
- 7) the potential national security-related effects on United States critical technologies;
- 8) whether the covered transaction is a foreign government-controlled transaction, as determined under subsection (b)(1)(B) of Section 721;
- 9) as appropriate, and particularly with respect to transactions requiring an investigation under subsection (b)(1)(B) of Section 721, a review of the current assessment of—
 - a. the adherence of the subject country to nonproliferation control regimes, including treaties and multilateral supply guidelines, which shall draw on, but not be limited to, the annual report on “Adherence to and Compliance with Arms Control, Nonproliferation and Disarmament Agreements and Commitments,” required by section 403 of the Arms Control and Disarmament Act
 - b. the relationship of such country with the United States, specifically on its record on cooperating in counter-terrorism efforts, which shall draw on, but not be limited to, the report of the President to Congress under section 7120 of the Intelligence Reform and Terrorism Prevention Act of 2004; and
 - c. the potential for transshipment or diversion of technologies with military applications, including an analysis of national export control laws and regulations;
- 10) the long-term projection of United States requirements for sources of energy and other critical resources and materials; and
- 11) such other factors as the President or the Committee may determine to be appropriate generally or in connection with a specific review or investigation.

The next reporting period is 2018. In the transactions that CFIUS reviewed during 2018, CFIUS continued to take into account the national security considerations noted above. CFIUS also considered whether the transactions may have had the above-listed or any other adverse effects in determining whether the transactions pose national security risks. In future reporting periods, CFIUS will continue to take into account these national security considerations and to consider whether the transactions may have had the above-listed or any other adverse effects.

SECTION II: CRITICAL TECHNOLOGIES

Introduction

This section of the Annual Report to Congress has been prepared in accordance with section 721(m)(3) of the Defense Production Act of 1950, as amended. Section 721(m)(3) requires the annual report to include:

“(i) an evaluation of whether there is credible evidence of a coordinated strategy by one or more countries or companies to acquire United States companies involved in research, development, or production of critical technologies for which the United States is a leading producer; and

“(ii) an evaluation of whether there are industrial espionage activities directed or directly assisted by foreign governments against private United States companies aimed at obtaining commercial secrets related to critical technologies.”

Subsection A addresses the requirement laid out in (i), and subsection B addresses the requirement laid out in (ii).

Definitions & Methodologies

The definition of “critical technologies,” which includes technologies subject to certain U.S. export controls, is set forth in 31 C.F.R. § 800.209, Regulations Pertaining to Mergers, Acquisitions, and Takeovers by Foreign Persons (the “CFIUS regulations”), published in the Federal Register on November 21, 2008.⁷ See the Appendix for this definition. “Critical technology companies” are U.S. companies that CFIUS identified for this section of the report involved in research, development, or production of critical technologies. The Appendix also provides the definition of “coordinated strategy” for purposes of this section of the report, describes the methodology and data sources used to identify transactions involving critical technology companies (“critical technology transactions”), and the approach used to conduct the analyses required by Section 721 related to critical technologies. Finally, it lists the agencies and other entities that participated in preparing this section of the report.

⁷ This report reflects the CFIUS process in effect during 2016 and 2017, the period covered by this report.

A. Whether There Is Credible Evidence of a Coordinated Strategy to Acquire Critical Technology Companies

1. Key Judgments

A meaningful summary of the U.S. Intelligence Community (USIC) assessment cannot be provided on an unclassified basis. However, the USIC considered the unclassified data included in this section in conducting its analysis.

2. Summary of Foreign Merger and Acquisition (M&A) Activity in the United States

Using the methodology described in the Appendix, in 2016 and 2017 CFIUS identified 178 CFIUS cases involving acquisitions of U.S. critical technology companies, involving acquirers from 36 countries and territories. CFIUS agencies and the USIC evaluated all 178 transactions for indications of a coordinated strategy, as defined for this report, to acquire U.S. critical technologies.

3. Frequency of Activity by Countries and Companies

Table II-1 lists the originating countries for covered transactions involving acquisitions of U.S. critical technology companies in 2016 and 2017:

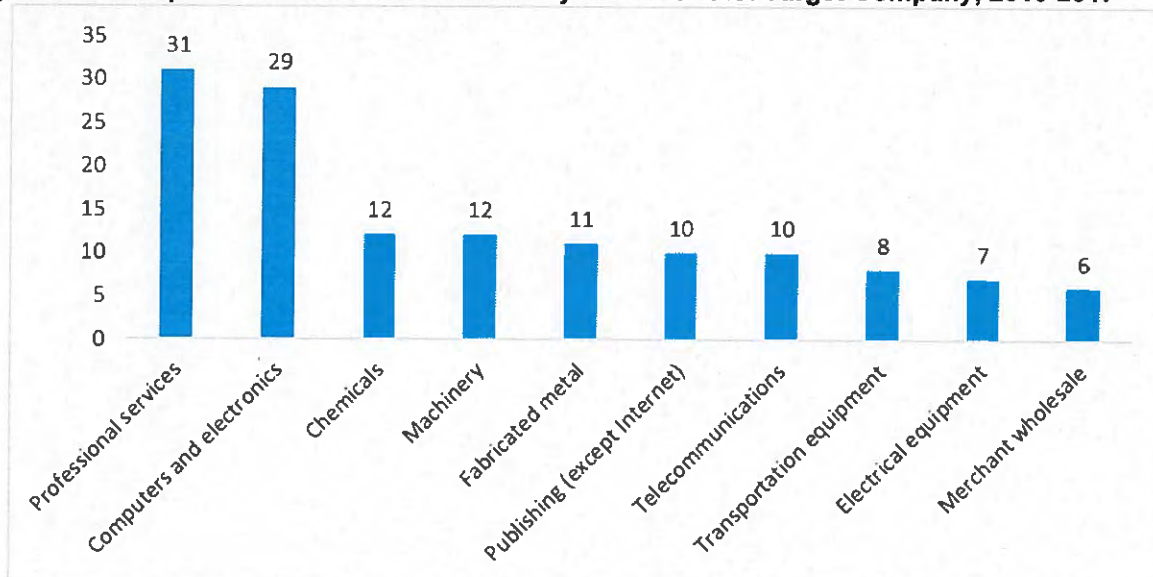
Table II-1: Foreign Acquirers of U.S. Critical Technology in 2016-2017 CFIUS cases

Country	2016	2017	Total
Australia	0	1	1
Austria	1	1	2
Belgium	0	1	1
Bermuda	1	0	1
Brazil	1	1	2
British Virgin Islands	1	1	2
Canada	8	7	15
Cayman Islands	2	3	5
China	17	21	38
Finland	1	0	1
France	5	9	14
Germany	3	4	7
Guernsey	0	1	1
Hong Kong	2	0	2
India	1	3	4
Ireland	3	0	3
Israel	3	3	6
Italy	0	2	2
Japan	8	10	18

Country	2016	2017	Total
Jersey	1	1	2
Liechtenstein	0	1	1
Luxembourg	3	2	5
Malta	1	0	1
Netherlands	2	4	6
Norway	1	1	2
Portugal	0	1	1
Russia	0	2	2
Singapore	0	4	4
South Africa	0	1	1
South Korea	0	2	2
Spain	1	1	2
Sweden	1	3	4
Switzerland	0	2	2
Taiwan	1	0	1
Turkey	2	0	2
United Kingdom	3	12	15
Total	73	105	178

As shown in Figure II-1, the largest amount of M&A activity involving foreign acquisitions of U.S. critical technology companies involved targets whose primary activities are in the Professional Services and Computers and Electronics sectors.

Figure II-1: Completed Covered Transactions by Sector of U.S. Target Company, 2016-2017



B. Whether Foreign Governments Used Espionage Activities to Obtain Commercial Secrets Related to Critical Technologies

1. Key Finding

The USIC judges that foreign governments are extremely likely to use a range of collection methods to obtain critical U.S. technologies.

A 2011 Office of the National Counterintelligence Executive report to Congress stated that the pace of foreign economic collection and industrial espionage activities against major U.S. corporations and USG agencies is accelerating. Furthermore, as the United States is a leader in the development of new technologies and a central player in global financial and trade networks, foreign attempts to collect U.S. technological and economic information will continue at a high level and will represent a growing and persistent threat to U.S. economic security. Sensitive U.S. economic information and technology are targeted by the intelligence services, private sector companies, academic and research institutions, and citizens of dozens of countries.

SECTION III: FOREIGN DIRECT INVESTMENT IN THE UNITED STATES BY COUNTRIES THAT BOYCOTT ISRAEL OR DO NOT BAN TERRORIST ORGANIZATIONS

Introduction

This section of the CFIUS Annual Report to Congress has been prepared in accordance with section 7(c) of FINSAs, which provides:

(1) **STUDY REQUIRED.**—Before the end of the 120-day period beginning on the date of enactment of this Act and annually thereafter, the Secretary of the Treasury, in consultation with the Secretary of State and the Secretary of Commerce, shall conduct a study on foreign direct investments in the United States, especially investments in critical infrastructure and industries affecting national security, by—

(A) foreign governments, entities controlled by or acting on behalf of a foreign government, or persons of foreign countries which comply with any boycott of Israel;

or

(B) foreign governments, entities controlled by or acting on behalf of a foreign government, or persons of foreign countries which do not ban organizations designated by the Secretary of State as foreign terrorist organizations.

(2) **REPORT.**—Before the end of the 30-day period beginning upon the date of completion of each study under paragraph (1) and thereafter in each annual report under section 721(m) of the Defense Production Act of 1950 (as added by this section), the Secretary of the Treasury shall submit a report to Congress, for transmittal to all appropriate committees of the Senate and the House of Representatives, containing the findings and conclusions of the Secretary with respect to the study described in paragraph (1), together with an analysis of the effects of such investment on the national security of the United States and on any efforts to address those effects.

A. Summary of Findings and Conclusions of Study

- Mergers with, and acquisitions of, U.S. companies (M&A), the main form of foreign direct investment (FDI) into the United States, by investors from the countries described in section 7(c)(1) of FINSAs that were completed between January 1, 2016, and December 31, 2017 (“subject M&A transactions”), represent a small percentage of the total number of such FDI flows into the United States.
- The value of subject M&A transactions with publicly reported values was \$13.3 billion. As described in subsection III.C below, not all publicly announced transactions are reported with dollar values, so the actual value of subject M&A transactions is greater than \$13.3 billion.
- The subject M&A transactions cover several economic sectors.

- With respect to each transaction contained in this study, CFIUS (i) reviewed and concluded action under Section 721 with no unresolved national security concerns; (ii) previously reviewed and concluded action on a transaction that gave the foreign acquirer control of the same U.S. business; or (iii) reviewed the transaction through procedures that CFIUS and its member agencies follow regarding those transactions that are not notified to CFIUS (non-notified transactions).

B. Study Methodology

1. Identification of Relevant Countries

To identify those countries that complied with *any* boycott of Israel in 2016 and 2017, as required by the statute, CFIUS examined the “List of Countries Requiring Cooperation with an International Boycott,” published by the Department of the Treasury (pursuant to section 999 of the Internal Revenue Code)⁸ and reports sent to Congress by the Department of State (pursuant to section 564 of the Foreign Relations Authorization Act, FY 1994-95), as well as public sources of information describing the countries’ observance of a primary boycott of Israel. Based on these sources of information, CFIUS interpreted the reporting requirement under section 7(c)(1)(A) of FINSA to apply to the following countries: Algeria, Iran, Kuwait, Lebanon, Libya, Qatar, Saudi Arabia, Sudan, Syria, the United Arab Emirates, and Yemen.

To identify those countries that did not ban foreign terrorist organizations in 2016 and 2017, CFIUS interpreted section 7(c)(1)(B) of FINSA to apply to countries certified by the Department of State as “not cooperating fully with United States antiterrorism efforts” (pursuant to section 40A of the Arms Export Control Act, as amended.) Those countries were Eritrea, Iran, North Korea, Syria, and Venezuela.⁹

2. Scope of FDI

Mergers with, and acquisitions of, U.S. companies are the primary form of FDI into the United States and the form of FDI that CFIUS is authorized under Section 721 to review. Accordingly, the following types of transactions are included in the study: (i) transactions notified to CFIUS under Section 721; (ii) M&A transactions that were not notified to CFIUS but that its member agencies reviewed through procedures that each agency has adopted for this purpose; and (iii) M&A transactions that resulted in an ownership stake in a U.S. company of at least 10 percent,¹⁰ as contained in the Thomson ONE database, which is a recognized financial database.

⁸ 81 Fed. Reg. 4739 (Jan. 27, 2016), 81 Fed. Reg. 20,720 (Apr. 8, 2016), 81 Fed. Reg. 51,967 (Aug. 5, 2016), 81 Fed. Reg. 87,128 (Dec. 2, 2016), 82 Fed. Reg. 15,793 (Mar. 30, 2017), 82 Fed. Reg. 36,076 (Aug. 2, 2017), and 83 Fed. Reg. 966 (Jan. 8, 2018).

⁹ 81 Fed. Reg. 35,436 (Jun. 2, 2016), 82 Fed. Reg. 24,424 (May 26, 2017), 83 Fed. Reg. 23,988 (May 23, 2018).

¹⁰ FDI is generally understood to imply ownership of at least 10 percent, a benchmark used by many statistical agencies around the world, including the Department of Commerce’s Bureau of Economic Analysis, the Council of Economic Advisors (Economic Report of the President), the International Monetary Fund, and the Organization for Economic Cooperation and Development. As noted in the description of the Thomson ONE database, these sources did not always provide information regarding the acquirer’s total ownership stake that it acquired in the U.S. company. Therefore, some of the transactions analyzed in this study may be portfolio investments rather than FDI.

Thomson ONE database: This database is a product of Thomson Reuters. The transaction information contained in this database includes the date of the transaction, the respective countries of origin of both the acquirer and the target company, and the economic sector of the target company. For most transactions, the Thomson ONE database provides the transaction value and the percentage of ownership rights acquired.

CFIUS did not include in the study those transactions listed in the Thomson ONE database that resulted in an ownership stake in a U.S. company of less than 10 percent, where data concerning the interest acquired was available.

C. Detailed Findings of Study

1. Identification of the Subject M&A Transactions

The study identified 118 M&A transactions in 2016 and 2017 involving investors from Lebanon, the United Arab Emirates, Saudi Arabia, Qatar, and Kuwait, which are countries that comply with any boycott of Israel.

The study did not identify any M&A transactions in 2016 or 2017 involving investors from Eritrea, Iran, North Korea, or Syria, which are countries identified as not cooperating fully with U.S. antiterrorism efforts and which were subject to stringent economic sanctions. However, the study identified three M&A transactions involving investors from Venezuela, a country that was designated as not cooperating fully with U.S. antiterrorism efforts.

86 of the 121 identified transactions had reported values. The combined value of the reported values is approximately \$13.3 billion. Data sources consulted for this study did not report, and Treasury staff was unable to determine independently, values for 35 of the 121 transactions analyzed. As a result, the value of the 121 total transactions is necessarily greater than \$13.3 billion. Table III-1 on the next page shows the number and aggregate value of the transactions for each of the relevant countries.

Table III-1. Aggregate Value of Transactions

Country	2016-2017 Transactions*	Known Transaction Value (\$ million)
United Arab Emirates	54	3457
Saudi Arabia	27	4246
Qatar	18	3920
Kuwait	14	1348
Lebanon	9	298
Venezuela	3	4
Bahrain	1	65
Total	121	13338

*Country totals add to more than 121 because five transactions involved multiple countries.

The 121 transactions represent several major sectors of the economy. Table III-2 shows the various sectors represented by the 121 transactions, noting both the number and aggregate value of the transactions for each sector. A majority of transactions in the Information Technology sector—the largest category represented—was comprised of transactions in the Application Software industry.

Table III-2. Industries Represented

Sector	2016-2017 Transactions	Known Transaction Value (\$ million)
Information Technology	34	6065
Real Estate	22	3452
Consumer Discretionary	18	1120
Industrials	11	325
Health Care	9	487
Financials	7	493
Unknown	6	774
Communication Services	6	407
Materials	3	130
Consumer Staples	2	72
Energy	2	6
Utilities	1	6
Total	121	13338

2. National Security Effects of the Subject M&A Transactions

Each of the 121 transactions was either formally reviewed by CFIUS under Section 721 or pursuant to procedures followed by CFIUS and its member agencies regarding non-notified transactions. According to these procedures, CFIUS agencies monitor M&A activity and identify those transactions that have not been voluntarily notified to CFIUS, but which may present national security considerations.

If CFIUS believes that a non-notified transaction may raise national security considerations and may also be a covered transaction, CFIUS contacts the parties and requests additional information regarding the transaction. If CFIUS determines, after evaluating this additional information, that the transaction is covered and that it may raise national security considerations, CFIUS requests the parties file a notice. In most instances in which CFIUS has requested additional information regarding a transaction, the parties responded by filing a voluntary notice. However, should the parties decide they will not file a notice after CFIUS requests they do so, any CFIUS agency may initiate a review of the transaction.

APPENDIX¹¹

A. Definition of “Critical Technologies”

The Regulations Pertaining to Mergers, Acquisitions, and Takeovers by Foreign Persons (the “CFIUS regulations”), published in the Federal Register on November 21, 2008, and codified at 31 C.F.R. part 800, defines “critical technologies” with reference to U.S. export control regulations, as they were determined to be the most reliable and accurate means of identifying critical technologies.

“§ 800.209 Critical technologies.

The term *critical technologies* means:

- (a) Defense articles or defense services covered by the United States Munitions List (USML), which is set forth in the International Traffic in Arms Regulations (ITAR) (22 C.F.R. parts 120-130);
- (b) Those items specified on the Commerce Control List (CCL) set forth in Supplement No. 1 to part 774 of the Export Administration Regulations (EAR) (15 C.F.R. parts 730-774) that are controlled pursuant to multilateral regimes (*i.e.*, for reasons of national security, chemical and biological weapons proliferation, nuclear nonproliferation, or missile technology), as well as those that are controlled for reasons of regional stability or surreptitious listening;
- (c) Specially designed and prepared nuclear equipment, parts and components, materials, software, and technology specified in the Assistance to Foreign Atomic Energy Activities regulations (10 C.F.R. part 810), and nuclear facilities, equipment, and material specified in the Export and Import of Nuclear Equipment and Materials regulations (10 C.F.R. part 110); and
- (d) Select agents and toxins specified in the Select Agents and Toxins regulations (7 C.F.R. part 331, 9 C.F.R. part 121, and 42 C.F.R. part 73).”

B. Methodology and Data Sources Used to Assess Foreign Acquisitions of U.S. Critical Technology Companies

The definition of critical technologies contained in section 800.209 is specific to the CFIUS regulations. Therefore, for purposes of Section II of this Annual Report, CFIUS agencies responsible for administering U.S. export control regulations analyzed all covered transactions filed with CFIUS in 2016 and 2017, and their agency’s own internal records to identify those U.S. critical technology companies that were acquired by, or received significant investments from, foreign investors in 2016 and 2017. Because each export control regulation applies to a specific type of critical technology, the amount of information that could be analyzed for Section II of this Annual Report was limited.

¹¹ This section describes CFIUS policies before the 2018 passage of FIRRMA.

31 C.F.R. § 800.209(a): This paragraph pertains to defense articles or defense services covered by the United States Munitions List (USML), which is set forth in the International Traffic in Arms Regulations (ITAR) (22 C.F.R. parts 120-130).

Under the provisions of the ITAR, the Department of State regulates robust registration, licensing, and compliance processes for any person, whether U.S. or foreign, involved in the export or temporary import of a defense article or defense service controlled by the ITAR. This approach enabled the Department of State to identify covered transactions in 2016 and 2017 involving U.S. critical technology companies that produce defense articles or services covered under the ITAR.

31 C.F.R. § 800.209(b): This paragraph pertains to those items specified on the Department of Commerce's Control List (CCL), which is set forth in Supplement No. 1 to part 774 of the Export Administration Regulations (EAR) (15 C.F.R. parts 730-774). The items on the CCL are controlled pursuant to multilateral regimes (i.e., for reasons of national security, chemical and biological weapons proliferation, nuclear nonproliferation, or missile technology) as well as for reasons of regional stability or surreptitious listening.

Firms producing items under the regulations specified in paragraph of 31 C.F.R. § 800.209 are not required to register with the Department of Commerce, but, in many cases, must obtain a license from the Department of Commerce to export those items (including "deemed exports" to foreign nationals in the United States.) To identify acquisitions of companies producing items that fall under this part of the definition, the Department of Commerce analyzed all covered transactions filed with CFIUS in 2016 and 2017 and its internal agency records of export license applications.

31 CFR § 800.209(c): This paragraph pertains to specially designed and prepared nuclear equipment, parts and components, materials, software, and technology specified in the Assistance to Foreign Atomic Energy Activities regulations (10 C.F.R. part 810), and nuclear facilities, equipment, and material specified in the Export and Import of Nuclear Equipment and Materials regulations (10 C.F.R. part 110).

The Department of Energy used a similar approach to that adopted by the Department of Commerce. This entailed comparing a list of all covered transactions filed with CFIUS in 2016 and 2017 against export authorizations issued under 10 C.F.R. part 810 and export license requests issued by the Nuclear Regulatory Commission under 10 C.F.R. part 110.

31 C.F.R. § 800.209(d): This paragraph pertains to select agents and toxins specified in the Select Agents and Toxins regulations (7 C.F.R. part 331, 9 CFR part 121, and 42 C.F.R. part 73).

The agents and toxins specified in this paragraph are generally subject to export controls administered by the Department of Commerce. Accordingly, the methodology used by the Department of Commerce would be the same as that described above.

C. Analyzing the Acquisitions of U.S. Critical Technology Companies

CFIUS agencies addressed parts (i) and (ii) of section 721(m)(3) of the Defense Production Act of 1950, as amended, by doing the following.

Analyzing the pattern of M&A of U.S. critical technology companies during 2016 and 2017, while also considering transactions in prior years, as appropriate.

- CFIUS agencies concentrated on foreign direct investment through M&A of companies involved in all critical technologies, regardless of industry.
- CFIUS agencies did not attempt to evaluate issues relating to other avenues of foreign access to U.S. critical technologies, such as licensing, contracting, or other arrangements that are not M&A transactions.

Assessing illicit attempts by government intelligence services of major economic competitors to obtain military and dual-use critical technologies.

- CFIUS agencies did not attempt to evaluate foreign espionage in areas other than dual-use, military, or other U.S. critical technologies, or against companies not headquartered in the United States.
- In addition, CFIUS agencies reviewed available information about other countries that have historically sought information on critical technologies through the use of those countries' intelligence services.

D. Defining “Coordinated Strategy” for Purposes of Section II of this Annual Report

CFIUS agencies continue to use the following definition of “coordinated strategy.”

A plan of action reflected in directed efforts developed and implemented by a foreign government, in association with one or more foreign companies, to acquire U.S. companies with critical technologies. The efforts of a single company in pursuit of business goals, absent indications of specific government direction, were not considered to be a coordinated strategy. Individual company strategies encompass such business goals as: entry into the U.S. market; increased market share, increased sales, access to new technologies, and diversification out of mature industries.

- Examples of suspect behaviors that could be evidence of a coordinated strategy include:
 - A pattern of actual or attempted acquisitions of U.S. firms by foreign entities;
 - Evidence that specific completed or attempted acquisitions of companies with critical technologies had been ordered by foreign governments or foreign government-controlled firms; or
 - The provision of narrowly targeted incentives by foreign governments or foreign-controlled firms (*e.g.*, grants, concessionary loans, or tax breaks),

especially those that appear to market observers to be disproportionately generous, to acquire U.S. firms with critical technologies.

E. Participating Agencies and Entities – Section II

Department of Commerce

- Bureau of Industry and Security
- International Trade Administration
- National Telecommunications and Information Administration

Department of Energy

Department of State

- Bureau of Economic and Business Affairs
- Bureau of Political-Military Affairs
- Bureau of International Security and Nonproliferation

Department of the Treasury

Intelligence Community Elements

- Office of the Director of National Intelligence, National Intelligence Council
- Air Force Office of Special Investigations
- Army Counterintelligence Center
- Central Intelligence Agency
- Defense Intelligence Agency
- Federal Bureau of Investigation, National Security Branch
- Department of Energy, Office of Intelligence and Counterintelligence
- Department of Homeland Security, Office of Intelligence and Analysis
- Department of State, Bureau of Intelligence and Research
- Department of the Treasury, Office of Intelligence and Analysis
- Marine Corps Intelligence Activity
- Office of the National Counterintelligence Executive, Community Acquisition Risk Section
- National Counterterrorism Center
- National Geospatial-Intelligence Agency
- National Security Agency
- Naval Intelligence (Office of Naval Intelligence and Naval Criminal Investigative Service)

Executive Office of the President

- Council of Economic Advisors
- National Security Council
- Office of Science and Technology Policy

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