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CANADIAN FOREIGN INVESTMENT SCREENING PROCEDURES AND THE ROLE OF FOREIGN INVESTMENT IN THE CANADIAN ECONOMY

HEARINGS

BEFORE THE

SUBCOMMITTEE ON INTER-AMERICAN ECONOMIC RELATIONSHIPS

OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

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Tuesday, December 16, 1975

CANADIAN FOREIGN INVESTMENT SCREENING PROCEDURES AND THE ROLE OF FOREIGN INVESTMENT IN THE CANADIAN ECONOMY

TUESDAY, DECEMBER 16, 1975

CONGRESS OF THE UNITED STATES, SUBCOMMITTEE ON
INTER-AMERICAN ECONOMIC RELATIONSHIPS
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2257, Rayburn House Office Building, Hon. Gillis W. Long (acting chairman of the subcommittee) presiding.

Present: Representative Long.

Also present: Sarah Jackson and John R. Karlik, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE LONG, ACTING CHAIRMAN

Representative LONG. The hearing will come to order, please.

This morning the Subcommittee on Inter-American Economic Relationships begins its hearings on Canadian foreign investment screening procedures and the role of foreign investment in the Canadian economy.

There seems to be a growing trend worldwide for governments to regulate operations of foreign companies within their borders. Even in the United States a mandate to investigate growing foreign investment was established last year under the Foreign Investment Study Act by action of Congress. Will this trend toward regulation result in the end of the free flow of capital and a decline in the operations of huge multilateral corporations? Can developing economies continue to attract capital imports needed for sustained economic growth on their own terms? With these hearings on Canada, the Inter-American Economic Relationships Subcommittee in beginning a series of studies of national regulation of foreign investment climates in the Western Hemisphere.

The United States and Canada have had a long and felicitous relationship. Not only do we share a common border of more than 5,000 miles, but our economies are closely interrelated. What is happening in Canada today is therefore of great interest to us.

In recent decades, Canada has relied heavily on foreign capital to finance its economic growth and particularly on United States foreign direct investment to provide employment for a growing population. As a result, approximately 60 percent of Canadian manufacturing assets are foreign-owned. Of these, three-quarters are owned by U.S.

firms. In some industries, U.S. control is more than 90 percent. However, there has been a growing debate in Canada about the costs of such heavy reliance of foreign capital sources.

In 1974 the Canadian Government established the Foreign Investment Review Agency (FIRA) to consider all industrial takeovers by foreign companies in order to determine if such investments were in the Canadian national interest. On October 15, 1975, this Agency put into effect the second phase of its mandate, the review of all new foreign investment unrelated to existing plant capacity on similar grounds. Although these new regulations have not been in effect very long, we would like to examine their impact. Perhaps we can learn something from them not only from the standpoint of the big picture but from the standpoint of our own situation here in the United States.

Is the review process likely to be used as a tool to redress regional imbalances by directing all foreign investment to the poorer provinces? Are these procedures likely to be followed by more stringent measures? How have American companies coped with the new procedures and what is likely to be the impact on their future activities in Canada?

This morning we are happy to have with us four distinguished witnesses from Canada and the United States. They are Mr. Roy Bennett, President of Ford Motor Co. of Canada, Limited; Mr. Stephen Clarkson, professor of political science, University of Toronto; Mr. J. Alex Murray, professor of international business, University of Windsor; and Mr. John Petty of Lehman Brothers, Inc.

Taking you in alphabetical order, Mr. Bennett, we would be more than pleased to hear from you.

STATEMENT OF ROY F. BENNETT, PRESIDENT AND CHIEF EXECUTIVE OFFICER, FORD MOTOR CO. OF CANADA, LTD.

Mr. BENNETT. Thank you, Mr. Chairman.

I am glad to be with you today to discuss the United States-Canadian Automotive Trade Agreement from a Canadian perspective as president and chief executive officer of Ford Motor Co. of Canada, Ltd.

It seemed that I could most usefully do so under four headings:

(1) The history of the pact.

(2) How the pact works.

(3) What the pact has achieved to date.

(4) The future.

THE HISTORY OF THE PACT

My company was formed in 1904—the real beginning of the Canadian automotive industry. From that date the principal automotive producers have all been subsidiaries of the U.S. manufacturers.

In his study of the agreement published in 1970, Carl Beigie of the C.D. Howe Research Institute in Montreal described Canada's traditional automotive industry position as "a high cost duplication in miniature of the United States automotive industry."

In the early sixties it was producing substantially the same model range as the U.S. industry—but for a much smaller and almost exclusively domestic market. Its international ranking as one of the world's major producers had sunk from favorable comparison with all nations except the United States of America in the early fifties, to a plateau of production, never exceeding the 500,000 unit level, which left it well behind the United Kingdom, Germany, France, Italy and Japan.

Its export trade had slumped from a postwar peak of 80,000 units in 1952 to 11,000 in 1954. Meanwhile, car imports from outside North America rose to over 28 percent of new car sales in 1960 and luxury models and a substantial number of parts, to feed the production lines, were being imported from the United States. These resulted in an average annual Canadian deficit of $400 million on auto trade with the United States in the period 1960–64.

It was during this period that Canadian Government concern with the balance of trade—and a major part of that came from the auto trade deficit—resulted in the devaluation of the Canadian dollar in 1961.

Nationalism and suspicion fanned the flames of real economic concern and in the early part of the sixties U.S. control of Canadian industries, including the automotive industry, became an important political issue.

Events moved quickly onward. Reflecting, but not ostensibly based upon, a 1961 Royal Commission Report, known as "The Bladen Report," the Canadian Government introduced a duty-remission plan to encourage the purchase of Canadian auto parts which came into full effect in 1963.

It corrected some of the trade imbalance but the protectionist nature of the solution stirred resentment on the U.S. side of the border and offered a real risk of economic confrontation.

The Bladen Report had already taken the view that effective integration with the U.S. automotive industry was a prerequisite to Canadian competitiveness in the North American market.

It is less easy to identify the precise author of the United States-Canadian Automotive Trade Agreement as it emerged, although it was introduced into public debate by Simon Reisman who in 1964 was the Canadian Deputy Minister of the Department of Industry.

It is fair, I think, to say that it grew out of a belated recognition of shared interests and shared opportunity which had been sharpened by the events of the late fifties and early sixties. It provided a constructive solution to a complex problem. And it avoided what could well have become a trade war by putting into effect a limited free trade agreement which has worked to the mutual benefit of both our nations for over a decade.

HOW THE PACT WORKS

You are, I am sure, familiar with the pact's operation and I will merely sketch in its major points.

The agreement resulted in the removal of all tariffs from completed cars, trucks and buses and original equipment parts (excluding tires and bulk materials) shipped between the United States and Canada.

As I indicated it is not a total free trade agreement because certain safeguards were negotiated by Canada to help its higher cost industry adjust to the competitive pressures of the North American market.

Duty-free importation is confined to Canadian vehicle manufacturers who must meet certain criteria of Canadian production-to-sales ratios and Canadian value added minima based upon 1964 levels.

Certain specialty vehicles and replacement parts are excluded from duty-free treatment, while cars bought in the United States and imported by an individual carry a 15 percent duty.

The Canadian auto manufacturers gave letters of undertaking which, in effect promised to increase Canadian added value, in vehicles and original parts, by $260 million by 1968, which was achieved. In addition, to insure future growth, the manufacturers agreed to increase the level of value added in Canada by an amount equal to 60 percent of the growth in the market for automobiles and 50 percent of the growth in the market for commercial vehicles sold for consumption in Canada.

The agreement our two countries signed set out three specific objectives.

(1) To create a broader market for automotive products within which the full benefits of specialization can be achieved.

(2) To liberalize United States-Canadian trade to enable the industries of both countries to participate on a fair and equitable basis in that expanding total market.

(3) To develop conditions in which market forces operate effectively, to obtain the most economic pattern of investment, production and trade.

I would like to examine from a Canadian viewpoint the achievement of those objectives in the third part of my statement.

WHAT THE PACT HAS ACHIEVED TO DATE

You will recall that the first objective of the pact was to create a broader market for automotive products within which the full benefits of specialization and large-scale production could be achieved.

In the years 1964–1972 (and 1972 is the last year for which complete data are available), North American car and truck output has grown in value from $38 billion to $67 billion—an increase of 79 percent.

Of course, some of that growth, particularly in the United States, would have taken place anyhow, and the comparison has been swollen by inflation.

What is in many ways more dramatic and more germane to your interest is the way in which the integration allied with this growth, and the specialization which that has allowed, has transformed the effectiveness of the Canadian automotive industry.

In Ford of Canada we reduced the complexity of the models we assembled (and complexity, in our industry, equals considerable additional cost) from 71 car models to 29 and from 227 truck models to 51 over the period. A 73 percent decrease made more dramatic by the fact that in 1964 they were all made in one plant, whereas we now have three assembly plants.

Such simplifications, with the economies of scale they allow, have at least served as an offset against other rising costs and minimized price increases, particularly in Canada. At Ford, well over half of the 1964 Canadian price differential versus similar products in the United States has now been eliminated.

The second objective was "fair and equitable" participation in the expanding North American market. Success in this respect tends to have been understandably measured by some people mainly in balance of trade terms.

But there are dangers in taking any year or two of trade in isolation because the balance of trade fluctuates with changes in market conditions on either side of the border. Over the last decade, the balance has averaged $330 million[1] in favor of the United States—not too different despite inflation, and a substantially larger market, than before the pact.

The fact remains that since the last Canadian surplus year of 1972, the Canadian economy has been in deficit with the United States on automotive trade to a growing degree.

This was predominantly caused by the changes in relative domestic market volumes. As the ninth annual report of the President to the Congress on the Automotive Trade Act shows this deficit in 1974 amounts to $1,233 million.

In employment terms, however, we at Ford of Canada have grown roughly in proportion to the parent company. Between 1964 and 1974 we provided 2,000 more jobs for hourly employees—increasing the work force from 9,000 to 11,000. The equivalent growth at Ford United States was 111,000 and 139,000.

It is necessary to read those numbers in relation to the improved specialization which has also been achieved by the Canadian auto industry. Over the same 1964–1972 period, added value per man hour in Canada has increased half as much again as in the United States.

Canadian and United States vendors of Ford Motor Co. also have enjoyed the benefits of the rationalization. Exports from Canada to Ford United States have expanded ninefold from $35 million to $320 million in a decade and exports from the United States to Ford Canada have increased sixfold, from $75 million to $490 million.

The Ford objective was the development of conditions which would make possible the most economic pattern of investment, production and trade.

In Ford of Canada we have invested over $300 million in automotive facilities over the period 1965–74. More than three-fourths of that amount was in new and expanded plant operations.

Before the pact we had what was primarily an engine plant at Windsor and a single car/truck assembly plant at Oakville.

Since 1964 we have built a separate assembly plant for trucks at Oakville, a second car assembly plant at St. Thomas and established a second engine plant at Windsor.

As I mentioned earlier we have improved our productivity, and economies of scale have helped us to keep prices down and reduce the Canada/United States price differential despite the move to parity of wage rates during the period.

We have come a long way and I believe we still have a way to go, which leads me to my last subject heading.

THE FUTURE AND THE AUTO PACT

Judgments on the effectiveness of the auto-pact, at least in Canada, tend to be made in terms of Canadian versus United States growth. To me a more meaningful comparison, which fortunately remains

[1] This figure is based upon data included in the Annual Reports of the President to the Congress on the Operation of the Automotive Products Trade Act. The statistical techniques used by the U.S. Government to measure the trade balance exclude "lump-sum" billings and include snowmobiles. If these were appropriately accounted for in the statistical data the average trade balance over the last decade would have been $450 million surplus in favor of the United States rather than $330 million. Lump-sum billings are mainly reimbursements made for tooling, engineering, launching, and administrative costs which are not included in the vehicle billing price because of conventions in the industry. They are transactions that affect the balance of trade and are directly associated with vehicle production in the two countries. Snowmobiles are not "automotive" and clearly should be excluded.

hypothetical, would be of the Canadian industry's very real progress against its likely fate if there had been no pact.

It is my belief that without the pact the Canadian automotive industry could not have developed or sustained the growth it has enjoyed in the last decade. Any theoretical options of self-sufficiency or a greater reliance on imports have respectively, cost or balance-of-payment disadvantages, too great to contemplate.

So from the viewpoint of both my country and company, the auto pact has been highly successful and I am convinced of the continuing need for it.

To briefly summarize some of the many accomplishments made possible by the pact: a major confrontation between the United States and Canada was avoided; the creation of an efficient integrated market has brought about more rapid growth in output and employment in the automotive industry in both countries; a higher degree of specialization has substantially increased the value added per man hour in the United States and Canada; increased specialization and its effects on prices have benefited individual consumers, and the United States/Canadian trade balance with third countries, by improving the competitive position of North American vehicles against foreign imports; and total bilateral trade in automotive equipment has increased from $700 million in 1964 to over $12 billion in 1974, a 17-fold increase.

I realize that the trade balance continues to be of interest to the United States and Canadian Governments, and properly so. However, although there has been considerable volatility on a year-to-year basis the average annual balance over the life of the agreement has been very reasonable, and I think the only appropriate way to measure the trade balance is over the long run, in the past and in the future.

The agreement was negotiated to take advantage of a unique situation which probably is not duplicated anywhere else in the world. How a similar agreement would work in other industries, I do not know, but I do know this one has been highly successful and should be continued.

Thank you, Representative Long.

Representative LONG. Thank you, Mr. Bennett.

I had not had an opportunity to read your statement prior to your presentation of it. And the question that ran all the way through my mind as you were reading your statement was whether or not it would work in other industries. And at the end you tell me that you really don't know whether it would or not.

We will explore that a little bit, if we may, in a few minutes, because I really think it has done exceedingly well. Consequently, it might be worthwhile to consider at least some of the other big trade areas.

Mr. BENNETT. I think it might be worthy of consideration, sir.

Representative LONG. All right. Mr. Clarkson, you may proceed.

STATEMENT OF STEPHEN CLARKSON, PROFESSOR OF POLITICAL SCIENCE, UNIVERSITY OF TORONTO, TORONTO, CANADA

Mr. CLARKSON. It is a great honor to come before you today—although I see we have outnumbered you—because I think it is more important to Canadians like myself to come down to Congress and talk to American politicians than it is to go to Ottawa and talk to Canadian politicians; because the extent of American power in Canada is such that the decisions you make here are going to have more effect on us in Canada than what the politicians in Ottawa are able to do. So I applaud your initiative in introducing these hearings, and I am a little disappointed that more of your colleagues are not here so that we could convey some information about what is happening in Canada.

I submitted my prepared statement to you yesterday, and I would like to talk rather than read it. It is a very imposing task to sketch in the general background of the foreign investment and general problems in Canada. So if I can I will very briefly touch on the highlights and try to give you a sense of flavor, if not all the facts of the issue.

Representative LONG. I did have a copy of your prepared statement and I have been over it.

Mr. CLARKSON. I could present the whole issue by telling you about a sign that was put up recently in front of a church in Montreal which said, "Poor Canada, so far from God, so close to the United States." And in a way this raises the issue of how very close we are to the States in terms of the American presence in the economy. And I don't know really if facts convey the load of the situation very dramatically. But to say, for instance, that $28 billion of American direct investment is in the Canadian economy is a hard figure to grapple with. But if you compare it to the $21 billion which is invested in the United States (all foreign direct investment), you see that in the one Canadian economy there is more direct American investment, 30 percent more, than there is foreign non-American investment directly in the United States economy.

If you could conceive in the United States of the OPEC countries owning the American automobile industry, or if you could concede that if 10 percent of a company is foreign owned it creates anxieties among American politicians, when we have 90 percent of whole industries—Mr. Bennett's comes closer to 100 percent—foreign owned. Then you may understand why we are starting to rethink the issues and consider whether there are not some costs as well as the obvious benefits that have been recorded.

Essentially I would say the economic costs are three. First, we have an economy which is a miniature replica of the American. We have plants operating at a scale inappropriate to the needs of a smaller economy, and requiring the kind of auto pact, arrangement, if one is to take that line, which produces the complete integration of the Canadian in the American economy, industry by industry, and means the virtually complete integration of our economy and the American economy.

Second, it is a truncated economy, in the sense that firms are not complete entities in Canada. Management decisions are made at the head office of multinational corporations. Research and development takes place generally in the country of the head office of multinational corporations. And since 80 percent of foreign direct investment in Canada is American, that means the overwhelming bulk of research and development in industry takes place in the United States.

Third, it is a distorted economy in two senses. One, that the capital markets have been redirected or have developed in such a way that Canadian savings come to the United States in the form of profits, dividends, royalty fees, to be reinvested back in Canada in the form of foreign investment. So that what happens, to put it in a nutshell, is that Canadian savings are used by foreign companies to buy out and take over increasing shares of the Canadian economy.

And it is also in a second sense that the large multinational corporation presence, distorts the economy in the form either of vertically integrated companies—for instance, in the resource industry—which take resources out to be processed here or the horizontally integrated companies, the ones that have branch manufacturing operations in Canada, leading to an export-import pattern similar to an underdeveloped economy which exports raw materials and imports manufactured goods. In other words, it exports job-creating raw materials and imports job-displacing imports.

The auto pact is a very peculiar and unusual exception to this, in which there is a good deal export of manufactured goods and also import of manufactured goods.

We are in, then, what we call a satellite economy, one which is far more integrated in the United States, region by region, than it is integrated on an east-west basis tying the different regions of the Canadian economy with each other. And Ford is a good example. It has more exports and imports directed tó the American economy than it manufactures and sells throughout the Canadian economy on an east-west basis.

So when Mr. Bennett says that self-sufficiency is a theoretical problem, he is right. We have been locked in, very largely locked into a situation in which we are not able to escape it even with the measures that are being taken.

My next point is, sir, that foreign investment is more than just a question of dollars and cents. There are very real political consequences if not costs to foreign investment. To make an equation: foreign investment plus the multinational corporation means foreign control of the political system, not just of the economy. Or the equation can be translated to read that foreign corporations with their head offices in the United States plus the American Government's desire to use multinational corporations to achieve their foreign policy goals, such as improving the balance of payments or improving the capital balance, equals the violation of Canadian sovereignty.

And Ford again is a good example, because it received—probably before Mr. Bennett was in charge—an order for trucks from another country and refused to fill that order because that country was China and at that time China was considered an enemy of the United States. And the application in Canada of the American Trading with the Enemy Act meant that Ford refused to fulfill an order which would have been in the interests of the company and also the Canadian economy.

So when in your press release, specifically on question 4, you raised the question whether American foreign investment in Canada is a problem, the answer really is yes, because multinational corporations aren't just companies operated on a worldwide basis, they are companies that—especially American head office companies—are clearly used by the American Government as a means of implementing its foreign policy and achieving its foreign policy goals.

So that in an area like energy, for example, where the petroleum industry in Canada is simply an extension of the international oil cartel, we have had the situation where the oil companies, which are the prime source of our Government's information about resources, technical problems and future development had in the 1960's, told us we have had limitless resources, that we must export as much as we can, to cash in before gas runs out of style. We accepted their advice. We pressed the United States to take our gas and oil. And now we find in the early 1970's that we are running out, running out so fast that by 1982 we will no longer have the capacity to be self-sufficient in oil, and by 1983, by the most recent report of our National Energy Board, the same thing will be true in gas. And it is an example of the presence, the foreign presence, not just of companies, but of a whole industry in the economy, so powerful that the Government relies on it for its information. And when it suits that industry to change its information base and no longer talks about potential reserves but actual reserves, we find that all of a sudden we are out of energy, and where we could have been self-sufficient we certainly will not be very soon.

So as a result we are in a situation where our political system cannot do for us what our representatives would like it to do for us. We can perhaps pursue that a little further if you like.

But one can't stop with an analysis of the problem just in terms of the political consequences. In Canada, if you are trying to get an understanding of what is happening in the greater national system which you mentioned in the press release, you have got to see the cultural costs of foreign investment. Because we have whole industries of our culture, commercial culture, television, films, books, magazines, sports even, in which the multinational economy really is the dominant factor, such that, for instance, less than 1 percent of the paperbacks sold in drugstores and supermarkets in Canada are Canadian. They simply are a part of the American distribution system and the choice of the titles is made by the companies in New York. A large proportion of the television programing is American. Canadian films are treated by the American film distributors as a nuisance. If they have to put a Canadian film into the Canadian market, it is a bore for the big distribution chains, and it is very difficult for the Canadian film industry as a result to develop.

To try and get a sense of our cultural situation you have to imagine textbooks on the American political system were printed with a picture of General De Gaulle on the cover, or a picture of Winston Churchill on the cover. What we have in Canada are textbooks that come out with a picture of Abraham Lincoln on the cover. As a result, Canadian students generally know more about the President of the United States than they do the Prime Minister of Canada. They are already being assimilated into the American culture in a way that is very difficult to deal with because we do not have the capacity to print out own textbooks, most of the textbooks being printed by American publishing firms.

I would argue, and an increasing number of Canadians are arguing, that this is an untenable situation in even the medium term, let alone the long term, because we are losing the capacity to implement policies which will be necessary for us to develop as a country.

"Economic nationalism," though, I think is a misnomer. And if I have any message for the Congressmen here, it is not to be alarmed by what is going on in Canada. Canada must surely be the most pro-American of Western countries. It is the most open. There are no controls over what books can come in, what magazines come in, and what films come in, except possibly some censorship of lurid scenes in movies. It is an open country, and very pro-American. Americans are the friends we fought with both in the Second World War and Korea. And if there is some rethinking going on, I think it is best to see it as a young country which is growing out of a certain psychological dependency. It used to be a dependency of Britain and France, which used to be colonial parents, and since the war it has been a kind of dependency on a bigger adult, having a kind of adolescent hero worship of the United States. Your dream was our dream. Now we are getting to the 20-year-old stage. We are finding ourselves, feeling that the American model is no longer as shiny as it was, the American dream has been shattered by Vietnam and Watergate and the urban problems here. So if you can see Canada as a young country which is developing a sense of itself, and finding that the parental restraints are just too much, that we want to choose our own reading materials, we want to see our own films and do our own programing in television, then I think you can be not alarmed by the individual issues which come up on a day-to-day basis.

Yesterday your ambassador on leaving Ottawa made some comments, which caused somewhat of a furor in Ottawa, about worsening political relations in the United States. I don't know what my Canadian colleagues here feel, but my own feelings are that these should be considered normal and natural and should not be great sources of concern. If a provincial government feels that the way to handle its resource industries is to increase public ownership thereof; if the Canadian Government, to do something about the drain of advertising money away from the Canadian television system into the American, is trying to plug a loophole, or block a gap; if we are now taking steps to have a national news magazine, rather than Time, which is virtually a complete import with a few pages of Canadian content put in the front; if we are trying now to screen new foreign investment in a way that increases its advantages to the Canadian economy; my message to your, sir, is, don't be alarmed. You really couldn't have had it so good if you had tried, if you had had a conscious policy in the last 100 years to achieve what you have done, you probably wouldn't have done it. Foreign investment in Canada is our problem. We invited it in. It has been national policy really since the 1880's to set up a tariff barrier and bring in branch plants. We find that it has gone rather far. And we are trying to investigate it. I do not expect that there is going to be foaming-at-the-mouth "economic nationalism" in Canada unless the Americans get too concerned and start to intervene. I would say that there is a much greater consciousness of the issues. I am sure Professor Murray will go into this more. My own feeling is that we will have to work out these problems ourselves. And if the Americans were to intervene in a way that they have in the less developed countries of the world, they would then provoke what would be real economic strife.

So coming back to my billboard in the Montreal church, what we are striving for is a little better balance between God and the United States.

Thank you.

[The prepared statement of Mr. Clarkson follows:]

Prepared Statement of Stephen Clarkson

CANADA: THE AMERICAN POLICY DILEMMA

Canada, like Vietnam before it, poses the United States an impossible policy problem. With its interests challenged, nothing the United States of America can do is right; anything it does will be wrong. But unlike the United States of America's power in South-East Asia, the American role in British North America has been a long-standing presence, not a recent incursion. It has been based on economic, not military takeover, and it has been a success, not a failure.

Despite a lack of any explicit policy towards Canada the United States has scored near perfect results. It has gained maximum economic advantage in the form of secure raw materials, its largest export market, biggest return on its investment; and all at minimum political cost from a friendly, cooperative and supportive ally. While getting maximum military security from armed forces willingly integrated in the American defense grid, the United States has suffered minimum ideological consequences of the type that were so costly on the home front during the Vietnam war.

Inadvertent though American policy may have been, the United States of America's position in Canada is too overwhelming, too powerful, too dominating to continue unchanged. American control over Canada is inconsistent with that country's political survival. Now that Canadians are growing into a new stage of national consciousness, they find this untenable position requiring adjustment. The Joint Economic Committee is well advised to have a serious look at the American-Canadian relationship, an aspect of the United States of American's foreign affairs that is traditionally ignored by Washington in favour of more distant, more dramatic, but generally far less important crisis centers.

There is another reason for the Joint Committee to take a close look at Canada. With its stable political system, its open border, its free-enterprise economy, its English culture, its geographical proximity, Canada has been the testing ground for the American multinational corporation abroad, the largest recipient of American corporate investment in the world. Whether the best or the worst is a matter of opinion. Certainly it is the most striking example of the impact of the American multinational enterprise.

Is Canada a model for the world, the example of a country where international economic forces are winning out over national political restraints? For non-Americans is it an anti-model, an example of advanced dependency which countries outside North America would do well to avoid. Not to become another Canada has already become a campaigning theme in Australian elections. Whether its example is to be applauded or abhorred, Canada is a case to study, an early warning system that American politicians should discuss publicly as they contemplate the impact of their own multinational corporations upon the world outside.

There is a third reason to take a close look at Canada. Any politician interested in studying legislation to control foreign investment must look at what is happening north of the 49th parallel, but not so much because of the recently enacted Foreign Investment Review Agency but for the whole context of foreign—that is American—control from which FIRA has emerged as only one of a whole range of policy initiatives.

CANADA: THE UNHAPPY HUNTING GROUND OF THE MULTINATIONAL CORPORATION

Canada is not your ordinary banana republic. United States Marines have not been needed to maintain the flow of resources or profits. Nor has the Central Intelligence Agency yet had to subvert the political system in the name of free world values. There is no need for American Liberals to feel guilty about their northern neo-colony: not since the British burned Washington in the War of 1812 have gunboats plied the Great Lakes with hostile intent. "Yanqui-GO-Home" is not part of the popular vocabulary among a population that has been fundamentally pro-American since fighting side by side in World War II and Korea.

The fact of the matter is that 300 multinational corporations control 75 percent of the non-communist world's industrial assets. Forty percent of their foreign investments are in Canada: $34.7 billion of $89.6 billion. And 80 percent of foreign direct investment in Canada is American controlled.

A further fact is that this American investment has been desired by Canadian governments, not resisted. Whether Conservative or Liberal, Canadian governments have developed their national economic policies since confederation in 1867 to entice foreign companies to establish their job-creating branches behind a wall of tariff protection.

Standing beside the representatives of the Ford Motor Company in Canada and the Conference Board, this paper has no need to dwell on the economic benefits resulting from the huge quantity of foreign direct investment in Canada: an economy which shows all the obvious indicators of over development: sophisticated technology, elaborate marketing systems, uncanny communications facilities.

What is more worthwhile reporting is the dramatic change of perception of the multinational corporation in the Canadian economy over the past eight years—since 1967 when Canada moved into its second century and left behind it some of the illusions of the first. The first illusion that economic research has forced Canadians to drop is the unquestioned faith that branch plants bring unmitigated blessings. The foreign company establishing a subsidiary may bring with it some technology, its marketing skills, its entrepreneurial abilities. But when whole industries are owned and controlled by satellites of the giant American corporations, the benefits which appear so obvious when each plant is noted separately at the micro level of the firm become equally obvious liabilities when seen in the macro context of the economy as a whole. To summarize a large and growing body of research, three groups of costs predominate.

1. The branch plant economy is a miniature replica of the dominant economy.

The refrigerator industry is the classic case. With a sales of 400,000 refrigerators per annum a free and efficient market would sustain just two refrigerator companies producing at the optimum level which is from 150,000 to 200,000 units per year. But the branch plant economy is a miniature of the dominant economy. Since every big American firm wants to have its piece of the Canadian market's action, there are in fact nine companies (of which seven are American) producing for this relatively small market. Naturally they produce inefficiently, with higher costs, too many models and huge wastages for the economy in the form of unproductive product differentiation expenditures in marketing and advertising. Given that foreign, and especially American direct investment dominates the industries where corporations are biggest and technologies most sophisticated, the paradox of the multinational corporation for the Canadian economy is that the miniature replica effect provides an obstacle to efficiency in the very industrial sectors where the genius of the multinational corporation is supposed, according to its propagandists, to shower its most munificent benefits.[1]

2. The multinational economy is a truncated operation.

What is rational for the international corporation operating a global strategy for maximum corporate profit is unlikely to be optimal for the host country in which individual branch plants are functioning. This is largely because the multinational corporation situates its research and development operations and its top management in the head office's parent economy. Thus, while the short-term gains of the multinational are obvious, the long-term costs are crushing. In Canada's case with whole sectors of its economy under foreign control, the national capacity for technological innovation is virtually castrated. Ninety-five percent of all patents taken out in Canada are foreign. Canada ranks lowest among industrial nations as a generator of new technology, but highest as a user of foreign technology.[2] If an intrepreneurial gap—a lack of local entrepreneurs and their accompanying skills—was an initial reason for attracting the establishment of branch plants, another irony of Canada's national policy is that its successful implementation perpetuates the problem. For the branch plant is an amputee case in economics. It is a body without a head, a robot, a lobotomized operation with the brains removed and operated from abroad. Managerial talent must go to the head office to succeed. Back at the branch, the Peter Principle of management keeps the executive offices staffed by those who are trained to implement orders not to initiate new programs, break into new export markets or undertake operations that overstep the bounds defined for the branch by head office.[3]

3. The branch plant economy is a distorted economy.

Large and successful companies cross international borders with their corporate structures in two basic forms. On the one hand their international operation achieves vertical integration so that the complete process from resource extraction to manufactured production takes place within the one structure. On the other hand horizontally integrated firms establish branches abroad to capitalize on their manufacturing or marketing superiority. The typical branch plant is a vertically integrated multinational corporation exports raw materials, largely unprocessed, to the economy of the parent company. The typical branch plant of the horizontally integrated corporation imports parts and components from the manufacturing operation in the parent economy. The cumulative

EDITOR'S NOTE.—See footnotes at end of prepared statement.

impact of this dual process is to create, then perpetuate a colonial-like economy, one that exports job-creating raw materials while importing job-displacing manufactured goods.[4]

An equally serious distortion is created in the capital markets once the multinational sector has become implanted. With their superior economic muscle, the multinational corporations hold an advantage over smaller, national companies even in the host economy's capital markets. Able as they are to bargain one country off against another, they manage to profit more from the public purse of the host government than do national companies, gaining tax concessions, grants and other financial subsidies. With superior credit ratings, they get preferential access to larger blocks of the national banks' reserves. So successful is the American multinational corporation when operating in Canada that, according to the United States Department of Commerce's own data, 92 percent of the expansion of American business in Canada is financed by Canadian savings and only 8 percent by new American investment. Seen from the Canadian side, this is a spectacle of Canadians paying for the takeover of their own economy. The capital markets are so distorted, in consequence, that there is almost no Canadian capacity for initiating major capital-intensive projects. Canadian savings are not available for Canadian investment. Given the nature of equity control, Canadian savings are increasingly pumped into the American economy in the form of dividends, royalties, license fees and other levies which are now estimated to run at the rate of $600,000 every hour. It is well known that foreign investment benefits the investing economy. The counterpart of this, as Canadians are becoming increasingly aware, is the permanent drain of its vital capital.

The built-in inefficiencies of miniature replica industries; the lop-sided nature of truncated enterprises; the distorted import/export balance and skewed capital market structure: these are severe economic costs which mean that in the long run, the Canadian economy is locked into an injurious strait jacket from which there is no escape.[5]

But the costs of foreign domination do not stop with the economy. They spread through the military and political system to the culture of the people itself. Take the political system first of all. To have an industry dominated by foreign branch plants is the equivalent of building in a legitimate fifth column, for it is bound to work in the interests of the more powerful—the head office and the parent economy. The petroleum industry, for example, is almost 100 percent foreign controlled. When it suited the interests of the oil cartel and the American economy, the industry fed the Canadian government such inflated figures about Canadian oil and gas reserves that exports of Canadian oil and gas to the western United States were hastily expanded to the point that Canadian self-sufficiency in energy is now impossible and that critical component of national security squandered forever. A nationally owned energy industry with national, rather than continental interests as its priority might have strengthened rather than weakened the Canadian economy.

An immense branch plant presence has further political consequences. Since the American multinational corporation's impact is to integrate its operation in North America on a continental basis, the individual multinational strengthens the north-south pull on the Canadian economy at the cost of east-west national economic flow. Since the Canadian economy is a series of regional economies with very different characteristics and since the multinational corporations congregate in the growth-oriented, capital-intensive industries, the impact of massive American direct investment is to integrate the different regional economies in Canada with their counterpart regions in the United States—the west coast, the prairies, central Canada (Ontario and Quebec) and the maritimes.[6] The political cost is unmeasurable but evident in the increasing centrifugal strains on the Canadian federal system. For continental integration region by region strengthens the power of the provinces against that of the federal government. Through their normal lobbying, through their financing of political party expenses, the multinational corporations build up provincial government strength in their own interests. Thus it is not surprising if foremost amongst the opponents of a national policy to control unrestricted foreign investment in Canada are the Premiers of the provincial governments.

If the multinational corporation operated according to classical economic theory, it would have no baleful political effect. It would not contribute to the Balkanization of Canada. It would simply try to make more profits and benefit the economy. But the corporation wields power in its own right as we have just seen. Furthermore it can be an instrument of government power, as the United States has made very clear over the past twenty years. Washington has indeed taken the lead in trying to harness the multinational corporation as an instrument of its foreign policy. Through such devices as the Trading with the Enemy Act and by declaring that American owned companies in foreign countries are American citizens, the American government has turned the multinational world economy into a weapon of state. But what increases American power abroad undermines the sovereignty of the countries in which these multinational corporations are operating. The allegedly Canadian company, Ford (of Canada) refuses to fill an order for trucks placed by Peking. This is not because the Canadian government does not want to trade with China. On the contrary it has always been Canadian policy to encourage trade liberalization with the communist world. It is because the Ford Motor Company of Canada is deemed by Washington to be subject to its laws, over and above Canada's. There are a number of known examples of American-controlled companies in Canada refusing to fill orders from countries with whom Canada maintains normal commercial relations, most notably in recent times, Cuba. The point here is not the economic damage suffered by the Canadian economy in loss of potential exports. More important is the loss by the Canadian political system of the capacity to implement policies designed by its own politicians to meet its own national objectives. When the American multinational corporation has become an agent of the State Department, every branch plant in Canada represents a threat to Canadian sovereignty. A political system that is losing the ability to shape its own society is a state on the road to disintegration.

The extent of this disintegration is probably not evident to the casual observer in Washington. The country, after all, has a national flag and what passes for a national anthem. But if looked at more closely it is clear that the political system has already lost the bulk of its independence. A comparison with Poland or Czechoslovakia's relationship with the Soviet Union is more striking by its similarities with the Canadian-American relationship than by its differences. Canada's foreign policy bears the same sycophantic similarity to that of the United States as do the foreign policies of Poland and Czechoslovakia reflect those countries' satellitic dependence on the U.S.S.R. Despite longstanding dissatisfaction among the Canadian public with the American war effort in Vietnam, the Canadian government's stance remained supportive of the American position in public. Behind the scenes, as the *Pentagon Papers* revealed, Canadian diplomats acted as virtual spies in Hanoi for the State Department and the Pentagon.[7] No congressman needs a lecture on how the military forces of the East European countries are integrated in the Soviet command and aimed westward against NATO rather than eastwards against their real source of domination, the Soviet Union. Again the parallel in the Canadian-American relationship is striking. Canada's token equality in NORAD, the North American Air Defence System, masks the almost total absorption of Canadian armed forces in the American defence machine, despite the fact that, as a Washington expert himself has observed, the United States, not the Soviet Union, is Canada's major security threat.[8] Analysts of Canadian foreign and military affairs acknowledge that Canadian policy is made more within an eye to what Washington wants than a fear of Soviet invasion.[9] The large armaments industry in Canada is largely integrated in the American military industrial complex, made up as it is by branch plants of the American corporations themselves.[10]

The impact of the multinational corporation does not stop at undermining the political integrity of the country. It goes on to alienate the cultural basis of the people itself. Book-publishing and magazines, film production and television, the education system and athletics: there is no segment of Canadian cultural life, however narrowly or however broadly defined, that is not firmly Americanized. Less than one percent of the paperbacks offered for sale to Canadians in the drug stores and supermarkets of the country are Canadian—simply because the distribution system is run from New York. With the rapid takeover of the book-publishing industry in Canada, there is now no longer any Canadian owned company publishing educational books for Canadians. Canadian films are seen less in Canadian movie houses than are foreign films—film distribution being a virtual Hollywood monoply in Canada. Culture is not neutral. It is, as Americans themselves know very well, the basis on which the nation's identity and self-confidence is based. If it is American programming which Canadians watch on their television, American news they read in their magazines and American values they absorb at the movies, the forces undermining the integrity of the Canadian political system are strengthened as the citizenry is assimilated into the dominant culture of the United States. The policy implications of the multinationalization of Canada must now be considered.

THE AMERICAN INTEREST IN CANADA: COLONY OR COLLEAGUE?

The American policy response to adjustments to its position in the Canadian economy depends on what the real American interests in Canada are. If it is really in the interests of the United States for Canada to be independent—as President Nixon affirmed during his visit to Ottawa and as Secretary Kissinger confirmed more recently—then Washington should do very little. It should let Canadians get on with the job of correcting the imbalances which are becoming patently clear in their culture, political system and economy. If, however, the United States' real interests are quite different from its formal rhetoric: if, in other words, the United States wants a colony rather than a colleague north of the border then it should continue to use the multinational corporation as an instrument for its policy in Canada, and obstruct with all its vast power of economic, political and military retaliation the efforts by Canadians to deal with their emerging problems. The former option would assume that it is in fact in the interests of the United States to have a friendly, but separate and independent-minded neighbor to the north, a country that provides an option in North America, an alternative view on world affairs that may differ from Washington's, an alternative society to which Americans may go rather than stay, disgruntled and alienated, at home. This view would consider that the United States of America has no interest in absorbing the Canadian political system with its powerful French community, its ethnically more heterogeneous population, its ideologically distinct roots and its different parliamentary political traditions. It would also agree that it is only storing up trouble in the future to maintain Canada as a dependency with all the potential for turning its still pro-American feelings into strong anti-American hostility.

The second approach would place economic and military considerations ahead of political concerns. It would emphasize Canada as a resource base to be exploited for the maximum benefit of American industry. It would not worry unduly about Canadian antagonism, given the extent to which the cultural and economic scenes are already under American control. While stopping short of political takeover, it would stand by its own multinational corporations as the best means of continuing to defend the American empire both in North American and around the world, seeing any challenge to the hegemony of the multinational corporations as a challenge to the power of the United States.

No one can be sure which strategy would work best, because no one can predict what reactions there would be. While an objective look at the Canadian position would lead one to conclude that American control has gone so far that Canadian integrity cannot be reestablished, another factor—the psychological element—must be added to the analysis. While the psychic roots of a people cannot be measured with dollar signs or calculated with slide rules, the dynamic societies of a community's psychology may turn out to be the crucial element. There are important indications that this is indeed the case.

THE CHANGING MOOD OF THE CANADIAN PEOPLE: A NEW NATIONALISM EMERGING

Canada is the most un-nationalist of countries. It places no restrictions on the entry of foreigh books or periodicals, foreign films or foreign television programs. Canadians have traditionally identified with the imperial power of which they have been an extension, whether France in the 18th century, Britain in the 19th century or the United States in the 20th, since, by its nature, Canada has been an outpost of these dynamic societies. As an outpost, it has found its identity as an extension of the culture of the dominant society. Its economy has exported primary staples and its culture has imported the values coming from the center. It must also be understood that Canada is a younger country than the United States, one that has been slower to gain formal, political independence and slower to grow through its adolescent phase of dependence on more mature models. Indeed its psyche can best be seen as that of early adulthood. It has passed through infantile dependence on France and childhood dependence on Britain to an adolescent hero-worship stage in which the American Dream was its major fantasy.

Now, however, the Canadian people is showing signs of moving into a deeper maturity at the same time as the American model is disintegrating before its eyes. Internally its writers are developing their own medium of expression, their own symbols, their own reference points within the Canadian society. Externally the American vision has been shattered by Vietnam, by urban riots, by Watergate. The process of emotional disengagement from the United States is not easy. Like any marital breakup there are pains and conflicts, there is questioning of old values, there are doubts about new values. In a community as large as Canada, these psychic conflicts take the form of generational differences so that the older generations who fought in World War II with the Americans as their closest friends find their values no longer accepted by younger Canadians who see in the United States a power that overthrows regimes in Latin America and bombs civilians in South East Asia.

Understanding what is going on in Canada is further complicated by the serious tensions between English Canada and Quebec, between white society and the native peoples, between the highly developed urban centers and the under-developed hinterlands of the economy. Even more difficult to assess is the discrepancy between the growing nationalism that is revealed in the Gallup Polls and the political leadership which is only imperfectly in touch with the shift of emotion at the grass roots. Much more research on this critical but imprecise area needs to be done. What can be said at this point in time is that national self-consciousness is growing in Canada and with the raising of consciousness comes a raising of sensitivities. Even hardened politicians and senior civil servants who were dismissed by nationalists as unredeemable "continentalists" (read pro-American, anti-Canadian) have become more nationalist as a response to the shock of Nixonomics in 1971. It is the implications of this shift in the national mood on which the conclusion is based.

CONCLUSION: WHEN IN DOUBT, DO NOTHING

American politicians concerned about the specter of economic nationalism and the controls that countries outside the United States are beginning to establish to regulate the multinational corporation may be unduly alarmed by initiatives currently being taken in Canada. FIRA, the Foreign Investment Review Agency, should put no fear in the hearts of any American. It is, at best, a very modest initiative. At worst, as many Canadians feel, it is dealing with a peripheral issue—new takeovers—rather than the more fundamental problem of the self-generating growth of the multinational sector itself. It is better to see FIRA as symbolic rather than substantive—symbolic of a shift in the approach of Canadian government, federal and provincial, to the question of foreign control and national survival. These initiatives will affect all areas of Canadian life, television commercials, film distribution, book publication, energy exports, raw material processing, research and development, managerial training, and so on as issue after issue comes onto the public agenda for reevaluation.

For the American politician and the American official it will be tempting to react to each one and cry "Wolf!" It is a temptation to be resisted. The problems that Canadians are dealing with are their problems, not the Americans' problems. They are the problems of the branch plants, not the problems of the American economy. The issues which surface as points of conflict with the United States are those that will be invested with heavy symbolic meaning, having a large psychic punch in Canada and little impact in the United States. These will be issues that American reaction will only serve to exacerbate. As Nixonomics and the DISC measures showed, getting tough will only alienate the neutral and the pro-American in Canada. The temptation to intervene in feuds and divisions within Canada may well increase, but they should be resisted. American interests are adequately looked after in Canada by the branch plants of the multinational corporations themselves. The power of Exxon reaches up to the highest levels of the political system. A former vice president of Imperial Oil is the chief policy adviser to the Leader of the Opposition. Representatives of the multinational corporations form the committee of advisers to the Minister of Energy, Mines and Resources. The banks in Canada, though protected from foreign control, themselves speak up against controls on foreign ownership.

As the United States enters the year of its bicentenary celebrations, we will also be celebrating the 200th anniversary of the publication by Adam Smith of the "Wealth of Nations". The challenge for American politicians in this era of the multinational corporation, is to return to the practice of the theory on which their own wealth has been based—laissez faire. If the United States government can keep its hands off the affairs of Canadians and their corporations, there is a chance that Canada will emerge through this period of intense psychic dependency to become that colleague which it is in America's best interest for it to be.

BIOGRAPHY

Stephen Clarkson has been a professor in the Department of Political Economy of the University of Toronto for 11 years. He was educated at the universities of Toronto, Oxford (as a Rhodes Scholar) and Paris where he did his doctorate in 1964. He currently teaches, writes and does research in issues of Canadian politics, with special emphasis on the Canadian-American relationship.

Among over one hundred publications in book and article form are "An Independent Foreigh Policy for Canada?" (Toronto, McClelland & Stewart, 1968) and "Visions 2020: Fifty Canadians in Search of a Future" (Edmonton, Hurtig, 1970).

Alongside his academic work, Clarkson has been active in Canadian political life at the federal, provincial and municipal levels, including being policy chairman of the Liberal Party in Ontario from 1969 to 1974.

He is an editor of the monthly magazine, "The Canadian Forum," President of the University League for Social Reform and a member of the Canadian Political Science Association, the Canadian Institute for International Affairs and the Committee for an Independent Canada.

FOOTNOTES

[1] "Foreign Investment and the Structure of Canadian Industry" (Watkins Report). Ottawa, Queen's Printer, 1968.
[2] Pierre L. Bourgault, "Innovation and the Structure of Canadian Industry," Ottawa, Information Canada, 1972.
[3] "Foreign Investment in Canada," Information Canada, 1972 (Gray Report).
[4] Stephen Hymer, "Direct Foreign Investment and the National Economic Interest," in Peter Russell, ed., "Nationalism in Canada," Toronto, McGraw-Hill, 1966.
[5] Hugh G.J. Aitken, "American Capital and Canadian Resources." Cambridge, Harvard University Press, 1961.
[6] Garth Stevenson, "Continental Integration and Canadian Unity," in Andrew Axline *et al.*, eds., "Continental Community?" "Independence and Integration in North America," Toronto, McClelland & Stewart, 1974.
[7] Charles Taylor, "Snow Job: Canada, the United States and Vietnam (1954 to 1973)." Toronto, Anansi, 1974.
[8] Roger F. Swanson, "The United States as a National Security Threat to Canada," "Behind the Headlines," 1973.
[9] John Holmes, "The Better Part of Valour," Toronto, McClelland & Stewart, 1972.
[10] John J. Kirton, "The Consequences of Integration: The Case of the Defence Production Sharing Agreements," in Andrew Axline, *et al.*, eds., "Continental Community?" "Independence and Integration in North America," Toronto, McClelland & Stewart, 1974.

Representative LONG. Thank you very much, Mr. Clarkson.

Your opening paragraph in your prepared statement presented a similar broad view of the problem. I will read it for the benefit of those who do not have it in front of them.

"Canada, like Vietnam before it, poses the United States an impossible policy problem. With its interests challenged, nothing the U.S.A. can do is right; anything it does will be wrong. But unlike the U.S.A.'s power in Southeast Asia, the American role in British North America has been a longstanding presence, not a recent incursion. It has been based on economic, not military takeover, and it has been a success, not a failure."

And I think as you pointed out, certainly what has happened is a logical progression of both political activities and business. The economy certainly is to be affected. It is a natural consequence of the relationship that existed over a period of time. And you gave an illustration that Canada is moving into being a 20 year old. The only point that I would argue with you is that in the United States now they are beginning to take that attitude toward their parents at about 14 instead of about 20. But your point is well made. And we do appreciate your statement.

Mr. Murray.

STATEMENT OF J. ALEX MURRAY, PROFESSOR OF INTERNATIONAL BUSINESS, UNIVERSITY OF WINDSOR, WINDSOR, CANADA

Mr. MURRAY. It is a pleasure to be here, Congressman Long.

Mr. Bennett and Mr. Clarkson have talked about "we." And I would like to tell you that I went out and talked to "we," that is the Canadian people. I would hope someone will pass to you a copy of the tables and charts. What I would like to do today, is just go over a few of the highlights of the attached tables and charts, in which we interviewed—that is our research unit, my colleague Lawrence LeDuc couldn't be with me today—a large survey of 5,000 Canadians, which is one of the largest in North America. We interviewed people in-depth on the policies, procedures and questions which we are talking about today.

Just to start off, in table I, we can see that U.S. investment in Canada is not the most important issue for Canadians. The best representation it receives is that it is listed No. 5, and I think this year it is going to fall even below this. The media have done more to bring the issue to light than the multinational corporation. It has been a silent takeover, as Mr. Clarkson said. And until the media "grabbed it" no one really thought too much on this issue. So it stands, No. 5, with only about 5 percent of the people even mentioning it.

We wanted to investigate personal feelings about U.S. investment—we have been doing this since 1969—with our 5,000 sample across Canada. There is no question about it, there has been an increased concern. Just looking at the negative aspects (chart I), it has increased from about 35 percent in 1969 to 55 percent in 1973. However, our thesis is that it is leveling or even dropping off. I want to talk a little bit about that in a few minutes. This year it dropped back to 50 percent. The growth has been abated, and I think it may continue to level off. And, if you look at table II, you will actually see by Province, that British Columbia is the most nationalistic or has had the most negative reaction against U.S. investment. Actually what has grown is the qualified opinions. People see "good and bad things" which they didn't see before. It is interesting that when we break these results into demographic segments, we find that the most nationalistic person in Canada is "a single female living in British Columbia who is under 25 and voted for the NDP Party."

Turning to table III, we asked these people not only, why do you think U.S. investment is "good or bad," but what reasons do you give for it being either "bad or good." Interestingly enough, people who think it is "good" place heavy emphasis on employment and economics. "It brings money into Canada, Canadians are a little timid," et cetera. Whereas when you look at table IV, you see just the reverse. Canadians now feel they are losing control of the economy, their profits are leaving with some of the same things that were mentioned by Mr. Clarkson.

Now, what is possibly just as interesting, as we start to investigate foreign investment in general, we can see in tables V and VI. As you know, Canada has had an increasing amount of investment, such as the United States has had, from the Middle East countries. And we asked Canadians whether they consider it a serious problem, whether it might be in the future, or whether it is not a problem at all. About 46 percent don't feel it is a problem now, or it might be one in the future.

Still, looking at foreign investment and control you might ask people what they think should be the best solutions. And this is where the Foreign Investment Review Agency (FIRA) comes in. We ask people if foreign investment is a problem, and then focused on those who said it was a problem by asking, "How would you like it to be handled?" Government regulation is No. 2—this is in table VI—and by government regulation, here we mean the Foreign Investment Review Agency, FIRA. Government funds still rank near the very top. The Canadian Development Corporation is third. And I think you can see that this is pretty well representative in the 10 Provinces all across Canada.

Now to carry on we ask people, if you are concerned about foreign investment, would you be willing to take a lower standard of living to buy back Canada. Over the years this has decreased. In table VII you see 1974–75. It shows you 39.9 percent (about 40 percent) said yes. And this is a drop from 1973–74. It has dropped from 43.8 to 39.9 percent.

I might add that in using our statistics because of the large sample it is significant within 1[6] percentage points. So you can subtract 1[6] to 2 percentage points both ways for confidence intervals.

Again, the most nationalistic Province is British Columbia. However, there has been a change, as you can see. And this I think was also reflected in the most recent provincial election, where the "yes" people dropped from 54.9 to 45.5 percent. If you take the "yes" people and say, "how much are you willing to take as a lower standard of living?" You will see from the bottom that there has even been a drop from those who gave a large percentage to those who say, well, we are not sure, or no percentage given. Some say "we are willing to but we are not willing to take too much of a drop." So if they are pushed they might even switch over to a "no opinion." There are a lot of uncommitted people as to whether they are willing to actually bear the cost of buying back Canada.

The next table (table VIII), I think is extremely interesting, because this has been a foreign policy issue of Canada. It is sometimes referred to as the "third option." There are three long term strategy options that have been proposed for Canada. In summary these are: that we carry on as we have been doing. A second is that we make some deliberate move closer to the United States. And the third is that we do something with Europe and Asia, a third option policy by Mitchell Sharp. Over the past couple of years we have asked people, which one would you choose. The third option of course has been the option by the Canadian Government, in the sense that Mitchell Sharp and the present minister have tried to lead the people, in this direction.

As you can see, an overwhelming majority of poeple say, we want to "stay as we are." They don't want to move closer to the United States and they don't want to move closer to Europe. We like what we are doing, and we want to continue on this track. Although there has been a slight drop, it is not significant in this area.

Now, the last table (table IX) is one that may be interesting, and one that was brought up by yourself to Mr. Bennett: What about more trade agreements? The results give you some indication that it "depends on the industry." And we have had, of course, free trade pacts in the farm implement business, and we have had one discussed today called the auto pact, and we have a defense sharing agreement with the United States. So it would have to depend on a selected industry for Canadians to want more free trade pacts.

So let me summarize, Congressman Long. First, general foreign investment is considered somewhat serious, but it only stands fifth when we focus on the United States. If we are to look for a proposed solution to those who feel it is serious, then we need more government funds, that is encouragement rather than discouragement. I look at this as encouragement and direction of investment rather than discouragement.

If you look at the negative aspects against U.S. investment, it is definitely abated this past year. There is a clear-cut, significant trend change. I feel that 1975–76 will show this continuing. We are now out in the field testing it.

If you look at the reasons why, they seem to be all economic. Economics are those pocketbook issues which hit first. And those are the ones in which Canadians are most concerned about.

For those who are willing to take a lower standard of living, this has definitely declined, although you should realize that there are still approximately 40 percent who are still saying that they are concerned enough to take a cut in their living standard.

As far as the third option to Canada—and in summary, that is, moving closer to Asia and Europe—this has been rejected fairly significantly by the Canadian people. They want to go on as they have been doing. They feel comfortable with the United States at the present time.

And so I submit that those are some of our findings, that when you talk about "we," this is the "we," these are their attitudes, and these are their feelings on the topic.

Thank you.

[The tables and chart referred to, and the prepared statement of Mr. Murray and Mr. LeDuc follow:]

TABLE I.—*Canadian issues that are most important at the present time, 1974–75*

	Total mentions [1]	Most important
	Percent	*Percent*
Inflation	86.9	63.2
Unemployment	54.9	9.1
Environment and pollution	38.8	10.5
Taxation	33.1	5.0
U.S. investment in Canada	26.2	5.1
Energy	24.7	2.4
Provincial-Federal relations	19.0	2.6
English-French relations in Canada	12.1	1.8
No reply	4.3	.3

[1] Percentages total to more than 100 percent because more than one response was permitted in the survey.

TABLE II

OPINION AS TO WHETHER AMERICAN OWNERSHIP OF CANADIAN COMPANIES HAS A GOOD EFFECT OR A BAD EFFECT ON OUR ECONOMY

SIX-YEAR FINDINGS (TOTAL CANADA)	1974 %	1973 %	1972 %	1971 %	1970 %	1969 %
Bad thing	35.8	50.8	47.0	43.7	40.9	33.9
Good thing	24.1	31.7	37.8	39.4	38.0	42.6
Qualified - both good and bad	30.0	7.5	7.2	6.9	13.0	7.1
No Opinion	10.1	10.0	8.0	10.0	8.1	16.4
1974	**TOTAL CANADA**	**Maritimes**	**Quebec**	**Ontario**	**Prairies**	**British Columbia**
TOTAL INTERVIEWS - 100%	5000	486	1382	1808	805	519
Bad thing	35.8	37.7	36.8	33.4	38.4	36.4
Good thing	24.1	22.8	26.2	24.9	21.2	20.8
Qualified - both good and bad	30.0	28.8	24.1	31.3	33.8	36.2
No Opinion	10.1	10.7	12.9	10.4	6.6	6.6
1973						
TOTAL INTERVIEWS - 100%	5000	445	1415	1825	800	515
Bad thing	50.8	47.9	45.4	53.0	54.5	54.6
Good thing	31.7	33.7	38.6	29.8	27.0	25.2
Qualified - both good and bad	7.5	2.9	5.6	7.7	8.8	13.6
No Opinion	10.0	15.5	10.4	9.5	9.7	6.6

TABLE III

REASONS FOR BELIEVING THAT AMERICAN OWNERSHIP OF CANADIAN COMPANIES IS A GOOD THING FOR THE CANADIAN ECONOMY

	TOTAL CANADA	Mar.	Que.	Ont.	Pr.	B.C.
"A GOOD THING" - 100%	1203	111	362	451	171	108
Creates more employment/helps unemployment	43.8	43.2	39.2	52.1	30.4	46.3
Need outside investment for expansion/ development of industry/resources	21.1	23.4	19.9	18.9	29.8	18.5
Canadians are not willing to invest (too cautious - need a push) - if U.S. didn't do it, some other country would	13.6	13.5	13.8	12.2	16.4	13.9
Brings money into Canada - more money is circulated	12.1	11.7	11.3	12.2	14.6	10.2
Raises/expands the economy (better standard of living - helps Canada/Canadians)	11.8	9.0	11.6	13.8	12.9	5.6
Most of what we have now is due to American investing - our economy is based on U.S. - couldn't operate without the U.S.	9.0	5.4	10.2	8.2	10.5	9.3
Creates a friendly relationship/co-operation stabilizes - keeps us par with U.S. - help each other	3.9	3.6	4.1	4.7	-	6.5
Better/more products - world market - more to export/trade	3.4	3.6	5.8	1.8	3.5	1.9
Miscellaneous reasons	1.8	1.8	1.9	2.0	1.8	-
No particular reason	1.7	2.7	1.9	1.6	.6	1.9

NOTE: Percentages total to more than 100% due to double mentions.

TABLE IV

REASONS FOR BELIEVING THAT AMERICAN OWNERSHIP OF CANADIAN COMPANIES IS A BAD THING FOR THE CANADIAN ECONOMY

"A BAD THING" - 100%	TOTAL CANADA 1792	Mar. 183	Que. 508	Ont. 603	Pr. 309	B.C. 189
Americans taking over our economy - Canada/ Canadians should control their own business economy	35.2	40.4	25.4	39.6	42.4	30.7
Profits/money leaves the country - doesn't benefit Canada - U.S. profits from our resources	28.4	21.9	36.0	23.1	30.1	28.0
We can do it ourselves/alone - should be more independent (not depend on U.S.)	14.6	14.2	18.1	15.1	9.4	12.2
Canadians take risk/initiative/invest in their own country - keep Canadian investment here	7.5	9.8	5.5	5.5	10.7	11.6
Discrimination - unequal trade - don't get a square deal - we pay more - manpower drain etc. - (can pull out in a depression)	6.8	4.9	6.5	10.1	2.3	5.8
Tend to "Americanize"/change us/our methods - will lose our identity	6.6	3.8	8.1	6.8	5.2	6.9
Take jobs/business away from Canadians	4.9	5.5	2.2	8.5	2.6	3.7
Discourages Canadians - too much foreign interest (capital) in Canada (Canadians should have it)	3.9	2.2	3.2	5.0	3.9	4.2
Brings in undesirable (U.S.) unions - unions want wage parity with U.S.	.9	1.6	.8	1.0	-	1.6
Miscellaneous reasons	2.4	2.2	2.4	2.3	1.9	3.7
No particular reason	1.6	3.3	2.8	.3	.7	2.7

NOTE: Percentages total more than 100% due to double mentions.

TABLE V

PERCENT OF A NATIONAL SAMPLE WHO VIEW FOREIGN INVESTMENT AS A SERIOUS PROBLEM, 1974/75, BY REGION

	ATLANTIC	QUEBEC	ONTARIO	PRAIRIES	BRITISH COLUMBIA	ALL CANADA
Yes, a serious problem	32.3%	43.3%	38.5%	41.5%	51.0%	41.0%
Might be in the future	29.2	26.4	26.7	27.9	24.3	26.8
No, not a problem	25.9	22.0	24.7	19.9	18.7	22.7
No opinion	12.6	8.3	10.1	10.7	6.0	9.5
N=	486	1382	1808	805	519	5000

TABLE VI

PROPOSED SOLUTIONS TO THE FOREIGN INVESTMENT PROBLEM, 1974

(only respondents viewing foreign investment as a serious problem)

	TOTAL CANADA	Maritimes	Quebec	Ontario	Prairies	British Columbia
	2051	157	598	697	334	265
More Government Funds for Canadian Business	32.8	34.4	31.8	32.9	32.6	34.3
Government Regulation	32.3	28.7	23.6	37.7	33.8	37.7
Canadian Development Corporation	21.5	23.6	20.4	20.2	26.1	20.4
Selected Industry Controls	12.3	19.8	15.2	10.2	9.0	10.9
Investment from Many Countries	7.0	7.0	10.0	5.7	3.6	7.9
Other Replies	1.0	-	1.0	.3	2.1	1.9
No Opinion	1.4	.6	2.2	.7	2.4	.4

NOTE: Percentages total to more than 100% due to double mentions.

TABLE VII

PERCENT OF A NATIONAL SAMPLE WHO WOULD BE WILLING TO ACCEPT A LOWER STANDARD OF LIVING FOR MORE CONTROL OVER THEIR ECONOMY

1973-74 and 1974-75

1974-1975	TOTAL CANADA	Maritimes	Quebec	Ontario	Prairies	British Columbia
TOTAL INTERVIEWS - 100%	5000	486	1382	1808	805	519
Yes	39.9	29.6	37.2	43.9	38.0	45.5
No	50.5	58.5	54.3	47.7	49.7	43.9
No Opinion	9.6	11.9	8.5	8.4	12.3	10.6
1973-1974						
TOTAL INTERVIEWS - 100%						
Yes	43.8	31.7	39.9	45.4	46.6	54.9
No	47.6	59.3	52.3	46.4	44.3	34.4
No Opinion	8.6	9.0	7.8	8.2	9.1	10.7

Question: IF "YES"

"How much would you be willing to lower your standard of living in order to gain greater control of the Canadian economy?" (5%, 10%, 25%, or 30% choices given on the 1973 study)

1974-1975	TOTAL CANADA	Maritimes	Quebec	Ontario	Prairies	British Columbia
RESPONDENTS WHO ARE WILLING TO ACCEPT A LOWER STANDARD OF LIVING-100%	1994	144	514	794	306	236
5% or under	11.9	9.0	20.0	9.9	6.9	9.3
6% to 12%	22.6	19.5	23.4	24.1	22.5	18.2
13% to 24%	15.5	8.3	15.4	17.4	15.0	14.4
25% or more	19.4	11.1	20.0	20.4	20.3	18.2
No percentage given/ difficult to say	30.6	52.1	21.2	28.2	35.3	39.9
1973-1974						
RESPONDENTS WHO ARE WILLING TO ACCEPT A LOWER STANDARD OF LIVING-100%						
5%	24.2	26.9	34.4	20.1	21.2	18.7
10%	48.0	51.1	41.9	52.5	46.9	47.0
25%	14.8	9.9	15.2	13.6	16.6	17.3
30%	5.8	5.7	3.9	6.8	5.9	6.4
No Opinion/difficult to say	7.2	6.4	4.6	7.0	9.4	10.6

TABLE VIII

PREFERENCES OF A NATIONAL SAMPLE OF CANADIANS FOR THREE FOREIGN POLICY OPTIONS*, BY PROVINCE, 1974/75 (1973/74 percentages shown in parentheses)

	ATLANTIC	QUEBEC	ONTARIO	PRAIRIES	BRITISH COLUMBIA	ALL CANADA
1. Stay as we are	52.1%	29.2%	42.8%	40.7%	36.2%	38.9%
	(48.9)	(44.2)	(41.4)	(41.2)	(36.4)	(42.3)
2. Move closer to U.S.	20.0	23.1	17.2	19.5	19.8	19.7
	(21.3)	(25.5)	(13.7)	(15.9)	(13.6)	(18.0)
3. Move closer to Europe/ Asia	18.9	32.2	28.3	28.2	33.7	29.0
	(18.9)	(22.3)	(33.7)	(32.2)	(41.4)	(29.7)
No opinion	9.0	15.5	11.7	11.6	10.2	12.3
	(10.9)	(8.1)	(11.2)	(10.7)	(8.6)	(9.9)
N=	486	1382	1803	805	519	5000

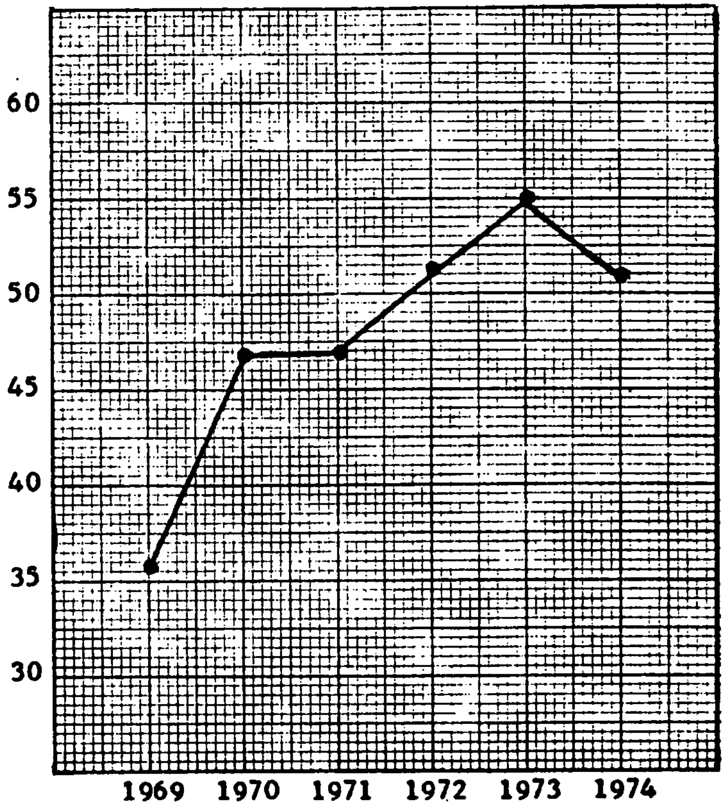
**These abbreviations are employed here for the purpose of clarity of presentation only. They are not part of the active working of the survey question.*

TABLE IX

PERCENTAGE WHO FEEL THAT CANADA SHOULD HAVE MORE TRADE AGREEMENTS WITH THE U.S. LIKE THE CANADIAN/AMERICAN AUTOMOTIVE PACT

	ATLANTIC	QUEBEC	ONTARIO	PRAIRIES	BRITISH COLUMBIA	TOTAL CANADA
Yes	29.4%	24.9%	29.4%	23.7%	27.0%	27.0%
No	30.7	24.0	30.9	25.7	29.5	28.0
Depends on the Industry	23.7	32.8	28.1	35.3	30.1	30.3
No Opinion	16.3	18.4	11.6	15.3	13.5	14.7
N=	486	1382	1808	805	519	5000

CHART I.—Percent indicating that U.S. investment in the Canadian economy is a "bad thing" 1969–73.[1]



[1] Percentage of Annual National Samples who feel that U.S. investment in Canada is a "bad thing", 1969–74 (excludes "no opinion" and "qualified" answers).
Source: International Business Studies Research Unit, University of Windsor.

PREPARED STATEMENT OF J. ALEX MURRAY AND LAWRENCE LEDUC[1]

Canadian Public Attitudes Toward Foreign Equity Investment and Economic Policy: The Rising Tide of Nationalism

In recent years, a growing climate of economic nationalism among the Canadian public has been documented by many surveys, including our own.[2] Over the most recent six year period, the proportion of our national samples expressing a negative view of U.S. investment has risen from 36 percent in 1969 to a high of 55 percent in 1973. Whie it levelled off at 51 percent in 1974, a majority of the Canadian public continues to express concern over the implications of American investment in the Canadian economy (Figure 1). This increase in economic nationalism represents one of the dramatic shifts in public attitudes toward economic and political issues in recent years, and has far reaching implications for future economic policy. Already, the trend of public opinion in this area has been cited as part of the rationale for

EDITOR'S Note.—See footnote at end of prepared statement.

curbs on foreign investment and for shifts in foreign and trade policy which would lessen Canadian interdependence with the United States.

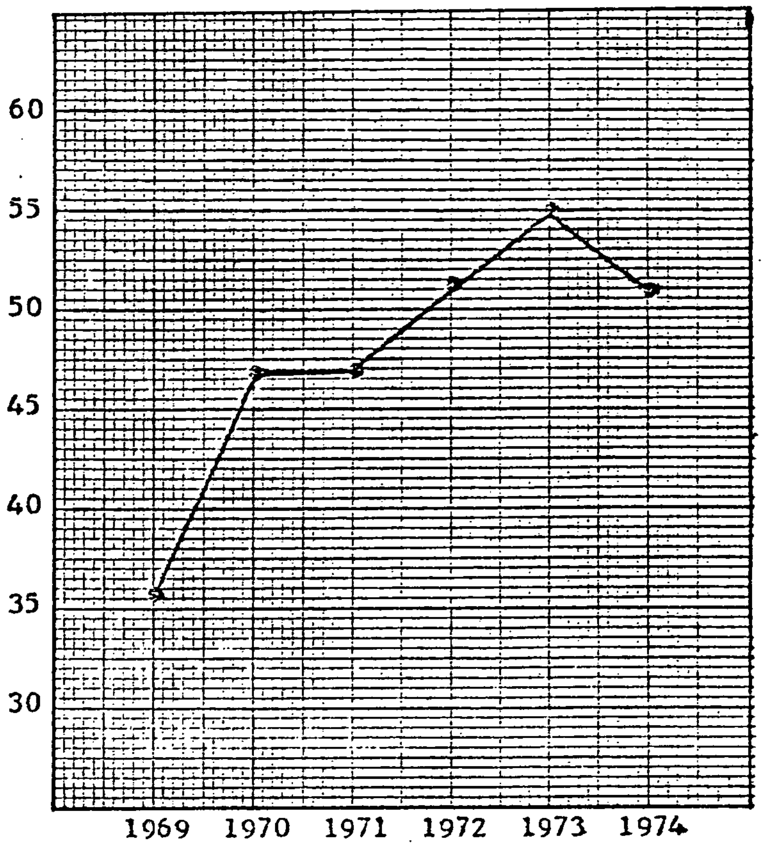


FIGURE 1—Percentage of Annual National Samples who feel that U.S. investment in Canada is a "bad thing," 1969–1974 (excludes "no opinion" and "qualified" answers).

Most Canadians view foreign investment as either a present or a future problem to be faced by business and government. Only 23 percent of the 1974 national sample replied that foreign investment was not a serious problem. The proportion of respondents viewing foreign investment as an immediate concern was highest in British Columbia (51 percent) and lowest in the Maritime provinces (32 percent).

TABLE 1.—*Percent of a national sample who view foreign investment as a serious problem, 1974, by region*

	Atlantic	Quebec	Ontario	Prairies	British Columbia	Canada
Yes, a serious problem (%)	32.3	43.3	38.5	41.5	51.0	41.0
Might be in the future (%)	29.2	26.4	26.7	27.9	24.3	26.8
No, not a problem (%)	25.9	22.0	24.7	19.9	18.7	22.7
No opinion (%)	12.6	8.3	10.1	10.7	6.0	9.5
N=	486	1,382	1,808	805	519	5,000

Among those respondents who saw foreign investment as a serious problem, opinion is divided regarding the solutions. While most look to government for solutions, nearly equal numbers of respondents saw more government support for Canadian business and direct government regulation of foreign investment as plausible solutions. Among the other alternatives: the Canada Development Corporation, selected industry controls, and diversification of investment (Table 2).

TABLE 2.—*Proposed solutions to the foreign investment problem (1974–75)*

[Respondents who viewed foreign investment as a problem only—N=2051]

	Percent
More support for Canadian business	33
Government regulation	32
Canada Development Corporation	22
Selected industry controls	12
Diversification of investment	7
All other	1
No opinion	1

NOTE.—Percentages total to more than 100 percent because multiple responses to the survey question were permitted.

While these figures are impressive in documenting the rising public concern over the issue of foreign investment, only 5 percent of the the national sample mentioned foreign investment as the "*most* pressing problem" facing the country today (Table 3). Inflation (63 percent), Environmental issues (11 percent), and Unemployment (9 percent) all ranked higher on a list of problems which were identified by the respondents in the 1974 survey. This suggests that Canadians do not wish to see a growing climate of nationalism interfere with economic progress.

TABLE 3.—*Canadian issues that are most important at the present time*

	Total mentions [1]	Most important
	Percent	*Percent*
Inflation	86.9	63.2
Unemployment	54.9	9.1
Environment and pollution	38.8	10.5
Taxation	33.1	5.0
U.S. investment in Canada	26.2	5.1
Energy	24.7	2.4
Provincial-Federal relations	19.0	2.6
English-French relations in Canada	12.1	1.8
No reply	4.3	.3
N=	5,000	

[1] Percentages total to more than 100 percent because more than one response was permitted in the survey.

However, a question in the survey which posed a lower standard of living as a hypothetical "trade off" for greater economic automomy produces some surprising results. Forty percent of the national sample indicated that they would accept such a trade (Table 4), a slight decline from a comparable figure for the 1973 survey but nevertheless a large minority of the population. Not surprisingly, this hypothetical trade is better received in the more prosperous part of the country. Still, an absolute majority of the respondents in the 1974 survey (51 percent) indicated flatly that they would not accept such a trade (9 percent did not express an opinion on this question).

TABLE 4.—*Percentage of national sample who would be willing to accept a lower standard of living for more control over your economy*

	Total Canada	Maritimes	Quebec	Ontario	Prairies	British Columbia
1974 (%)	40	30	37	44	38	46
1973 (%)	44	32	40	45	47	55
Number of respondents	5,000	486	1,382	1,808	805	519

The policy implications of the growing public concern over the question of foreign investment are somewhat less clear. As noted earlier, opinion is divided regarding various proposed solutions to the investment problem, and the public continues to give higher priority to more pressing economic problems such as inflation and unemployment. However, the Foreign Investment Review Act, passed by Parliament in December, 1973 represents one initial effort in the area of direct government regulation. In attempting to respond to the more nationalistic trends in public opinion, the federal government has sometimes moved ahead of the public in some specific policy areas. In 1972, then Secretary of State for External Affairs, Mitchell Sharp proposed that Canada lessen its trade dependence on the United States by seeking closer trade ties with other nations, particularly in Europe and Asia.[3] This much discussed "third option" in Canadian foreign economic policy was officially introduced by Secretary of State for External Affairs Allan MacEachen this year, citing poll figures showing that "88 percent of Canadians thought it important to have more control over our economy, and two out of every three Canadians consider the level of American investment as too high."[4] But, when we put the three most commonly discussed foreign trade options to our survey respondents in the 1973 and 1974 studies (see Table 5), the largest number came down in favour of the "status quo" insofar as Canada's trade and industrial relationships with other countries were concerned. And, a not insignificant minority of the respondents in both surveys actually favoured closer economic ties with the United States. Fewer than a third of the survey respondents support what is commonly known as the "third option", and this proportion has not increased, at least over the two-year period during which we have tested this item. Similarly, opinion toward specific U.S.-Canada trade arrangements such as the AUTOPACT is divided but cautious. A question on the desirability of similar trade pacts in other industries yielded a large proportion of respondents who were uncertain, and nearly minorities who were favourable and unfavourable toward such a proposal (Table 6). While there is no clear pattern in this distribution, it is evident that trade agreements with the United States such as the AUTOPACT can still command substantial support among the Canadian public if they are perceived as advantageous to Canada.

TABLE 5.—*Preferences of a national sample of Canadians for three foreign policy options, by province, 1974*

[1973 percentages shown in parentheses]

	Atlantic	Quebec	Ontario	Prairies	British Columbia	Total, Canada
1. Stay as we are (%)	52.1	29.2	42.8	40.7	36.2	39.0
	(48.9)	(44.2)	(41.4)	(41.2)	(36.4)	(42.4)
2. Move closer to the United States (%)	20.0	23.1	17.2	19.5	19.8	19.7
	(21.3)	(25.5)	(13.7)	(15.9)	(13.6)	(18.0)
3. Move closer to Europe or Asia (%)	18.9	32.2	28.3	28.2	33.7	29.0
	(18.9)	(22.3)	(33.7)	(32.2)	(41.4)	(29.7)
No opinion (%)	9.0	15.5	11.7	11.6	10.2	12.3
	(10.9)	(8.1)	(11.2)	(10.7)	(8.6)	(9.9)
N=	486	1,382	1,803	805	519	5,000

TABLE 6.—*Percentage who feel that Canada should have more trade agreements with the United States like the Canadian-American Automotive Pact*

	Atlantic	Quebec	Ontario	Prairies	British Columbia	Total, Canada
Yes (%)	29.4	24.9	29.4	23.7	27.0	27.0
No (%)	30.7	24.0	30.9	25.7	29.5	28.0
Depends on the industry (%)	23.7	32.8	28.1	35.3	30.1	30.3
No opinion (%)	16.3	18.4	11.6	15.3	13.5	14.7
N=	486	1,382	1,808	805	519	5,000

These questions suggest a note of ambivalence to the current public mood with regard to nationalism and related economic issues. Certainly, the increasingly nationalistic mood of the public is clearly evident, as documented by our six year survey and numerous other public opinion polls and surveys. The concern over Canadian economic autonomy is even such that many respondents, although not a majority, are willing to make some sacrifice in overall living standards in order to obtain greater national control over Canada's economic future. But these issues do not outrank traditional economic concerns on any list of current national problems. And, when specific policy alternatives are introduced in the areas of trade, investment, and foreign policy, public opinion appears to be divided as to the most desirable future alternatives. Thus, even within the context of a growing tide of nationalism, the public mood with regard to specific trade, investment, and foreign policy issues is essentially a cautious and conservative one.

FOOTNOTES

[1] International Business Studies Research Unit, University of Windsor, Windsor, Canada.

[2] The surveys discussed in this paper are conducted annually by the International Business Studies Research Unit (University of Windsor), and Elliott Research Corporation. They are based on a national quota sample of 5000 respondents, controlled for province, urban-rural location, age and sex. The surveys are conducted in the fall of each year. Data for each of the past annual surveys for the period 1969–1974 are held on tape by the International Business Studies Research Unit (University of Windsor. Some reports based on data from these surveys are: J. Alex Murray and Mary C. Gerace, "Canadian Attitudes Toward the U.S. Presence", Public Opinion Quarterly, XXXVI (1972), pp. 388–97; and J. Alex Murray and Lawrence LeDuc, "A Cross-Sectional Analysis of Canadian Public Attitudes Toward U.S. Equity Investment in Canada," Ontario Economic Council, Working Paper No. 2-75, June 1975.

All estimates based on sample surveys are subject to sampling error. Error estimates for the national quota samples on which our surveys are based will, in most instances, be slightly higher than would be the case for simple random samples of comparable size. The following table should be used in interpreting percentages reported in this paper.

Footnote 2 continued:

SAMPLING ERROR AT 95 PERCENT LEVEL OF CONFIDENCE (2σ)

Size of base, (N)	For percentages of approximately: 10% or 90%	20% or 80%	30% or 70%	40% or 60%	50%
	Percent	*Percent*	*Percent*	*Percent*	*Percent*
100	(±) 9	12	13	14	15
300	5	7	8	8	8
500	4	5	6	6	7
700	3	4	5	5	6
1,000	3	4	4	5	5
1,500	2	3	3	4	4
3,000	2	2	2	3	3
5,000	1	2	2	2	2

Note.—Using this table, the estimate that 39 percent of the 1974 respondents chose the "Stay as we are" option should be understood as accurate within ±2 percent, at the 95 percent level of confidence. Other estimates in this paper are likewise subject to sampling error, the degree of which depends on the size of the base on which the percentage is computed and the size of the percentage. For a more detailed discussion of sampling error for samples such as those employed in our surveys, see F. Stefan and P. McCarthy, "Sampling Opinions" N.Y., Wiley, 1958, ch. 10.

[3] Mitchell Sharp, "Canada-United States Relations: Options for the Future," International Perspectives, Autumn, 1972 (Special Issue). The 1970 Foreign Policy Review is contained in the series of pamphlets "Foreign Policy for Canadians."

[4] As quoted by Alex Inglis, "A New Approach to the Discussion of Canadian-American Relations," International Perspectives, March–April, 1975, p. 9.

Representative LONG. Thank you, Mr. Murray. Your study is most impressive. My experience with these over the years in politics and looking into everything from individual candidates to issues is that the extent that you can later prove them or disprove them has given me a great reliance upon them. I have built up a great reliance in my own mind on them, I have found them generally very good. My own mistake has been generally in not believing them. It is an impressive study.

And frankly, what is a little surprising to me—and I think it would be to most people in the United States—is that we really felt the issue there was a little more burning than it appears to be in the case in which you speak.

Perhaps again it is the result of the publicity that has been given to it by the media over the past 2 or 3 years. And with the small problems that have arisen in the United States, particularly with those areas where we have a reliance upon you for raw materials, particularly this has been true. But we are appreciative of your study. As I say, I am impressed by you.

Mr. Petty, we are happy to have you with us.

STATEMENT OF JOHN R. PETTY, PARTNER, LEHMAN BROS., INC.

Mr. PETTY. Thank you, Mr. Chairman. I have enjoyed the remarks of my predecessors so much that I was sort of hoping you might just skip over me.

Capital investment regulations in the context of the United States-Canada economic relationship are not new. We should bear in mind the capital restrictions which preceded the Canadian Foreign Investment Review Act (FIRA) of 1974. They were the Interest Equilization

Tax (IET) and then the direct investment regulations. Over a decade ago, the United States sought to protect its balance of payments drains through the IET on loans to industrialized nations. This was reinforced later by a program designed to limit—but not prohibit—the outflow of direct investment capital (OFDI). These restrictions—as initially announced—pertained to capital flowing to Canada as well as other industrialized countries. In each case, however, strong Canadian representations made to U.S. financial authorities demonstrated the Canadian need for an exemption from these restrictions. In return, Canada provided a commitment that it would not be used as a pass-through of capital to the rest of the world.

In 1974, 6 years after Canada petitioned strongly for an exemption from the United States mandatory direct investment program, it placed into effect its own prior review procedures of foreign investment going into Canada. The circumstances which brought about the change in emphasis if not in attitude which these actions reflect are worth noting. There was a new government and a new Canadian leader shortly after the 1968 direct investment exemption. In addition, developments on the Canadian national scene involving separatism, the language differences, the diversity between provinces, circumstances of its not quite Federal system of government—not to mention basic doubts about its southern neighbor as the war in Vietnam dragged on—permitted, if it did not require, a nationally unifying initiative. Thus, Ottawa did not discourage a certain economic nationalism: some internal Canadian apprehensions were diverted externally.

At least two other developments preceded FIRA.

One involved a change in regulations concerning the investment policy of Canadian pension funds. Instead of limiting Canadian pension fund investments in the United States to 10 percent of earnings, it shifted the limitation to 10 percent of assets. As a practical matter, the high U.S. growth stocks which Canadian companies owned were low-yielding, and this change required a substantial net disinvestment of U.S. securities and reinvestment of proceeds back into Canada. This was a deliberate and I believe successful effort to broaden the Canadian capital market. I believe the change shifted several hundreds of millions of dollars back up north. Our own insurance companies have roughly comparable limitations established by their regulatory authorities.

A second development preceding FIRA: from time to time conspicuous direct investors in Canada were subject to "guidance" from ministries in Ottawa regarding their business plans. The guidance was not such that investors thought it could be ignored. The purpose was to create more employment in Canada. Therefore, FIRA in some respects did not make all that basic a change in doing business in Canada. However, the present procedure is more straightforward.

The Canadian investment review agency has done a good job in getting organized, recruiting people, and setting up procedures on new regulations. I make that observation with the background of having established our own program in early 1968.

Given the requirements of the legislation, FIRA is doing the best it can to handle applications in a businesslike and fairminded way. Inherent in the procedure is the bargaining process. FIRA is instructed to strike the best bargain possible for Canada. The foreign investor is obviously attracted by the marketplace in Canada; otherwise, he would not bother with the application. He will weigh the requests of FIRA against his company's general business plan and estimate the cost of the "benefits." The bargaining here is not wholly different from other business bargaining, as long as one recognizes he is bargaining with a sovereign government. Incidentally, I am not aware nor have I heard of any examples of FIRA discriminating against the United States in favor of another foreign investor.

One should take note of the primary assumption implicit in Canadian thinking regarding foreign investment, particularly U.S. investment in Canada. This presumption is that business decisions made regarding a subsidiary in Canada will in the last analysis be made by U.S. personnel at the U.S. headquarters and that the business decision may not be the same as that that would have been made had Canadian citizens owned and had the final decision on the facility in Canada. Nationality makes a difference in business decisions, the Canadians are saying, or at least it has the potential of making a difference.

The Canada-United States Committee of the U.S. Chamber of Commerce addressed itself to this issue at a meeting last month. Our governments are now discussing at the OECD a code of conduct or guidelines for multinational companies. The United States feels very strongly that the principle of national or nondiscriminatory treatment for enterprises with foreign ownership is an essential feature of any such guidelines. Our two delegations found common ground between the primary assumption mentioned above and the U.S. insistence upon nondiscriminatory treatment through these words:

"The Committee notes that rules and guidelines designed to assure that activities of foreign-owned enterprises support national goals are not incompatible with the principle of national, or nondiscriminatory treatment if their purpose and effect is to encourage foreign-owned enterprises to adopt patterns of conduct similar to those followed by domestic firms by reason of the fact that they are domestic firms and therefore not subject to the possible influence of foreign ownership or control."

What lies ahead for Canadian direct investment regulations? FIRA will certainly continue. The flexibility permitted in the legislation in defining significant benefits to Canada will continue to permit the agency to reach pragmatic solutions on new investments. One should expect that review criteria would be employed differently when the unemployment figure is over 7 percent than when it is at 2 percent.

In addition, the criteria may be applied differently when the investment goes into economic development areas with strong provincial support, for example, or in other distressed areas to create services and provide jobs which Canadian capital does not seek to provide than it is, say, concerning an investment in Toronto. Absent a buoyant economy with clearer prospects of a steady and strong real growth, I would not expect the administration of FIRA to be conducted in such a way that investment is discouraged.

It should be pointed out, nevertheless, that this new regulatory agency affects companies differently.

Small U.S. companies seeking to make investments in Canada might well find the procedural aspects of FIRA too expensive and troublesome to bother with. Vast staff does not exist in corporations of this size, and all the decisions and procedures necessary in processing an application fall upon the shoulders of a very few people. Legal expenses loom large. To compensate for these requirements, an added investment return would be expected. FIRA is sensitive to these issues, and efforts have been made to streamline processing.

The large investors are better equipped to cope with the administrative problems of this Canadian agency. These companies have a large, experienced staff, including lawyers well familiar with dealing with investment regulations in a broad range of countries. They would be less deterred by the pure paperwork aspects of FIRA.

However, investment decisions focus on issues much more fundamental than the host country approval procedures, and I would not say that FIRA is a major factor in deciding whether or not new direct investment flows are made. But FIRA is not marginal in the political contribution it makes in responding to a Canadian concern.

The striking characteristic of direct investment decisions today, whether they originate in Europe or the United States, is that the more major investors look around the world to locate additional productive capacity, the more they come home with the conclusion that the United States is the most attractive area in which to invest. This conclusion reflects a composite of perceptions weighted differently by various parties but probably present to one extent or another in all decisions.

For example, the leading perception is that the United States is looked upon as the last bastion of capitalism, the country which will continue to accept private ownership of the means of production, to respect private property and the role of the entrepreneur. Private investors abroad whose countries move increasingly toward official ownership of the means of production consequently are interested in gradually diversifying their investments by shifting some of their new investments to this country.

This general concern has its relevance with respect to U.S. investment in Canada. From time to time opinions have been expressed up north regarding the desirability of provincial or federal ownership of natural resources and perhaps even secondary processing of these resources. Authors of such views are probably inclined to make a more rigid distinction between natural resources and manufactured goods than U.S. listeners who do not agree with the attitude in the first place and are concerned over the trend which they perceive behind this attitude.

A second major element which favors investment in the United States concerns labor relations. After the cost of bargaining is all over and the contract is signed, there are relatively fewer labor disputes and work days lost in the United States than in Canada. One close observer has said that the British disease of labor unrest has become an epidemic in Canada. It is the trend as well as the absolute level which catches the attention of potential investors. It is frequently pointed out that Canada has the counterpart of the Wagner Act in labor legislation, but it does not have the counterpart of the Taft-Hartley or Landrum-Griffith Act and thus an imbalance exists in the relative power of labor and management in negotiations.

These perceptions are reinforced by statistics which indicate that the unit costs of goods manufactured in Canada compared to the

United States has risen more rapidly in the last 4 to 5 years. Most observers expect this trend to continue.

Third, market size and growth prospects are another major inducement for investment in the United States. The relatively lower U.S. inflation rate gives added stability to an investment. The exchange rate adjustments of the last few years have proven that the U.S. dollar was overvalued through much of the 1960's, and this factor and the expected growth patterns of the U.S. market relative to the rest of the world identify this country as a preferred area of investment.

These observations lead me to the firm impression that new investment decisions are now shifting toward increasing productive capacity in this country.

Representative LONG. Thank you, Mr. Petty.

Would you give us a little of the background of the United States-Canada Committee and how it relates to that of which you have the honor of being chairman?

Mr. PETTY. The National Board of the United States Chamber of Commerce, of which I am a director, in the mid-thirties created a special committee to work with our Canadian counterparts, addressing itself to the bilateral issues and the areas of common concern between the respective chambers of commerce. We have a history of 40 years. The Canadian Committee is made up from its own chamber, including past presidents of the Canadian Chamber. And we get together and discuss issues and have our differences, but try to find a common ground where we can.

Representative LONG. But it is basically composed of business people from both Canada and the United States?

Mr. PETTY. That is exactly correct, and there are some academic representatives as well.

Representative LONG. Thank you. You have had a particularly interesting and enlightening background which has been helpful. The labor situation in Canada, the productivity of employees, and the conclusions that you set forth were of particular interest to me, and I am sure they will be to the other members of the committee.

Mr. Clarkson, going into a broad, general subject, in your prepared statement, you noted that the Foreign Investment Review Agency is only one of a number of policy initiatives aimed at foreign control of Canadian industry. Mr. Petty gave some other things that had been done in that regard. But they didn't, I don't think, really relate to the matters of policy and policy initiatives. What are some of these others which you are referring to there?

Mr. CLARKSON. Sir, in the oil sector there has been the establishment of a public corporation called Petrocan which is again more symbolic than an important issue itself, since it hasn't been given a budget adequate to do much.

There are some tentative steps being taken to have a greater government presence in the oil industry. There is joint exploration activities going on under another corporation, Panarctic, which is partially publicly financed and financed by companies in the Arctic. These are some steps to involve the state in the industry directly.

And second, in that industry there are very large hearings, as you are aware, going on about the viability for Canada, both for the ecology and the economy, of major pipelines to bring potential reserves from the Arctic down principally to the American and partially to the Canadian markets. Those hearings are going on in front of the National Energy Board. There is also a special committee holding hearings in the North particularly to get the native input called the Berger Commission. So, sector by sector there are different types of concern.

There is legislation which is now very likely to go through, affecting *Time Magazine* and *Readers' Digest* in particular, to disallow the deduction from Canadian business expenses of advertising costs in those two magazines; that will go through. And whether *Time Magazine* stays in Canada or leaves, it is going to have to decide. It threatens to leave.

In radio and television, as I mentioned, there is an effort to plug the loophole which especially the Buffalo stations have exploited, to get about $20 million, or 10 percent of the total commercial budget for advertising into those stations. That is being plugged. And it is now being fought out in the courts between the American television companies and the Canadian Government.

So, issue by issue steps are being taken. If one can have faith in the long term—though is you see how bad the situation is, it is hard to have that faith—but the Liberal government is certainly assuming that dealing with the issues one by one, it can take adequate measures to regain control of the culture and of the economy.

Does that answer your question?

Representative LONG. Yes.

Mr. CLARKSON. These are individual government initiatives which are not very strong. I mention them, but I don't think they are taken very seriously either by the oil industry or by the public.

In a way I agree with Professor Murray that nationalism is a low issue. I don't agree that the third option has been rejected by the Canadian public. I think the Government has taken a different line since 1971. The Domestic International Sales Corporation, the surcharge, the measures of August 1971, really shocked the Ottawa governmental establishment, which believed in the special relationship with the United States, and felt that that was the end of it. And Kissinger confirmed that when he came up to Canada recently. The special relationship is over.

The third option doesn't mean getting closer to Europe or Asia, it means being a little bit more withdrawn, a little bit more our own men and women. It is not a question whether public opinion approves it or not.

Representative LONG. He pretty well covered that in option 1, didn't he? In his question number one he basically covered the point of becoming more of ones self with respect to foreign investment.

Mr. CLARKSON. Possibly.

But what I wanted to indicate is that the government has made a shift—it is not a major or dramatic one—in the declaration of sovereignty in the Arctic, the 200-mile limit, fairly important pollution controls, especially in the Arctic. If there is a pattern it is that, bit by bit, a more independent approach is being taken to policy issues which affect the Canadian-American relationship.

Representative LONG. All of you feel free if you have something to say that fits into this I would appreciate your speaking up.

Mr. Petty, go ahead.

Mr. PETTY. If I may, just to establish a bit of a historical record and refer to some of Mr. Clarkson's points, I think he refers to a special relationship between Canada and the United States, I think that was his term.

The phrase unique relationship is more appropriate. The United States has a special relationship with many nations, but it is unique with Canada.

But tracing back to the history you used as a threshhold in the chain of attitude, in the summer of 1971—I would invite you to go back to the summer of 1968, where there were the changes in personnel in the Ottawa government, and the changes in the frequency of contacts between the government, and the phone calls that went back and forth were reduced substantially when the new government came into effect.

In addition, when Canada floated its exchange rate in May of 1970, there was no prior consultation on that. And one can't ever under estimate impacts of getting that news Saturday afternoon on the weekend when the Penn Central was going under, when the IOS was going under, and when the Fed had to pick up a Treasury bond issue because the public wouldn't buy it. And to have the financial authorities get a phone call that Canada has floated—that is where the problem started in the financial area. And then there are subsequent additional examples.

The second point, if I may move to a different area, of Professor Clarkson's comments, I think he made the statement that U.S. companies operating in Canada are used by the U.S. government for political pressure in Canada. That is totally false. The statement that the U.S. subsidiaries operating in Canada are an instrument of U.S. economic policy, if that is the statement that was made or the impression received, that is just totally inaccurate.

Mr. CLARKSON. I was referring to the guidelines of 1968, the Johnson Administration's guidelines to the Directors of the American Multinational Corporations to alter their balance of payments in favor of the American economy as opposed to non-American economies. That was a clear shift surely in the use by the American Government of its multinational corporations abroad. And you will remember Eric Kierans' very strong response, that you are undermining your own free enterprise system is you turn individual companies into agencies of the state.

Mr. PETTY. I recall that Canada got an exemption from that, that is what I recall.

Mr. CLARKSON. That is right. But the shift in policy is what I was referring to.

Mr. PETTY. The policy was a balance of payments policy and not an issue with respect to United States-Canada political relations whatsoever. The last point I would make with respect to television, and in the interest of full disclosure, I must say that I am a director of NBC—is that the result of the Canadian program on intercepting the advertisements from Buffalo and Rochester broadcasters is that now the Canadian public gets the full benefit of U.S. incurred costs and programing, and doesn't have to pay for it.

Representative LONG. This is a most interesting colloquy here with respect to the multinationals and their activities as agents of or spokesmen for the policy of the country with which they are basically more associated. I guess that is the way you can put it—and the fact that their interests are so diverse in many ways is something which is causing members of Congress a great deal of concern. We have had some unfortunate experiences in that regard, particularly in the oil embargo, and I know a lot of us got awfully upset about that. That is the other side of this question. The one side is, do they become instruments of it and servants to that which creates them, in effect in this instance the American Government. And at the same time, when do their interests become alien to the country involved, and how do you regulate that? I think this is one of the major economic problems, economic political problems, that is facing the free world. And I think it is a pretty darned difficult problem. I have heard a lot of people speaking of it.

Do you have comment on that, Mr. Murray?

Mr. MURRAY. Just one comment.

We talked about the radio and TV advertising in Buffalo, N.Y. In the Windsor-Detroit area it is just the opposite. One Windsor radio station has taken so much of the U.S. advertising from Detroit, and is beaming it across the border, that there is now, of course, a lot of concern about it. Some Americans feel that, yes, you have your Buffalo, N.Y. problem, but we have our Windsor-Detroit problem.

So, I think it is a two-way street that needs a lot of communication and understanding.

I might also add another point. We must remember that 80 percent of the Canadian population live within a hundred miles of the United States-Canadian border, that these people understand, and they are very sensitive to Americans.

There is the CDC, which Mr. Bennett brings out, which is another Canadian policy for controlling investment.

Recently the FIRA report has come out, but investors who have applied for a foreign investment ruling are sometimes being given what we call, letters of no action, in which they go on and say, yes, you can go ahead, but we may want to review it in 5 to 10 years. This is particularly true with real estate. This has caused a lot of problems in Canada. And the real estate people are finding out that maybe 10 years from now they will have to buy back what they sold, if it is conceived to be not beneficial to the Canadian economy. So I think at the present time the Foreign Investment Review Agency is just finding its way. I think the man who has taken over now, Mr. B. G. Barrow had a lot to do—if you go back a few years—with the United States-Canadian automotive trade pact, and he is very sensitive to the problem. And I think that his approach is going to be a positive one, in that we don't want American companies to come in and just find out that 5 years from now they haven't done a very good job because they have come into an over-competitive situation. This is particularly true in areas like appliances and durable goods manufacturing, where we can't accommodate other producers. But his department will direct these producers into areas in which they are going to make money. I think this is his approach.

I think the first concept of FIRA was that it was going to stop foreign investment in the sense of screening it and saying, no, no, and I think his approach is going to be more of, this is where you are going to do best.

Representative LONG. A lot of people in the United States are concerned that the study that we have started in that regard might end up doing the same thing. And with capital accumulation being worldwide as difficult a problem as it is, one of the things that everybody is looking for is a way to break these down rather than to build additional hindrances in that regard. It really gets to be an extremely difficult problem.

Mr. Clarkson.

Mr. CLARKSON. If we can continue on FIRA a bit, the first annual report has come out. It indicates that $500 million worth of investment has gone through the Foreign Investment Review Screening process and has been approved. At the same time, to put that into perspective, American direct investment in Canada increased by $3 billion. So you have one-sixth of the increase of foreign investments being screened. The vast majority of the growth of foreign investment in Canada is self-perpetuating. It is reinvesting profits and dividends, borrowing from Canadian banks to expand internally the operations of these companies.

Representative LONG. They are not including within the jurisdiction of their studies that aspect of increased foreign ownership by the use of the returns that they make from their investment there back into Canada?

Mr. CLARKSON. This may happen in the second stage. The first stage was simply new takeovers. As to takeovers, it is interesting to see that two-thirds of the approved takeovers were foreign companies operating in Canada by other foreign companies. It gives you an indication of how much of the economy is foreign controlled, that two-thirds of those companies taken over are already themselves foreign controlled.

Representative LONG. Mr. Bennett has already expressed his opinion on this matter. I wonder if the other three of you may give me your views on this. The United States-Canadian automotive trade agreement: does this in any way serve as a pattern so that when particularly sticky problems do come up that it might be something that could be looked at and followed? Let's take the appliance business that Mr. Murray was speaking of a moment ago, or take any of the large manufacturing operations. Do the set of circumstances that existed with respect to the creation of the United States-Canadian automotive trade agreement exist in other areas where, once we do have major problems, they might move in that direction?

Mr. Murray.

Mr. MURRAY. We actually did a study on the automotive aftermarket.

As you know, the after or replacement market is not included. And I am not sure of Mr. Bennett's feelings. But our study indicates that the aftermarket has a great possibility—this is the replacement market for the automotive field—and because we can rationalize production in this area, even though a lot of it is made by smaller producers.

Another area which seems possible is the computer industry. As you know, Canada does not have large producers of what we call mainframes in our computer industry. What we have are small software maunfacturers. And I look at the computer industry as a possibility of some type of rationalization and integration on a North American basis.

Now, it would have to be stepwise. And there would have to be at least some initial safeguards—I know that is a bad word—but initial safeguards, to start. But the computer industry shows some possibility.

As to the appliance industry itself, what we have done in Canada, we have too many manufacturers in a market smaller than New York State. And I don't know what to say about that. Some of them have pulled out and we have lost a lot of money and a lot of jobs.

In that area I think all our manufacturers, are basically American subsidiaries. There are a few small Canadian ones. But this industry would have to be looked at in more detail. I think it has to be a sector-by-sector approach. The free trade area idea by itself is just too overwhelming for both sides of the border. But I think a sector-by-sector approach has great possibilities.

And maybe after a few more successful ones like the autopact have been realized, then possibly we might move closer to something like free trade. Nontariff barriers, of course, are another problem.

Representative LONG. Thank you.

Mr. Bennett, do you want to comment on this?

Mr. BENNETT. Congressman, I thought I might just elaborate a little bit in that with respect to the application of the autopact into other industries.

First, on the one hand I don't think you could apply it carte blanche to other industries. You have two fundamental ingredients in the auto industry which I think are unique to our particular business. One is the nature of the product, which is very easily defined and very easily contained within regulations. Almost any other industry gets very fuzzy as to really what you are including or excluding in the industry. Even with respect to Mr. Murray's point on the replacement parts market, there is difficulty in defining what you mean by a replacement part, because many of the parts in fact become common to other products. Spark plugs, for example, may be used in motor boats as well as on automobiles, although I personally support the view Professor Murray has presented and think that the pact could well be extended to the replacement parts market with some additional and clearer definitions.

Going beyond that, I think the principle is a fascinating one.

And again, the definition sector-by-sector approach I think is the key. And I think you would have to work out different kinds of agreements than the automotive trade agreement itself. But I think the principle is one that could well be expanded. I think it has to be recognized that the ingredients you need to work out such an agreement are basically where you have a market for the product concerned in both countries, and you have production or potential production of the product in both countries. And that almost automatically then confines it to manufactured goods, as distinct from the resource industries, for example, where I think a comparable program to the auto trade agreement would be impossible.

For other kinds of products there is an approach that can be negotiated, but the parallels to the auto pact have to be confined to the manufacturing industry.

Representative LONG. How do you find the automotive trade pact accepted in Canada, Mr. Bennett, by people outside of the automotive industry? Is it pretty well accepted?

Mr. BENNETT. On balance, sir, I would think very well indeed. You will find, as in any agreement of this nature, certain critics who have in some cases been vocally opposed. But I would say the vast majority of the country, whether it be business or the public sector, or people at large, have generally been supportive of the auto pact.

And to some extent this was borne out by Professor Murray's research, I believe.

Representative LONG. Mr. Clarkson.

Mr. CLARKSON. May I comment a bit on this.

It strikes me that we have got really two possible models to choose from. You raised one with further integration. And we have to be clear on what the consequences are. The consequences of more integration, sector-by-sector, industry-by-industry is to have the Canadian economy more locked into this straitjacket in which management, innovation, decisionmaking takes place outside the country. So economic sovereignty is withdrawn.

Canada is already in the position where it is the highest consumer among developed countries of foreign technology, and the lowest producer; 95 percent of the patents taken out in Canada are foreign patents. And we know that the future of an economy is a function of how much research and development capacity it has and how much innovative capacity it has got.

So to give you one concrete example, in my university a scientist has developed a biodegradable bottle in response to the pressures for pollution control. And that invention has been developed in Europe by a German company, in Asia by a Japanese company, and in North America by, of course, an American company. There was no Canadian company able to take that new product and develop it, it went to the States.

Representative LONG. Can I raise a question there, Mr. Clarkson?

Mr. CLARKSON. Yes.

Representative LONG. In your statement you said, in your usual colorful language, that technological innovation is virtually castrated in Canada. It looks to me like there is another side to this one, too. What about the savings to Canada resulting from the imports of advanced technology? If you take a country that has been built on taking technology that has been developed somewhere else, I guess the case in point is the economic giant that exists in the world today of Japan.

Mr. CLARKSON. Well, it is a very interesting thing, Mr. Chairman. Japan has had very clear controls on the amount of foreign ownership it allows in the economy. Where it has wanted foreign technology it has brought it in, not as a permanent share of part of its economy, a permanent ownership which has as a consequence year-after-year dividend payments and royalty fees, which are a drain on its own future capital accumulation capacity. So that the feeling now is increasing in Canada that we are paying far too high a price—we have mortgaged our future for this instant technology, whether it is a Pinto or whether it is a Maverick. And in the long term we pay out.

Avon is an example, an initial stake of $20,000 in the twenties and thirties now produces $1 million dividend check which goes to the New York office every year; it has been changed, I think it is higher now.

But the point is, if we get foreign technology in the whole package of a branch plant owned abroad, it is a very good investment for the foreign investor certainly, but if it is a good investment for the United States it is a bad investment for us, because it means that in the long term we haven't the capacity to change the situation. So if one takes the auto industry as a model industry by industry, we are saying that even if it isn't a formal political takeover, the economy is taken over.

Representative LONG. Mr. Petty.

Mr. PETTY. Mr. Chairman, I think the point that you are making is valid, which I understood to be that in the area of research and technology that successful research work is automatically licensed and patentable to the U.S. subsidiaries operable in Canada and available to that market, and the costs, I know from having worked with a lot of research cost budgets, are substantial before you get any commercial fallout. I would be happy to share some of those costs on the unsuccessful research.

But I am not quite sure where Professor Clarkson is taking us. Is he recommending economic autarky?

Representative LONG. Will you respond to that, Mr. Clarkson?

Mr. CLARKSON. I think autarky is really a red herring in a country which has so little capacity to affect its own economic future.

But I think perhaps one further distinction could be added to the discussion.

In many ways the Canadian economy is integrated in with the American in a way that no one can do anything about it. We are in an inflation that is going to be reduced much more by a reduction in the American inflation than by an antiinflation program of the Canadian Government. And because we are so closely involved with the American economy, no amount of foreign investment is going to do anything about that. Two-thirds of our trade goes to the United States. What we can work on are a specific part of our problem, which is the corporate integration. But aside from seeing that our markets are integrated, there is very little that can be done.

Representative LONG. There is an interesting point here.

Mr. Murray in his survey that he made basically, I believe, presumed a conclusion. And that conclusion was that less foreign investment in Canada would cost the average Canadian in his standard of living.

Mr. CLARKSON. But it is a very challengable assumption. If the foreign investment is costing us our future capital lifeblood, if it costs us a continual outflow of payment for a technology which often is not very substantial. Sanforizing a shirt is not a very elaborate technology, but we still pay a fee for the right to put "sanforized" on shirts. Those are very loaded questions that were being asked, would you be willing to pay for an increase of your autonomy. The argument is now being increasingly made, and it certainly is a debate, that foreign control costs us more than it would otherwise if the economy was more Canadian controlled.

For instance, the takeover by Canada Development Corporation of Texas Gulf is presumed to yield us greater revenue in the future because we will get more of the economic benefits coming from the exploitation of our resources by a company owned in Canada rather than a company owned in Texas. The logic of the buy-back is that in the long term it is to our advantage, not to our disadvantage. So greater economic self-control does not mean that we pay a price of worsened standard of living. If anything we are paying a price of worsened standard of living with foreign control. Our standard of living has gone from 2d to 4th highest in the world and this is expected to go down to 11th by 1985. But there is a debate on this.

Representative LONG. Mr. Murray.

Mr. MURRAY. First of all, if we are to stop our foreign investment and buy back Canada, it would cost us approximately 22 percent, 22 percent would be the cost to our national income. Our question, of course, was to see how serious the respondents were, we didn't tell people what percent would buy back all of Canada at the present time. What we tried to do is to ask them what type of personal sacrifice would they be willing to make if they were to control their own industry.

Let me mention one other idea. I think capital inflows will face the same problem that Mr. Trudeau faced when he went over to Europe when we weren't invited to the economic conference. And that is, what is happening in the world. There is the Eurobloc, the Yen bloc, and the Latin American bloc, now where does Canada go? Canada has been put out of the Eurobloc. I was in Japan for a month this summer and although they are very sympathetic, they are just not going to invest in Canada unless it is in raw materials extraction. We have even accepted some of their polluting industries to Canada through industry incentives and they are not even accepting that. So it looks as though our long-term friends are going to have to be our traditional friends, the United States.

Representative LONG. Your survey would indicate that the public is beginning to realize that that is the situation that exists today. We might find ourselves in the situation that we do here in the United States very often, that the public realizes something comparable to this before the leaders do, political and business leaders.

Mr. MURRAY. Of our gross national product, 25 percent is imported. Who are we going to export to if the Euro bloc cuts us off, and the Latin American area gets realined through the Andean bloc, and the Yen bloc? We might have to work out these problems.

What Mr. Clarkson says is absolutely true, that a lot of the feeling is that Canada is exporting its future now. The question is that maybe we have to have more communications. And if we are sensitive to each other, than some of this can be worked out. There is no question about it, Canadians understand this. As unemployment has grown they become less nationalistic. There is a very close relationship between the employment rate and nationalism. I think you have got to have a paycheck, and sometimes nationalism is a luxury that we can't always afford.

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Representative LONG. Mr. Murray, this is one of the things that we are hoping to do here, is to start this dialog. Because there has really never been at the congressional level particularly, and to a very limited extent at the executive level, a dialog of what a long-range solution toward a potential problem between friendly neighbors is. This is one of the things that we are hoping we could get some insight on and give to the legislative committees of the Congress in that regard.

The time to do it and the time to resolve these problems is before they become acute, not wait until, as we often are inclined to do both in government and private industry, until the problem becomes so acute and so bitter that it becomes nearly impossible to arrive at an equitable solution and a long-term workable solution. Instead you end up, from my experience, in doing patchwork types of solutions that try to get you through the existing one. You end up after the patchwork with living with an unsound solution for a long period of time.

What do you see the long-range trend of this, Mr. Petty, looking at it from your point of view?

Mr. PETTY. Mr. Chairman, I think the course is set. We are not going to change the geographical position of Canada. We are not going to change the fact that there are 5,500 miles of common border. We are not going to change the fact that Canada has got 60 percent of the world's fresh water and the United States is going to need some of it. We are not going to change the fact that 80 percent of the Canadian population lives within a hundred miles of the border, and that our economies are related, our political future is interrelated: it is inescapable. The fact that the differences are as few as they are is the miracle that I choose to focus on. And the fact that we can have this dialog and have people come down from the north and appear before your legislative committees is part of the openness of our respective systems. But there are these differences.

I think the third alternative really isn't a third alternative in the context of the Canadian foreign policy. Mr. Murray has just spoken to that point and I won't elaborate upon it.

I believe that "buying back Canada," the U.S. investment in Canada, is not a viable alternative any more than is the U.S. Treasury paying off the Federal debt, it is just about as realistic. The Canadians continue to have free access to the U.S. capital market, and if they tried a wholesale buy back of all our companies, that access wouldn't be available, I shouldn't think, for that particular purpose.

So I think we are going to put more emphasis within the management of U.S. companies of expanding the Canadian identity of the subsidiaries. With the guidance of Canadian authorities and action of business sectors, Canadian personnel will be put higher in the American business operating in Canada, like Mr. Bennett, and not just in the Canadian operation, but into the parent company in the United States too. So that there is the reality of a greater Canadian identity, of Canadian participation in the business decisions involved there. That is the main direction in which we are going. There is going to be fostered as much Canadian owned investment as can be and as Canada itself creates fiscal incentives and through its investment policies to foster that investment. Consequently, a larger share of the increasing new productive capacity will be in the hands of Canadian ownership, and the self-image that Canadians have of their own political destiny will be reflected in this action.

And I think, as Mr. Murray has correctly pointed out, what can be achieved in this area is directed by the reality of the unemployment figures as well. And until Canada gets back to a strong, steady growth rate, the options available to increasing the Canadianization of Canadian industries are few.

Representative LONG. Mr. Bennett.

Mr. BENNETT. Congressman, possibly in support of Mr. Petty's views, I think it is important that any of the differences between Canada and the United States be viewed in the perspective relative to the things we have in common. And really the differences I think do tend to pale by comparison. I think we are inevitably interlocked to a sizable degree. Many of the concerns really revolve in more the area of either cultural differences or political differences. Such concerns as the ex-territorial extension of U.S. laws into other countries is always a delicate source of concern. But on balance I think our relationships are among the healthiest in the world.

And even if you review the current developments in terms of the Foreign Investment Review Act in Canada, I think both Canada and the United States are probably more open to foreign investment than almost any other countries in the world. And even with these recent developments, I think both countries are more hospitable and more encouraging to foreign investment than any other country. And I think viewed in a world perspective any of the areas of delicacy are not really serious.

Representative LONG. I am inclined to agree with you.

Mr. Murray.

Mr. MURRAY. I would just like to say that what we are doing now is starting to compliment each other. And it has gotten to the point where we might place some hard realism back into the discussion. Mr. Clarkson has some colleagues you probably should have down here. We have not heard from a group called the Committee for an Independent Canada, people like Mel Watkins. This group would possibly take a different approach. As Mr. Clarkson has told you, Mel Watkins would probably violently disagree. And there are a few others, like James Laxor, who has taken a view that Canada has been sold out by the multinational company. And I think maybe we should have some of that stated here. They won't probably be as complimentary as they take a different view. And I consider the views at this table are very congenial and are close to each other. And I think Mr. Clarkson probably indicated that there are a few Canadians who do take a very negative view. We might consider that a irrational view but still it is a view to be considered. And there are some very strong nationalists who say, even though the cost is 22 percent, let's bear the cost. This is their approach. And I think you might want to hear those people.

As you know, we measure public opinion and we say, public opinion sometimes forecasts public policy. But there are also opinion-makers called the opinion elite. And the opinion makers are usually the outspoken people, such as yourself. And sometimes the negative view gets the media coverage. And I think these people have received a tremendous amount of coverage, the out-spoken people. And they are the ones that after 1969, made the question of U.S. investment important because Mel Watkins wasn't even heard of in a national sense until he brought out what was called the task force report. And he brought out a model saying, that we should have some restrictions. And people responded, what kind of restrictions? And this is when we started to ask this question on a national basis.

And as he became more vocal and got a following, the negative feeling started to grow. It has started to abate slightly this past year. But still I think you should hear these people, because they are very vocal, they are opinion-makers, and they are going to try to be as strong as possible. And they are the ones who have pushed the Foreign Investment Review Act. And I think that before we get too settled with each other, a new possibility might arise.

Mr. PETTY. We have got some, too.

Mr. MURRAY. Good, I am glad to hear that.

Representative LONG. We tried to get Mr. Watkins, but we weren't able to track him down. We intend to pursue this. We did try to get some of the other groups that are very much interested in pushing the pronational attitude.

Mr. MURRAY. Mel Hertig is a person you should also get.

Representative LONG. One thing, in that regard, before we go to Mr. Clarkson, that relates directly to this. Going back to figure one on your survey—the percentage of annual national samples who feel that U.S. investment in Canada is a bad thing, and the fact that it has since 1973 declined fairly markedly—if the economic situation turns around and you get really full employment in Canada and move forward there, do you think that is going to affect this attitude?

Mr. MURRAY. Not really, because I think that what has abated is not just the economic situation, but I think many other things have arisen—for instance, we have the *Time-Readers' Digest* problem. We now have a Foreign Review Investment Act. And remember, a number of Canadian people work for companies like Ford. The city, Windsor, Ontario, I come from depends practically 100 percent on Ford and Chrysler. And so now that this is in, I don't think it is going to rise again. I think that because of people like Mel Watkins—and let's give him his due—things have happened. Some people think the Foreign Investment Review Act is negative. I think it is going to be positive. I hope more Americans come but to the right area. I hope sometime we have a free trade agreement. And I think that there have been enough things happened, the CDC, Petrocan, things that Mr. Clarkson mentioned, I think these have now quieted many nationalists.

Representative LONG. Thank you.

Mr. Clarkson, you had a comment?

Mr. CLARKSON. I don't know if these are concluding comments or not. I have a sense that we are winding up. But I don't share this feeling that we are about to throw roses at each other in this panel. I am glad that Mr. Petty is here, because I think you have got a sense of reality from his last statement where he said that the course is set, and it can't be changed. I don't share a happiness with this situation. But I think that is the reality, that is whatever little things the Canadian Government may be trying to do halfheartedly are not going to deal very much with the basic dependency of the Canadian economy on the American. For him to say as an investment representative of New York that the third alternative is not an option is in a way the reality. The Canadian Government may talk about its third option, but Wall Street speaks more powerfully. And for him to say that Canada has water, we are going to need it: I take that very seriously. And I am alarmed not just for us but also for the United States, because if they shift into a demand for Canadian resources beyond a kind of line which is informally there in the investment pattern now, I would anticipate that Professor Murray's public opinion results would be very different. There is a sense of territory in the country with which Canadian nationalism is linked. It is more than economic. And if demands are made for Canadian water, it will produce a reaction that would seriously undermine the goodwill that is between us, and the good economic relations—from the American point of view—which now exist.

Representative LONG. It might be like the battle between the sheepmen and the cattlemen out West in the United States back in the previous century.

Mr. CLARKSON. You know that better than I. Water, I would say, is not negotiable.

The Prime Minister also—and he is not a nationalist, he is known as a very strong anti-nationalist in Canada—has said that the water is not negotiable.

I don't want to intervene as a politician, which I am not. But I just reflect on that very clear sense of the economic relationship between Canada and the United States which Mr. Petty described as a one-way street. You can come to New York for capital, but not to buy back your economy. You can come back to New York and float municipal bonds, while we will continue to expand our control of the corporate sector. And if that is the real attitude—and I feel that is the real position—then what I am sketching is basically an unviable relationship. If the United States does not leave Canadians alone to fight out our own issues—because we have serious fights between us—if that sort of tolerance and restraint is not exercised by the American Government, I am going to say that you are going to get much worsened relations than Mr. Porter was talking about yesterday.

Representative LONG. I think this is one of the things that we have got to recognize. And it is an education process that has got to go on. Because people, when they get up to the emotional end of it, where there is just a dire need—let's use the water, for example—and they think it is always going to be there. They say you have got all of it and we are not able to get any of it. We are going to end up with you in the position that some of the lesser developed countries are in with respect to us: "we are entitled to share in it," And this growing awareness, it appears to me, over the whole world with respect to some people having things and others not—whether it be industrialized nations looking for raw materials, or whether it be less-developed countries looking for manufactured products and an industrialized type of society—is a thing that has brought this whole problem to the forefront, in my opinion.

And it is coming. We have got to recognize that it is coming. And it is going to be aggravated over the next few years, in my opinion, and we have got to attempt now to try to find working relationships that can continue over a long period of time before it does come down to a point of where we do it just on an emergency sort of basis with the difficulties that I outlined before that are inherent in that type of attempted negotiation.

Mr. Petty.

Mr. PETTY. I think brief remarks lend themselves to inadequate conclusions by others. I think Mr. Clarkson would agree that the geography, geographical position of Canada and the United States will not change. I think he will agree that the population proportions will not change fundamentally. And I think he will agree that there are perhaps some Canadian benefits in terms of the Canadian standards of living which result from this proximity. You have been focussing on the political and cultural costs, and the identity costs, which I recognize. I have expressed the view that I believe that the Canadian Government is seeking to deal with those, that there are policies and attitudes in place already which are affecting that.

FIRA is a clear example, but not the most recent. You have Maurice Strong's new portfolio, so to speak, Petrocan, et cetera. And I think that your comment belittles those achievements. I think your comment denies that they are going to have an effect upon the personality and character of Canada. I am looking ahead and recognize that they are going to have a profound effect. And I think perhaps in that perception is where our disagreement comes about.

With respect to water, I am sure you are not going to say that you are going to use water as an economic weapon. I think perhaps you haven't focussed on the type of benefits that we have achieved from joint commissions. And I look upon the Joint International Boundary Commission between Canada and the United States which, working quietly, professionally, has resolved some of the knottiest problems that any two countries can have. I think that type of work needs to be conducted in the water area.

Mr. CLARKSON. You are speaking of the MAWAPA diversion schemes, are you not?

Mr. PETTY. No, I am not referring to any particular project. I am referring to the fact that our two nations have a history of establishing procedures and mechanism which resolve differences and lead to common and similar solutions. And I believe the water, the environment, the fish issue, and the boundary disputes are capable of being resolved accordingly.

Mr. CLARKSON. But regulating particular river disputes on the border is one thing, but diverting whole river systems into the American mid-West through these major proposals of a few years ago is quite another. And I thought that is what you referred to when you said that 60 percent of the world's water resources was in Canada and you needed them.

Representative LONG. Mr. Bennett, as a Canadian working for a U.S. company, I wonder if you could step out of your official role as the president of the Ford Motor Co. of Canada and give us the benefit of your views and your opinion as to the direction that you see the Canadian Government and the economic nationalism in its relationship to the United States particularly going in the next few years?

Mr. BENNETT. Let me preface my comments, Congressman, by saying that I think a lot of the concerns are misdirected in the first place. There tends to be a preoccupation in our own country, and I think to some extent in many other countries, including at times in the United States, with the issue of foreign ownership. And I am not sure that the concerns that are felt really should be directed toward foreign ownership.

I was mentioning to Mr. Clarkson a minute ago that most of the concerns that are voiced really could be addressed to any multinational company regardless of where the ownership exists.

For example, again in Canada the concern frequently tends to be that foreign-owned companies don't do their research and development in Canada.

Incidentally, I subscribe to the theory that it is not where you do the research, but rather the application that is made from it. The royalties or payments that you pay are really drops in the bucket compared to the contribution research makes. So I think it is the application of research that is the key.

But the point I was trying to make is that many, if not most, of the Canadian-owned multinational companies also do not do their research in Canada but do it close to their major markets. And if you have a Canadian-owned multinational company whose primary market is in the United States then they will tend to do the bulk of their research in the United States.

So here again to address one's concern to foreign ownership is really misdirecting the nature of the concern. That may address itself to one facet of your question, sir.

With respect to where we are going, I think that worldwide there are aspects of multinationalism that do need to be thought through. I think to have guidelines that are accepted worldwide for multinational companies is appropriate. I touched on earlier the question of the exterritorial extension of laws, which in the operation of a multinational company is always one of the most difficult to deal with, because of the area of conflict a company tends to find itself in when faced with conflicting laws of the host country and the residency of the parent company.

But beyond having guidelines which are applicable to all multinational companies in all countries, I think that the world is becoming smaller, that there is going to be more international trade, and there is going to be more international investment, and the challenge is to harness this economic potential by the growth of multinational companies in a way that does not conflict with the cultural, social and political aspirations of any individual country, I think these can be preserved in spite of the multinationalism trend.

Representative LONG. I certainly agree with you. And as I said, one of the contributions that we hope to make by the panel discussions that we have had here today—and this will be made availble to all members of Congress—is that looking at that in the light of these problems before they become acute, we hope we will make some sort of a contribution toward working out equitable settlements and solutions that will enable us to do exactly what you have set forth there.

Before we adjourn, does anyone have anything for the good of the order?

Mr. Petty.

Mr. PETTY. If I may, Mr. Chairman, maybe you would like me to throw back a question to you. Mr. Clarkson was referring to the comments on——

Representative LONG. That is not fair, you know.

Mr. PETTY. It is a rehtorical question. When I made the prediction that if there were a wholesale program to buy out U.S. direct investors in Canada, that the ready availability of the capital market in the United States would not be so readily accessible. That is a political judgment and not a Wall Street threat as Mr. Clarkson suggested. With respect to the investment banking community, and whether they would assist such financing, I think greed is prevalent today as it has been in the past.

Representative LONG. You don't have a monopoly on that, as you well know.

We do have some additional questions, if we could get the benefit of your opinion on them. The staff and I will get back to you on them in order to make our fill-ins and gaps that perhaps we have missed here today. We had hearings scheduled for tomorrow—as you all know, we are trying to adjourn this session of Congress—and because of the difficulties at the Canadian end at this time we have postponed those. We will have them at another date.

We appreciate particularly, Mr. Murray, your suggestion with respect to some of the other people that might be brought in. We have been in touch with some of them. We are going to explore this subject further. I think we are off to a good start on it. And I am particularly appreciative of you gentlemen taking the time to prepare what you did in order to come and be with us today.

And this hearing is adjourned.

[Whereupon, at 12 noon, the subcommittee adjourned, subject to the call of the Chair.]

CANADIAN FOREIGN INVESTMENT SCREENING PROCEDURES AND THE ROLE OF FOREIGN INVESTMENT IN THE CANADIAN ECONOMY

MONDAY, JANUARY 26, 1976

CONGRESS OF THE UNITED STATES, SUBCOMMITTEE ON
INTER-AMERICAN ECONOMIC RELATIONSHIPS
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2222, Rayburn House Office Building, Hon. Gillis W. Long (acting chairman of the subcommittee) presiding.

Present: Representative Long.

Also present: Sarah Jackson and John R. Karlik, professional staff members; George D. Krumbhaar, Jr., minority counsel; and M. Catherine Miller, minority economist.

OPENING STATEMENT OF REPRESENTATIVE LONG, ACTING CHAIRMAN

Representative LONG. This morning, the Subcommittee on Inter-American Economic Relationships continues its hearings on the Canadian foreign investment screening procedures and the role of foreign investment in the Canadian economy.

United States and Canadian relationships today are a two-way street. We share a common border of more than 5,000 miles. The United States has depended for years on Canadian oil imports for its mid-western refiners as well as large amounts of other raw materials. Canada, on the other hand, has relied on the United States for capital imports and as a major export market. Each country is affected by the other's policies toward its economy and the environment as well as in many other areas. What is happening in Canada today is therefore of great interest to us in the United States.

One area where there is particular concern is Canada's effort to regulate operations of foreign companies within its borders. In the past, Canada has relied heavily on foreign capital, particularly on U.S. direct investment to provide employment opportunities for its growing population. As a result, approximately 60 percent of Canadian manufacturing assets are foreign-owned. Of these 60 percent, three-quarters are U.S. owned and in some cases U.S. control is more than 90 percent.

Recently, however, there has been growing debate in Canada about the costs of such a heavy reliance on foreign capital sources. In 1974 the Canadian Government established the Foreign Investment Review Agency to consider all take-overs by foreign companies and new foreign investment unrelated to existing plant capacity in order to determine if such investments were in the Canadian national interest.

Although these new regulations have not been in effect very long, we would like to examine their impact both on the Canadian economy and on U.S. businesses that are investing in Canada or continuing investing in Canada.

In December, this subcommittee began its examination of the role of foreign investment in the Canadian economy and efforts to limit it. We discussed the broad outlines of Canadian concern with its dependence on foreign investment and in particular some of the attitudes toward government efforts to gain greater control over the economy. We learned that the special kind of arrangement for free trade and investment that exists, for example, in the automotive industry, and under the automotive agreement, would probably only work in a few specific sectors, rather than across-the-board.

Today we would like to continue our discussion of Canada's foreign investment screening procedure. We would like to look more closely at the operations of the Foreign Investment Review Agency. Is its review process likely to be used as a tool to redress regional imbalances by directing all foreign investment to the poorer regions? As all of you know, we relied on that even by giving tax advantages and other incentives in the United States. Can Canada gain greater control over its economy through foreign investment restrictions? Are these procedures likely to be followed by more stringent measures?

This morning we had planned and had scheduled four distinguished witnesses from Canada and the United States, but I think between the combination of weather and illness that we only have two.

Mr. Thomas M. Franck, professor of law at the New York University Law School, was scheduled to be with us today, but unfortunately was not able to attend because of the weather. However, I do have his prepared statement which I would like to insert into the record at this point.

[The prepared statement of Mr. Franck follows:]

Prepared Statement of Thomas M. Franck

My purpose here, today, is very briefly to examine the Canadian practice on foreign investment which I have more precisely and extensively set out elsewhere and to do so with two issues in mind: (1) How should the U.S. react—if at all—to the Canadian controls, particularly the newer controls aimed at retarding the flow of U.S. investment into that country? (2) What—if anything—can the U.S. learn from the Canadian experience that might be useful in determining future U.S. policy towards foreign investment in this country?

The shift toward government control over foreign investment in Canada is a response to two related but distinct issues: Canadian independence and Canadian unity. In 1970, the Canadian Government published its long-promised wall-to-wall reevaluation of the hundred-year-old nation's role in the world. This study emphasized that Canada's challenge was both to "liv[e] distinct from but in harmony with the world's most powerful and dyanamic nation, the United States" and, at the same time, to maintain "national unity."

Independence and unity in the Canadian context are mutually dependent variables. The extent to which Canada can hope to overcome the alienation of its Francophones depends, to a considerable degree, on whether a separate Canadian identity can be reared in the nation as a whole. Since the culture, economy and ethos of Canada's Anglophones continues to be dominated by the United States (and, to a lesser extent, Britain), the isolation of French Canada and its drift towards separatism is otherwise inevitable. Instability and even civil war cannot be ruled out.

To understand the dilemma, one must appreciate that Canada's relations with the United States have become, since World War II, not only "a unique phenomenon," but one which, in the words of former Foreign Minister Mitchell Sharp, "impinges on virtually every aspect of the Canadian national interest." "Because of the vast disparity in power and population," Sharp wrote, "it is also inevitably a relationship of profoundly unequal dependence; the impact of the United States on Canada is far greater than Canada's impact on the United States." The search for Canadian unity and identity are thus necessarily merged into a dynamic effort to create a nation free of an over-dependence which pulls part of the country in a direction which the other will not follow.

Nor is the French-Anglo division the only Canadian separation. Although Ottawa's approach to its immigrants is that of encouraging coalition and coexistence rather than synthesis, its comparative tolerance towards "hyphenated Canadianism" makes it all the more important that the "Canadian" part of each newcomer's dual identity be sufficiently real to balance the ancestral part. To this end, Canada has in recent years adopted a distinctive national flag, enacted "Canadian content" rules for its radio and television programs, discouraged use by advertisers of American (instead of Canadian) magazines circulating in Canada, and compelled the selective deletion of American advertising from cable telecasts of programs carried from the United States into Canada. Ontario has precluded the takeover of a key book publisher by an American company. Each of these initiatives has been designed to encourage Canadian readers, listeners, writers and advertisers to constitute a total Canadian cultural market: from production to consumption.

This effort has not been without its opponents—on both sides of the border—and it has undoubtedly put strains on the traditional friendships between the two nations. The strain has been augmented by a Canadian surcharge on oil exports to the United States and the recent upward revision of natural gas export prices. Troubling to Washington, too, has been Canada's unilateral enactment and proclamation of a broad Arctic Waters Pollution Prevention Zone and the threat of a similarly broad zone closed to free passage by American vessels along the Pacific Coast.

To Americans, with their relatively rooted sense of national identity, the Canadian efforts seem petulant and rudely attention-getting. This leads to the conclusion that the Canadian initiatives are really psychologically motivated and should be dealt with accordingly: by more supportive attention, reassurances of love and understanding, and, if absolutely necessary, by punishment. In this instance, however, Canada is not trying to overcome the American tendency to take it for granted. Rather, it is engaged in a far more serious endeavor—to define its national interest and establish its national identity in order to mold a nation.

Rightly or wrongly, a majority of Canadians now believe that the overwhelming American fact in the life of their society involves more than merely cultural penetration: it is, at root, essentially an economic question.

The extent of their economic domination of Canada would surprise most Americans. Those who are aware of it tend to agree that it is ultimately incompatible with nationhood. Thus, George Ball has noted:

> Canada, I have long believed, is fighting a rearguard action against the inevitable . . . Canadians recognize their need for United States capital; but at the same time they are determined to maintain their economic and political independence. Their position is understandable. . . . But . . . I do not believe they will succeed in reconciling the intrinsic contradiciton of their position. . . . Sooner or later, commercial imperatives will bring about free movement of all goods back and forth across our long border; and when that occurs, or even before it does, it will become unmistakably clear that countries with economies so inextricably intertwined must also have free movement of the other vital factors of production—capital, services and labor. The result will inevitably be substantial economic integration, which will require for its full realization a progressively expanding area of common political decision.

Canadian commentators have taken up this theme, but to reach a different conclusion: that economic interdependence is bound to bring about undesirable political interdependence which must be avoided by reducing economic interdependence. This Canadian reaction can be understood only in historical context.

Before World War I, external capital played a key role in developing Canada to and past the economic "take-off" point. This capital was predominantly British, and, as was the pattern in the United States and South America, it took the form of portfolio investment concentrated in the development of communications and transportation networks. Such investment, coming in the form of debt securities (*e.g.*, bonds, debentures), rather than equity, left no permanent stamp of foreign control on the developing economy.

Figures before the second decade of this century are imprecise, but it appears that less than a third of all foreign investment was direct, that is, in the form of equity, conferring ownership rights on the investor. Reconstructed estimates for 1900 indicate that of C$205 million invested in Canada by Americans, C$175 million was in the form of direct investment. British direct investment, however, represented only C$65 million of their total investment of over C$1 billion.

Encouraged to leap the protective tariff structure of Canada's "National Policy," and attracted by the related incentive of Commonwealth preferences and, above all, the proximity of the Canadian market (and, later, by the demand for raw materials), American investment began to arrive in earnest after the outbreak of the First World War. In 1900, it represented but 13.6 percent of all foreign capital invested in Canada (British investment comprising 85.2 percent of the total). By 1926, however, the United States accounted for 53 percent of all foreign investment, as the relative British share declined—a process that continued from the First World War through World War II.

The most current figures, from 1967, put the United States level at 80.7 percent of all foreign investment. British investment now accounts for only 10.3 percent, and all other foreign countries for only 8.9 percent. Put another way, as of 1967, about 25 percent of all Canadian corporate assets were owned by foreign controlled corporations, of which four-fifths were American-controlled. This foreign ownership is of importance beyond its numerical size because it is concentrated in two crucial sectors of the economy—manufacturing and resource industries—where approximately 60 percent of corporate assets are foreign owned. The degree of foreign ownership in certain vital industries, such as metal smelting and refining (85 percent), petroleum refining (99.9 percent), automobiles (95 percent), rubber (90 percent), chemical (83 percent), computer (90 percent) and electrical apparatus (65 percent), is even higher than the average for manufacturing and resources. Most remarkable is the fact that, as of 1964, 96 percent of all patents issued in Canada went to nonresidents.

American capital has shown a decided preference for direct investment, especially since World War II. In 1967, this investment form constituted 60.6 percent of the United States total (down about 2 percent from 1960). British capital has made a sharp turnaround in the years 1960–1967, and, for the first time in the history of British investment in Canada, it is now also predominantly (60 percent) in direct form. Other foreign investors, who have preferred portfolio investment throughout most of this century, are now evenly dividing their capital participation between direct and portfolio forms.

This increasing preference for direct ownership on the part of all foreign investors is the principal focus of Canada's economic concern. In particular, it is feared that the concentration of United States ownership in the extractive and large manufacturing industries creates a dependence which is evident in the annoyance expressed by Americans that Canadian oil, discovered and produced by American-owned companies, should now have to be sold to the United States at world market prices rather than at the lower domestic prices decreed for Canadian home comsumption. Canadians know it is difficult for Americans to accept that resources discovered, developed and owned by American subsidiaries and located only a few "hinterland" miles across the border could be as "foreign" as Saudi oil for purposes of pricing and marketing.

There is no shortage of particulars in the bill against foreign MNE control of their economy presented by Canadian writers, economists, politicians and members of various commissions which have repeatedly studied the subject. It is argued that Canadian branch operations are too often tailored to the parent's global requirements, resulting in restrictions on the branch's freedom to export, purchase locally and engage in research and development (R & D) projects. It is charged that Canadian affiliates usually perform only secondary or assembly functions while all investment planning, market strategy, R & D decisions and sophisticated production processes occur elsewhere. This brake on the branch plants' local entrepreneurship has been described as "truncation."

It is also argued that the international competition of the multinationals is reproduced in the Canadian market, with domestic affiliates tending to be small-scale manufacturers of the entire product line of the parent. This result has been described as the Miniature Replica Effect. Thus, the development of one good, cheap Canadian line of soap products with an R & D as well as export potential is made difficult by the presence, in the Canadian market, of uselessly competitive and duplicative branches of various U.S. conglomerates. In the words of one commentator:

> A degree of product differentiation appropriate for the sizeable U.S. market, but inappropriate for the Canadian market, is brought about by U.S. investment in Canada. For example, nine plants—seven foreign controlled—currently produce

nine brands of slightly different refrigerators when half that many variations would suffice to serve the Canadian market. As a result, Canadian producers may be prevented from capturing larger shares of the market, and resources are allocated inefficiently within the Canadian economy.

Affiliates of foreign corporations are frequently analogized to a "transmission belt" conveying foreign laws and values into Canada. Specifically, these corporations are affected by legislation of the parent company's state of nationality which purports to have extraterritorial effect. There have been, at various times, problems with American affiliates operating in Canada under policies mandated by the United States Trading with the Enemy Act concerning restrictions on trading with Cuba, North Vietnam and the People's Republic of China. Similarly, United States antitrust legislation may be given an extraterritorial effect, thus enforcing competition when, from the perspective of the Canadian economy, consolidation would be preferable.

While there is widespread appreciation of the role which foreign capital and technology have played in the opening up of the Canadian "frontier," the expansion of American control of Canadian industry is now primarily conducted with Canadian funds. The growth of foreign investment in Canada is financed not so much by the import of new foreign capital, as by the retained earnings of Canadian affiliates, borrowings on the Canadian market, depreciation and depletion tax benefits, and incentives received from federal and provincial development programs. Thus, even if new capital importation were to stop altogether, the share of foreign ownership of Canadian industry would continue to grow. On the other hand, dividend and royalty payments to parent firms constitute a drain on Canada's balance of payments. A current account surplus produced by rising exports has been both a recent and occasional phenomenon.

Critics also argue that Canada is being pushed into the position of being an exporter of depletable raw materials, largely to satisfy United States demands. While the case for husbanding resources may be criticized on economic grounds, there is clearly something to the critics' argument against the export of primary products in their unprocessed state. For most Western industrialized countries, end-products constitute approximately 60 percent of exports, but for Canada the ratio is only 19 percent. Although in the past decade there has been an increase in the proportion of processed manufactured goods in Canada's exports, the increase for other small industrialized countries has been three times as great. What increase there has been has in large part been due to inter-governmental agreement, as in the 1965 Automotive Pact. Moreover, in the 1960's Canada was continuing to experience increases in imports of consumer goods and other end-products.

Canadian attempts to balance or modify foreign penetration of the Canadian economy are essentially based on three distinct tactics (1) State (i.e., federal or, more often, provincial) nationalization, (2) the "key sectors" approach, and (3) the Foreign Investment Review process.

Nationalization, in Canada, is more widely accepted an instrument of social policy than it has been in the United States, even though in many respects Canadians are more conservative and committed to laissez-faire than their American counterparts. This may be little more than a matter of ideological semantics. The Tory-radical tradition of Britain is still very much alive, especially in the industrial heartland of Ontario, and that tradition has never feared the instrument known as the "Crown Corporation." It may just be that Americans preferred to go the route of federal and state regulation by agencies and subsidies. But Canada has long had "publicly-owned" power, radio and television, rail and air transport under essentially free-enterprise governments closely resembling the Republican and Democratic administrations of the United States. It may well be that the public has been willing to accept the government as investor of last resort for a reason not so far impinging on the U.S. public consciousness: i.e., the need to keep certain key national industries out of the hands of foreign investors. Most recently, the federal government has decided to set up a national oil producing and marketing corporation, the first Canadian entry into this key sector, and an entry which may be made in partnership with—but could not be achieved solely by—Canadian private capital.

Closely related but different to nationalization, and of equally long standing, is the key-sector approach.

Despite an awareness on the part of Canadians that control may be achieved without regulation of ownership, there is a long history of Canadian efforts to preclude foreign control of key sectors of the national economy by precluding foreign ownership. As early as the 1880's this was evident in the discouragement of American investment in the Canadian Pacific Railway. The Railway Act Amendment of 1904 provided that a majority of the directors of any company receiving government aid for rail construction must be British subjects. The high tariff structure instituted in 1878 under

Conservative Prime Minister Sir John A. Macdonald's "National Policy" was intended to stimulate indigenous enterprise.

As American capital rushed to Canada after the outbreak of World War I, Canada acted to reserve a number of public utilities and service industries from alienation. Canadian Airways, predecessor to Trans-Canada Air Lines and Air Canada, was formed in 1929, with capital contributions by both the Canadian Pacific Railway (CPR) and the government-owned Canadian National Railways. Its president stated that such participation was a warning to American airline interests that Canadian Airways "was financially in an impregnable position." In consequence. "[d]omestic air, rail, and water transport are, for all practical purposes, 100 percent Canadian controlled." Parliament keeps a close watch on the level of foreign stock holdings in publicly-held corporations like CPR to ensure that control remains in Canadian hands. Thus, the National Transportation Act provides for regulation by the Canadian Transport Commission of any direct or indirect proposed acquisition of an interest in rail, water or motor carriers within federal jurisdiction. The Commission may allow or disallow any such proposed acquisition by applying its statutory "public interest" test, which is broad enough to include considerations of foreignness.

Similarly, under the Aeronautics Act, the Commission exercises wide discretionary power regarding proposed changes of control over commercial air carriers. "Certainly the regulatory jurisdiction as conferred by the statute and regulations is broad enough," even without consideration of FIRA, "to enable the Canadian Transport Commission to consider any factor in a proposed acquisition which it thinks relevant." Moreover, under the Air Regulations, two-thirds of the directors of a corporation owning a Canadian aircraft must be of Canadian nationality.

In 1951, a provision was added to the Canadian Broadcasting Act authorizing the Canadian Broadcasting Corporation to make regulations to promote and ensure the greater use of Canadian talent. The Broadcasting Act was further revised in 1968 to provide that, "the Canadian broadcasting system should be effectively owned and controlled by Canadians." Pursuant thereto, the Canadian Radio-Television Commission has issued regulations which limit licenses to Canadian citizens or to Canadian-incorporated companies whose directors are Canadians and whose equity is at least 80 percent owned by Canadians or other eligible companies. More recently, percentile Canadian cultural content requirements have been imposed on programming.

As a response to foreign takeovers in the insurance field, certain amendments to the Canadian and British Insurance Companies Act were made in 1957, requiring that a majority of the directors of Canadian insurance companies be resident Canadian citizens. Moreover, the boards of insurance companies were empowered to refuse to transfer on the company's books stock sold by a resident Canadian citizen to a non-resident, this on the assumption that the directors themselves would resist further foreign takeovers. The more stringent revisions of 1965 recognized that this assumption was unfounded.

In 1965, a number of new key sectors were identified and reserved for Canadian control. The revised rules adopted for the insurance industry were also applied to loan and trust companies. These measures, which apply to federally incorporated companies, require a majority of ordinarily resident Canadians on boards of directors. While permitting the directors to act on their own initiative to refuse to give effect to transfers of shares to nonresident Canadians, the measures ordain that any such transfer be disallowed if it would reduce resident Canadian ownership below 75 percent, or would permit one nonresident, or a controlling group associated with him, to hold more than 10 percent of the total number of shares of the company's capital stock.

Similarly, since 1913, the law has required that a majority of bank directors be subjects of Her Majesty resident in Canada, a rule which, in 1967, was stiffened to require that 75 percent be Canadian citizens, and that a similar proportion of shareholdings be Canadian. The 1967 Bank Act was passed as a response to First National City Bank's acquisition of the Mercantile Bank from Dutch interests. Tolerance of what had been Canada's only instance of foreign ownership of a bank ended when "foreign" threatened to become "American." The 1967 Act operated retroactively to reduce Citibank's acquisition.

A series of measures instituted in the 1960's restricts mining and oil and gas leases in respect of Crown lands, and mineral exploration assistance grants, to companies incorporated in Canada which are at least 50 percent Canadian-owned or have their shares listed on a Canadian stock exchange. Thus, participation of Canadian capital in financing and ownership is encouraged. In the case of the major Canadian-owned mines, foreign takeover has de facto become impossible.

The Mercantile Bank episode illustrates not only the emergence of a policy to protect all banks from American control, but the emergence of a new key sector, that is, virtually all highly visible Canadian businesses. The Government has moved on an ad hoc basis to introduce regulations and take other measures, as required, to block proposed takeovers of several of the larger or better-established Canadian companies. Such moves have prevented the proposed American acquisitions of the Traders Group, a sales finance corporation, in 1969, Denison Mines (uranium) in 1970, and Home Oil in 1971. These Canadian responses, coupled with aroused public sentiment concerning alienation of such visible Canadian businesses, have made any such acquisitions virtually untenable.

Some large takeovers have occurred despite the presumption against success: for example, the 1969 acquisition of Royal Securities by Merrill Lynch, Pierce, Fenner & Smith, Inc., and the 1970 purchase of the Ryerson Press by McGraw-Hill. But the former prompted a study of the securities industry and the imposition of restrictions by the Ontario provincial government on foreign ownership of securities firms, and the latter helped set the scene for the intervention of Ontario to prevent the U.S. purchase of the publishing company of McClelland Stewart Ltd.

Before the 1960's, actual government activity to restrict foreign control had been limited largely to the key sectors discussed above. In the late 1950's and '60's the country took the first steps toward a broader policy based on tax incentives and disincentives. The first of these originated in key-sector related efforts by the Liberal Government, in 1957, to impose a magazine tax on advertising revenues of Canadian editions of foreign magazines (*e.g.*, *Time*, *Reader's Digest*). This was undone by a new Conservative Government the next year.

A number of tax incentives were adopted in the budgets of 1960–62 to increase Canadian savings and investment, and to encourage research and development expenditures. The most notable was a 1961 requirement that pension plan trustees derive at least 90 percent of their investment income from Canadian sources to qualify for a tax exemption.

Under the leadership of Finance Minister Gordon, the Liberal Government in 1963 began a more aggressive campaign to change the form and extent of United States investment. To increase investment and promote mineral exploration, a dual rate of withholding tax was introduced in 1963, when the longstanding 15 percent tax applicable to nonresidents was raised to 20 percent, except in cases of companies with 25 percent or more Canadian ownership or listed on a Canadian stock exchange, in which case the withholding rate was to be 10 percent. This was amended almost at once to lower the top rate to 15 percent. The dual rate has been continued to the present, although in 1976 the rate will go to 25 percent for residents of countries with which Canada has no reciprocal tax agreement. A takeover tax of 30 percent was proposed on large sales of shares in Canadian companies to nonresidents, but, under pressure from his own party, Gordon was forced to retract this proposal. Nevertheless, at present, Canadian-controlled private corporations pay a reduced rate of corporate tax on the first C$50,000 a year of their income. This reduced rate is unavailable to foreign-controlled firms.

A further attempt was made to use tax mechanisms to discourage advertising by Canadian businesses in foreign periodicals. Again, the effort was aimed especially at the Canadian editions of *Time* and *Reader's Digest* and again it failed in the face of strong American government pressure. Although the 1965 tax legislation disallowed deductions for advertising expenses incurred in utilizing non-Canadian periodicals, it excluded the "partially Canadian" *Time* and *Digest* from its scope. This exception has now been withdrawn.

Finally, and most recently, we have FIRA.

FIRA is a law enacted to become effective in two stages, each announced by proclamation. The first stage, which applies to acquisition of Canadian enterprises by foreign interests, began on April 9, 1974. After October 15, 1975, the Act has come to apply to the establishment of new businesses unrelated to business previously carried on by the foreign investor in Canada. Very significantly, the existing operations and expansions of foreign-controlled firms remain totally exempt so long as they do not enter new and unrelated fields. The scope of this "grandfather" clause is very substantial. Reinvestment of earnings from existing operations, coupled with their borrowings from Canadian investors, account for roughly three-quarters of the increasing annual growth of foreign-held business assets. Prime Minister Trudeau, on October 18, 1974, reiterated in the House of Commons that the imposition of controls on the expansion into related industries by foreign-controlled businesses already in Canada, while contemplated, was still only a long-term prospect. Neither does FIRA prohibit foreign equity participation in Candian business, and there is no general requirement of Canadian majority participation or of a fixed minimum percentage of Canadian ownership.

It is important to recognize that FIRA, as merely one part of the response to the problem of foreign economic domination, does not supersede past "key sector" legislation. Investors whose intended transaction is covered by specific key-sector legislation must meet the requirements of this legislation independently of FIRA. The ad hoc protection extended to certain "sensitive areas," such as the cultural field and indigenous technological development, remains in the background to discourage foreign investment in these areas. The energy and non-renewable resource sectors in particular are now virtually immune to takeovers—even by foreign companies already in Canada—whether such expansion would be deemed "related" to their present activities or not.

FIRA's regulatory scheme is less complex than its dense drafting would at first suggest. At its base is the distinction between investors who are, and those who are not, permitted to make investments in Canada free of scrutiny. Those who are not, are designated "non-eligible persons" (NEP) and it is to them that the regulatory scheme of the Act applies. Such "persons," however, are not ineligible to invest; they are merely ineligible to invest without scrutiny.

Even then, not all NEP investments are necessarily subject to review. In the case of proposed takeovers, the Act defines the degree of acquired "control" which makes a proposed investment reviewable. Lesser "buying in" by an NEP escapes the process; the takeover of sufficient interest to "control" does not. When the proposed investment takes the form of launching a new venture, the NEP investor's project is subject to review only if the undertaking constitutes a "new business" which the applicant has not "previously carried on in Canada," or which is "unrelated" to the business the applicant is currently carrying on in Canada.

While a proposed investment by an NEP that would achieve "control" over an existing Canadian enterprise or would establish a "new business" in Canada will thus be subject to review, such scrutiny is far from tantamount to exclusion. Of the takeovers examined by the Agency and Cabinet up to June 30, 1975, only 22 were rejected while 95 were approved. In each case, the application is to be rejected only when the investor fails to satisfy the test that his new investment or takeover be of "significant benefit" to Canada.

This criterion is the *sole* test of whether a foreign investment subject to review should be allowed or rejected. Deliberately, it is a test to be applied with flexible managerial and economic considerations, rather than strictly legalistic ones, in mind. Five factors will be taken into account in the evaluation:

(a) the effect of the acquisition or establishment on the level and nature of economic activity in Canada, including, without limiting the generality of the foregoing, the effect on employment, on resource processing, on the utilization of parts, components and services produced in Canada, and on exports from Canada;

(b) the degree and significance of participation by Canadians in the business enterprise or new business and in any industry or industries in Canada of which the business enterprise or new business forms or would form a part;

(c) the effect of the acquisition or establishment on productivity, industrial efficiency, technological development, product innovation and product variety in Canada;

(d) the effect of the acquisition or establishment on competition within any industry or industries in Canada; and

(e) the compatibility of the acquisition or establishment with national industrial and economic policies, taking into consideration industrial and economic policy objectives enunciated by the government or legislature of any province likely to be significantly affected by the acquisition or establishment.

The principal objective of the broad, single standard was not, however, to discourage investors but to permit pragmatic flexibility in dealing with them on a case-by-case basis. It may seem at first that this flexibility allows so much discretion that firms in similar factual situations will not be able to tell if they will be treated similarly. This may, however, be an excessively pessimistic view of the incidents of flexibility. As investments are reviewed and allowed, the grounds for approval have begun to be published, perhaps eventually creating the basis for a case-by-case empirical jurisprudence to round out the inevitably broad categories of the statute and the guidelines. Meanwhile, the "significant benefit" standard, together with the procedures for pursuing an application, will lead to a bargaining relationship in which the investor and Canada negotiate with each other at arm's length and relatively free of fixed legal restraints.

Thus, it is believed that, in at least one instance, a major reason for the rejection of an application was that the investor unwisely indicated that he intended to finance his proposed takeover with borrowings from a Canadian bank. This would not, on its face, appear to be a business decision covered by the formal criteria for assessing "significant benefit." But any experienced Ottawa watcher knows that there is particular sensitivity to U.S. takeover of Canadian industry with Canadian funds—criteria or no criteria.

Since the review process is one of bargaining, the principles of negotiation familiar in labor and international negotiations apply. If the Agency has a bias, it tends to be against legal and in favor of business and economic expertise. The applicant, while well advised to have legal counsel in the preparation of his "case," must be prepared to negotiate not primarily on the basis of whether his application is or is not within such criteria as may exist, but rather on the basis of whether his proposal offers the best deal Canada is likely to get. He should be able to demonstrate the advantages he offers, his capacity to give effect to his undertakings, and the absence of comparable advantage obtainable from purely Canadian sources.

In one respect, FIRA seems to raise special problems of neighborliness. The Act subjects to review, and thus, potentially, to veto even purchases of a foreign-controlled corporation in Canada by another foreign-controlled corporation. Thus a merger or divestiture involving purely American business can be halted in its tracks if there happens to be a Canadian subsidiary, however small. There have already been instances of giant U.S. corporations taking the position that they would rather violate Canadian law than have a delicate merger founder while the Agency in Ottawa did its thing, perhaps over a period of as many as 3 to 6 months.

All this raises some questions of international comity and fairness, the more so in view of Canada's own sensibilities about similar unfairness by the United States. A private foreign shareholder or even a foreign business involved in a Canadian takeover, expansion, or the launching of a new business can no doubt reasonably be required to adjust to the Canadian public policy against further unregulated transactions of this sort. The equities of the situation are not quite so clear when Canada seeks to regulate the merger of two American corporations some of whose business operations happen to be in Canada. A still more troublesome case arises when such a merger is required by the home country of the merging corporations as a condition of continuing to do business (as, for example, when a government subsidy is preconditioned on "rationalization"). Even more difficult is the hypothetical situation in which a foreign corporation with a Canadian subsidiary is nationalized. The Act includes in its definition of NEP's "the government of a country other than Canada . . . or an agency of such a government," so that Ottawa has reserved for itself a veto over a foreign government's power to nationalize those of the assets of its corporations as are located in Canada. This right, however delicate its complications, is widely accepted in international law. Although it is usually put in terms of the right of national *courts* not to give effect to a foreign expropriation of property outside its jurisdiction, the same discretion applies to the administrative process.

There is certainly room for improvement in the operation of FIRA which could be quickly gleaned from a methodical analysis of the complaints and suggestions of U.S. businessmen seriously trying to comply with the system. The preceding discussion of extraterritorial reach suggests that Canada needs to temper its legislation with a *de minimis* rule where the effect of a change in ownership is to leave a foreign-controlled industry—as distinguished from a Canadian one—in foreign hands and where that Canadian-located enterprise is small, either absolutely or in relation to the parent. There is also a problem about the speed with which applications are processed. A 60-day rule provides that an application shall be deemed approved if not disallowed within this time. But it contains a giant loophole for the government in that the process of bargaining is easily undertaken with the clock stopped. Perhaps the 60-day rule could be made absolute if Agency and Cabinet procedures could be streamlined. Faster decisions might be negative decisions, but business on the whole would prefer to take that chance. Finally, the Agency ought soon to be given power to proceed by rule making so that each instance does not appear as a case *de novo* and so that there would be more chance for self-appraisal of their prospects by potential applicants.

These are proposals that could be considered by Congress, the Commerce and State Departments and quiet representations could properly be made in Ottawa. There are many Canadian specialists in the field who agree with the need for these or comparable reforms.

The proposals, if any, should however be made in a context of understanding, if not support, for the Canadian objectives.

Unless one is wholly committed to the free play of market forces, there can be little quarrel with Canada's stated purpose of gaining a larger measure of control over the 34.2 percent of its corporate assets currently owned by foreign-controlled firms. Even rabid advocates of laissez-faire are likely to conclude that the outcome of a policy of non-interference by the Government is fore-ordained: most Canadian industry of scale would in due course end up controlled by Americans.

If Canadians believe—and not all of them do—that shareholding and management are the indices of industrial control, then they must see to it that a substantial part of Canadian industry and business is owned by Canadian shareholders and controlled by Canadian directors. Oddly, this too is a comparatively laissez-faire approach, incorporating the challengeable proposition that shareholders' or directors' control is the key to industrial decisionmaking. Those who disagree would prefer to invoke the government's mandatory power directly in industry's decisionmaking process, or would prefer outright government ownership as the device for gaining control over industrial policy. The Canada Development Corporation (CDC) has already established direct government share-participation in businesses as the alternative option. But even such stirringly flagshowing CDC undertakings as the "takeover" of Texasgulf, Inc., are vigorously sniped at by the Canadian business community, which is as reluctant as the American to welcome "government" into its boardrooms.

FIRA represents an effort to gain a measure of control over the extent of foreign investment without intervening directly in the vast preponderance of foreign business which is not subject to review. In answer to a parliamentary question on October 18, 1974, the Prime Minister again reiterated that review would not soon be extended to investments in related industries by NEP's already in Canada, although these were ultimately contemplated. Even when business is subject to review, FIRA seeks an accommodation through ground rules within which the business, if admitted, can operate day-to-day without further government intervention.

Indeed, FIRA is vulnerable to criticism exactly because of its minimalist, laissez-faire approach. It did not help, of course, that newspapers were able to report that the first eight applications under FIRA were all approved. Even after the first four disapprovals had helped demonstrate that the Act could be a deterrent, however, it could still be vehemently argued that FIRA is the wrong kind of control because it does nothing fundamental about creating a viable Canadian industrial establishment. Such viability, it is argued, requires the nationally planned reorganization of Canada's branch-plant economy, a consolidation of the small competing units of industry that now flourish in Canada into aggregations large enough to be able to afford their own research and development and compete on a global scale. This kind of reorganization is deemed by some a more important step towards "gaining control of the national economy" than are steps to substitute Canadian for American shareholders and directors in the affairs of these suboptimal enterprises.

FIRA has no such grand strategy and therefore represents a relatively gradualist approach. Nevertheless, it has become an important factor in American business planning. It is also an experiment worth watching for other reasons. If the world monetary imbalance leads to large-scale Arab investment in American business, it is conceivable that some similar legislation might in the future be necessary to prevent excessive foreign ownership of American industry and to stem the influx of unwanted, inflationary oil dollars into the American economy and away from shakier European economies which need them. Some steps are already being taken. The Foreign Investment Study Act of 1974 directs the Secretary of Commerce and the Secretary of the Treasury to conduct "a comprehensive, overall study of foreign direct and portfolio investments in the United States." At the hearing preceding the passage of this legislation, an official of the Department of Commerce noted that during 1973 foreign takeover bids in the United States, both public tenders and private acquisitions, amounted to more than $1.5 billion, with an additional $566 million in foreign capital being put into new investments. He observed, as did others who testified, that "takeovers and acquisitions of U.S. companies by foreign interests have aroused considerable attention and concern." A dramatic manifestation of this concern was the recent reluctance of the Department of Defense to have Iran provide a loan in the form of accelerated progress payments to the Grumman Aircraft Corporation. A loan package in which Iran's role was diluted later proved acceptable.

FIRA, then, is Canada's experiment in dealing with a problem that could become endemic throughout the industrialized world as Petro-, bauxite and sugar dollars accumulate in the treasuries of resource-rich states with tiny populations and cause them to become major investors. This prospect should make Americans not only understanding of Canada's efforts toward economic self-determination, but interested parties in the success of her efforts.

Should the United States follow Canada's lead in processing all foreign investment and the expansion of foreign investment already here?

A recent analysis presented most of the relevant economic data on foreign investment in the United States and summarized the principal arguments for and against additional restrictions on foreign investment here. The study was inspired by legislation introduced in 1973, by Representatives John Dent and Joseph Gaydos, "to amend the Securities and Exchange Act of 1934 to restrict persons who are not citizens of the United States from acquiring . . . more than 5 percentum of the voting securities of any issuer whose securities are registered under such Act. . . . " The bill, which was not passed, is similar in purpose and wording to legislation now being debated in the Congress. The writers concluded that additional restrictions on foreign investment: (1) were unnecessary; (2) would provoke harmful retaliation by other nations; (3) would breach U.S. commitments embodied in treaties of friendship, commerce and navigation; and (4) would undermine U.S. commitment to the OECD Code of Liberalization of Capital Movements.

An argument could be made, however, challenging the conclusions drawn from this data. First, I believe it is doubtful that other nations would retaliate specifically against U.S. restrictions by raising their own barriers to foreign investment. Many nations already do restrict foreign investment. Moreover, Germany and Australia are considering further restrictions even without U.S. action. In the case of Australia, the legislation reflects a desire to exert more national control over the economy and over the development and exploitation of natural resources. In Germany, a principal motivation appears to be fear of further takeovers of major enterprises by the Middle East Oil States.

Second, I believe a sound argument could be made that restrictions are needed from a sociopolitical point of view, if not from an economic point of view. The presence of an enormous surplus of petrodollars clearly makes possible a type of investment in this country which it has not experienced before. In the past, most investment here by foreigners was provided by private interests. In addition, these funds were primarily drawn from nations with whom we enjoyed amicable political relations and shared cultural backgrounds. In contrast, the Middle East Oil States (or individuals who are virtually indistinguishable from the state) may, as governments, become large scale investors abroad. As the recent furor over "boycotting" has indicated, the policies of these states may not always be ones which we as a nation would condone.

The independence of the foreign investor has been said to be inimical to the stability of the U.S. economy, and to the preservation of national security. The following charges are frequently made: Foreign investors are more likely to close down a U.S. operation without concern for U.S. employees. Foreign investors may let subsidiaries go bankrupt and refuse to satisfy excess debt, thereby damaging U.S. creditors. Minority shareholders in a corporation acquired by foreign interests may be harmed if the foreign investor is a government entity which gives national interests priority over corporate profitability. Suppliers of goods and services may also suffer from the foreigner's policy of buying from its nation of origin. Finally, a foreign investor—especially if owned or controlled by a foreign government—might seek control of critical industries, or of an important sector of the economy, in order to be able to disrupt the U.S. economy or to use the threat of disruption to gain political leverage.

But there are also balancing factors.

Actually most foreign direct investors are seeking profits, and their decisionmaking processes will consequently parallel those of U.S. investors with comparable goals. Moreover, its activities within the United States bring the foreign investor within the reach of U.S. law. Regulatory enactments such as the National Labor Relations Act, the Sherman and Clayton Acts, and the Internal Revenue Code, as well as the common law of contracts, torts, and corporations, require foreign investors' U.S. companies to conform to the same standards of conduct imposed on U.S.-owned enterprises. Jurisdiction over and service of process over a foreign-owned subsidiary rarely presents problems. And the foreign-owned corporation which does business within the United States is likely to have assets within this country which can be attached to satisfy adverse money judgments.

At the national level, foreign investors generally enjoy the same freedom as domestic investors. However, certain federal restrictions are applied to specific sectors of the economy because of national defense, national resources or special trust considerations. The restricted sectors are communications, coastal and fresh water shipping, ownership of public land, mining on public lands, hydroelectric power, atomic energy, banking and government contracting.

In any event, even the possibility of very much more foreign investment here certainly suggests that more efficient methods of monitoring foreign investment in this country are a minimal requirement, whether or not monitoring generates data that suggests the need for restrictions and control beyond those already applicable. The dearth of reliable official data on the existing extent of foreign direct investment in the United States suggests that legislation establishing a more efficient system of accurately monitoring foreign investment is a minimal requirement. Such procedures are needed to provide the foundation for wise policymaking, as well as to measure the impact of any policy which may be adopted. The U.S. Department of Commerce currently does provide information on the book value of U.S. direct investment abroad and for foreign direct investment in the United States. The statistics are sufficient only to suggest the *approximate* levels of assets owned by foreigners. The statistics are prone to error because they are derived from old data bases: the last benchmark survey to determine the book value of foreign direct investment in the United States was conducted in 1959. The statistics published annually by the Department of Commerce are merely extrapolations based on changes in the ownership positions of a small sample of the larger investors included in the original benchmark survey.

The official U.S. statistics also omit some important sources of investment and change in value. For example, although 70 percent of foreign investment in this country is said to be portfolio investment, the most recent official study of the value of foreign portfolio investment was conducted in 1949. Nor do the official statistics include assets purchased by a foreign investor with funds borrowed in this country if the loan is made in the name of the U.S. subsidiary rather than in the name of the foreign parent. Yet local borrowing is frequently used by multinational corporations to finance foreign investments.

Finally, the figures for dollar values of assets held by foreign investors fail to measure accurately the value of assets controlled by foreign investors because they are "Book Value" figures only. Changes in facilities' value due to appreciation will not be reflected in the data.

The Departments of Commerce and Treasury are now in the process of conducting a comprehensive study of foreign direct and portfolio investment in the United States, as authorized by the Foreign Investment Study Act of 1974. The Act calls for an interim report to Congress in October, 1975. The final report, accompanied by appropriate recommendations, is scheduled for April, 1976. It is not unlikely that the data gathered in this study will portray a vastly different picture of foreign investment in the United States than that reflected in the Commerce Department data now available, which is marred by the distortions discussed above.

If the economic data, together with the sociopolitical factors outlined above, warrant some form of further government action, it ought certainly not to take the form of the Canadian FIRA legislation *in toto* because our legislation ought to be directed at quite different purposes and would operate under quite different circumstances. The United States is not now, nor is it even remotely likely to be mortgaged to foreign powers the way Canada is at present. What may be wanted, therefore, is not a nationalist solution designed to protect the right of U.S. investors to acquire control of a substantial part of U.S. industry—they have that now and probably always will have it. Rather, the objective ought to be to regulate the conduct of foreign investment by making the foreign investor accessible and amenable to U.S. control in all areas affecting legitimate U.S. interests. That means, initially, that we ought to know exactly who owns what. Beyond that, the normal laws which give jurisdiction to the United States *in personam* over U.S. investors ought to give criminal jurisdiction over the foreign owner, even if twice or thrice removed, by enforcement against his property. The Canadian FIRA precedent is quite useful both in defining "control" and in establishing jurisdiction and a procedure for divestiture. The legislation might also adopt aspects of the older Canadian "key-sector" approach to the extent that existing law does not already provide adequate protection.

S. 425, introduced by Senator Harrison Williams, Jr. (D.,N.J.) seemed to me, subject to some amendments, to provide a viable draft for allaying valid concerns if the data confirms a sharp recent increase in direct foreign investment.

S. 425 proposes the amendment of the Securities Exchange Act of 1934: (1) to require notification by foreign investors of proposed acquisitions of equity securities of U.S. companies; (2) to authorize the President to prohibit any such acquisition as appropriate for the national security, to further foreign policy or to protect the domestic economy of the United States; (3) to require an issuer of registered securities to maintain and file with the Securities and Exchange Commission a list of the names and nationalities of the beneficial owners of its equity securities.

S. 425 defines the term "foreign investor" as:

(1) A natural person resident outside the United States;

(2) A company other than a U.S. company;

(3) A government of a country other than the United States, or a subdivision, agency or instrumentality of such a government;

(4) A U.S. company controlled by a person described in (1), (2) or (3) above;

(5) Two or more persons acting in concert for the purpose of acquiring, holding, voting or disposing of securities, at least one of which is described in (1), (2), (3) or (4) above.

The bill would require any "person" acquiring the beneficial ownership of more than 5 percent of a class of registered securities to file the following prescribed information with the issuer of the security, the exchange where the security is traded and the Securities and Exchange Commission:

(1) The background, identity, residence and nationality of such person;

(2) Financial statements (which must be certified if required by the Commission) of such person;

(3) The source and amount of the funds or other consideration used or to be used in making the purchase. In the case of funds borrowed, or otherwise obtained, for the purpose of acquiring the security, a description of the transaction and the parties thereto;

(4) If the purpose of the purchases is to acquire control of the business of the issuer, any plans which the purchasers may have to liquidate the issuer, to sell its assets to or merge it with any other persons, or to make any other major change in its business or corporate structure;

(5) The number of shares of such security which are beneficially owned, and the number of shares which are optioned, by such person and by each associate of the person. Each associate's background, identity residence, and nationality must be stated;

(6) The number of shares of the security with respect to which any person, other than the beneficial owner, possesses sole or shared voting rights. The background, identity, residence, and nationality of these persons must be stated;

(7) Information regarding any contracts or understandings with any person with respect to the securities of the issuer.

The proposed amendments outlined above make only minor additions to the Securities and Exchange Act as it presently stands. First, the statute as presently enacted does not require financial statements to be included with the statement which must be final upon the acquisition of more than 5 percent beneficial ownership in any class of registered securities. Second, the current law requests only the "background and identity" of all persons by whom or on whose behalf the purchases have been made. S. 425 additionally requests identification by residence and nationality.

However, the portions of S. 425 which are summarized below do represent significant innovations.

The bill would require that the S.E.C. and the President be notified before any foreign investor could acquire 5 percent or more of any U.S. company which had total assets exceeding $1,000,000 on the last day of its most recent fiscal year. At least 30 days prior to such acquisition, the foreign investor must file a statement with the S.E.C. containing the name of the U.S. company, the address of its principal officers, and such information required in the preceding disclosure provisions as the Commission may deem necessary or appropriate in the public interest. This statement shall immediately be forwarded to the President. [The statement shall not, however, be publicly disclosed.] Within 30 days of the statement's filing, the President may prohibit the acquisition if he claims such action appropriate for the National Security, the further U.S. foreign policy, or to protect the domestic economy. The President is authorized to prescribe the procedures applicable to the exercise of this authority, limited only by the requirements that "prompt notice shall be given of any exercise of such authority" and that such notice be accompanied by written reasons. Violations of these provisions shall be penalized by the suspension of voting rights and forced sale of the securities.

Finally, S. 425 would require *all* holders of record of specified classes of securities to file reports with the issuer of such securities identifying by name, residence and nationality, the beneficial owner of those securities and any other person sharing the voting rights represented by such securities. Issuers are required to file with the S.E.C. a "reasonably current" list of the identity, residence and nationality of the beneficial owners of the securities and the persons "possessing sole or shared authority" to exercise voting rights.

Subsequent to the introduction of S. 425, Sen. Williams, in amendment No. 24, added provisions to penalize foreign investors which have participated in economic boycotts against U.S. citizens. The amendment directs the President to prohibit acquisitions by any foreign investor which, within the year before filing its pre-acquisition statement, has "caused, or attempted, or conspired to cause" any person "not to do business with, to subject to economic loss of injury, or otherwise to discriminate against any U.S. company" because it (or an officer, director, employee, stockholder, or creditor thereof) is or has been supporting or dealing with any foreign government with which the United States has diplomatic relations, or any person resident, operating in, or dealing with, any country with whose government the U.S. has diplomatic relations.

The President may also prohibit acquisitions by foreign investors which have "caused, or attempted, or conspired to cause any U.S. company with respect to its business in any country" to boycott any person because that person has dealt with any foreign government with which the United States has diplomatic relations or any person resident of or operating in such a country.

The Presidential mandate to prohibit proposed acquisitions does not extend to economic boycotts by "persons" resident or organized in a country where the "foreign investor" is the government or an agency, subdivision or instrumentality of the government. The proposed act also would not apply to foreign investors "causing or attempting to cause" a U.S. company to discriminate with respect to its business in any country if the "foreign investor" is a foreign government and the "country" is one with which such government does not have diplomatic relations.

The above exception was apparently included to avoid a Congressional challenge of the President's Constitutional mandate to conduct diplomatic relations. However, the exceptions create a significant loophole if the bulk of the petrodollars is in fact dispersed through government agencies and instrumentalities. The loophoie would go unplugged so long as the Arab boycott of Jews and Jewish firms is couched in terms of sanctions against firms dealing with Israel, its avowed enemy.

Representative LONG. Mr. Fayerweather, even though your name is not particularly descriptive today, we are particularly glad to have you. We know of your distinguished background. John Fayerweather is a professor of management and international business at New York University. And Mr. Globerman, we are happy to have you. Mr. Globerman is a professor of economics at York University. We are pleased that both of you gentlemen took the trouble to come and be with us today.

Mr. Fayerweather, would you begin with your prepared statement?

STATEMENT OF JOHN FAYERWEATHER, PROFESSOR OF MANAGEMENT AND INTERNATIONAL BUSINESS, NEW YORK UNIVERSITY

Mr. FAYERWEATHER. I have this short statement, in line with your request, Mr. Chairman, and I think it probably would be best if I read it and then we can open it up to discussion, if you wish.

In this brief statement about Canadian policy on foreign investment, I must necessarily focus on a limited portion of the subject. My focus is on the basic attitudes which are the underlying determinants of the policies and patterns of control Canada has adopted. These observations are based on considerable study of these attitudes including: a survey of about 200 members of leadership groups (Members of Parliament, government officials, businessmen and labor leaders); A broad analysis of the situation reported in my book, "Foreign Investment in Canada: Prospects for National Policy" (International Arts and Sciences Press and Oxford Press in Canada, 1973); and an intensive case study of the conflict between the Canadian Government and the First National City Bank published in "The Mercantile Bank Affair" (NYU Press, 1974).

Although a concise statement involves risks of oversimplification, I would summarize the relevant attitudes as follows. As compared to people in many countries, Canadians have a relatively mild nationalism whose strongest component is a desire to maintain a national identity vis-a-vis the United States which is perceived as a friendly but exuberant giant, willing and capable of overwhelming and absorbing Canada in one way or another. The mildness of the nationalism means that it is usually a much lower order of motivating force than concern for basic economic welfare and other popular objectives. A substantial impetus to nationalistic actions is, however, provided by a small but highly vocal and fairly powerful group of strong nationalists supported in some cases by the economic interests of business groups.

In practical terms the outcome of this mixture of attitudes, policies and interests has three main aspects: (1) high visibility special cases in which fairly strong nationalistic actions are advanced with little economic impact, (2) a broad, quite mild expression of creeping nationalism in general policies and (3) overall economic policies affecting the bulk of foreign operations which are largely lacking in nationalistic thrust and often manifest a creeping continentalism which is the converse of nationalistic desires.

The first category includes the Mertantile affair and the Reader's Digest/Time case. Although the Canadian Government advanced some economic arguments, notably effects on monetary policy, to support its effort to halt the growth of Mercantile and/or force Citibank to sell 75 percent of its equity, they had negligible validity. The motivation was almost entirely nationalistic, representing a central element in the crusade of Canada's most prominent strong nationalist, former Finance Minister Walter Gordon. Exceptional circumstances, aggravated by the rather blundering, insensitive actions of key Citibank executives, Stillman Rockefeller and Robert MacFadden, created a situation in which the nationalists could achieve a conspicuous "victory" of great value in their movement to stir all of Canada to greater resistance to foreign investment. But the impact of the case was in fact relatively minor as Mercantile accounted for only 0.4 percent of Canadian bank deposits and assets of $200 million.

It is highly significant that the much larger presence of "near bank" activities of U.S. banks in Canada with assets currently in the $30 billion range and accounting for one-fifth of short-term lending, have not been the subject of any serious government action even though their impact and influence on Canadian industrial development and other economic conditions is far greater than Mercantile or even several other similar subsidiaries of U.S. banks could have been, given the strength of the Canadian chartered banks. The point of this case is that the Canadians were prepared to go along with their strong nationalists when the cost was small and the visible satisfactions of beating down the Americans high, but they have not been prepared to allow the nationalism to impair much larger foreign bank activities, which realistically are more powerful and serious in influencing national priorities, when these activities have broad value and disrupting them might seriously impair the economy.

The Reader's Digest/Time case is quite similar in providing another high-visibility opportunity for Canadian nationalists to make a further thrust to assert Canadian national identity. Their hand this time is strongly supported by the economic interests of Canadian publishers who hope to fill the profitable vacuum which will be left if the U.S. publications are driven out. It is an interesting fact that one of the founders of Canada's leading nationalist group, the Committee for an Independent Canada, is Peter Newman, editor of Macleans which is just waiting for Time to be pushed out of Canada to expand its new publications. In this instance, the outcome is still uncertain because the Government has been embarrassed to find that the U.S. publications have very strong public support. So, just as the "near-bank" operations perform a fundamental service which Canada is reluctant to disturb, it may be that the service to the public of the unified North American operations of these two major publications may prove too valuable in a practical sense to be worth the doubtful value of satisfying cultural nationalism. The outcome is uncertain, but the closeness of the issue is sufficient to demonstrate the way the Canadians balance nationalism versus practical daily benefits.

Now turning to the second category, the most prominent expression of the broad creeping nationalism is the Foreign Investment Review Act. Others include the proposed requirement that Canadians be members of boards of directors and some mild tax provisions adverse to foreign firms. There is ample evidence, such as the surveys cited in Alex Murray's testimony to this subcommittee, to affirm that a degree of general adverse opinion toward foreign investment has risen steadily in Canada over the past decade. The force of these adverse attitudes is substantially weakened by the fact that the portion of Canadian economic life controlled by foreign firms has been more or less stable for 15 years and there have been a number of studies, mostly by Canadians, showing that the performance of foreign firms has generally been as beneficial to Canada as that of Canadian firms.

Nonetheless the steady rise of nationalistic reaction is a political reality to which the politicians have realistically responded. But, having also a realistic understanding that on the whole the investment is beneficial and that major impediments to it might do serious economic harm, the measures actually taken have been mild. And the underlying nationalism being mild in force, the populace has been reasonably satisfied by these mild measures.

Thus the investment review process covers only takeovers and new investments which account for a small fraction of foreign investment and the screening process is very light, so the process affects the total foreign investment picture only in a marginal manner. The Canadianization of boards of directors and other measures in this category are of a similar mild effect. As manifestations of a broad policy of asserting some national control over foreign firms, they give sufficient satisfaction to the broad rise of creeping nationalism, but not at any significant expense to the economy or real detriment to the effectiveness of the main body of foreign firms.

The third category encompasses the preponderant balance of Canadian economic activity in which foreign investment is such a major factor. Here one finds virtually no significant effort to assert controls over foreign firms. There are two major reasons why this is so. In the first place, a large portion of Canadians do not see that a sound case can be made for exercising controls. Second, it is doubtful if it would be possible in the Canadian context to achieve any meaningful controls. The diverse interests in Canada, the division of authority between the Federal and provincial governments, and the general commitment to an essentially open economy make it just as difficult for the Canadians to "control" their economy as for us in the United States.

Since foreign investment is such a large part of the total economy, any significant efforts to control it would fall in this area of generally weak effectiveness. A few efforts have been made. The Canada Development Corporation was established to provide an entrepreneurial impetus to indigenous Canadian investment to counter foreign investment. It has made a few showy moves like taking over Texas Gulf Corp. and it has provided capital for a number of small ventures but basically its impact is a drop in the total economic bucket. There have been some solid moves to increase Canadian control in extractive fields but they represent a sufficient drain on Canadian capital so that their extent is not likely to carry much further and the limited benefits achieved may discourage further efforts. In the resources area, the simple fact is that the capital requirements for Canada's future development are so immense that reliance on U.S. sources seems inevitable and the extent to which foreign control can be constrained is therefore bound to be limited.

As far as the manufacturing sector is concerned, the experience to date and the prospects for the future seem to point more toward creeping continentalism than creeping nationalism. The notable development in this direction was the Canadian-United States Auto Pact which rationalized the industry and caused a notable shift of management control, research and procurement from Canada to the U.S. headquarters of the auto firms. Other developments have been less spectacular but have a similar impact. It is interesting to note that a recent study for the Ontario government supports the value of "rationalized truncated" foreign operations, typically units which have full production responsibility for a limited product line in the North American market, but with control, basic research and other elements retained by the U.S. parent. By implication, when one portion of a major firm's product line is allocated to Canadian production, other portions are retained in the U.S. production system with Canada served by imports. Thus, on an ad hoc basis the same type of rationalized system as exists in the auto industry evolves, with the basic decision-making and technology centers in the United States. This pattern is not to the liking of strong Canadian nationalists. But it is in practical terms the efficient way for Canada to relate itself to high-technology, mass-production industries dominated by U.S. firms.

To summarize, Canadian policy and actions toward foreign investment fall into a pattern which is an effective response to the mild nationalism of the main bulk of the population and the vigorous nationalism of a small, active minority. There have been at regular intervals a few high visibility cases and there is a steady mild movement toward broad influences on foreign investment; a mix of policies and actions sufficient to reasonably satisfy the prevailing nationalistic attitudes but constrained so that significant costs to the society are not felt. As far as the evolution of the main body of foreign investment is concerned, the Canadians clearly place practical desires for economic benefits above nationalistic controls and significant restraints seem neither desired nor probably practical to implement.

Thank you.

Representative LONG. Thank you, Mr. Fayerweather. We have a number of questions we would like to ask, but I think we will do it by a forum-type session, so that we can get the benefit of both of you on some of these questions. If that is acceptable to you, Mr. Globerman, why don't you proceed with your presentation?

STATEMENT OF STEVEN GLOBERMAN, PROFESSOR OF ECONOMICS, YORK UNIVERSITY, TORONTO, CANADA

Mr. GLOBERMAN. Thank you, Mr. Chairman.

I would actually like to paraphrase my summary in a bit of a shorter form.

In this statement, I will briefly outline what I feel are the major economic issues surrounding the foreign ownership debate in Canada and attempt to summarize and synthesize some of the available evidence bearing on the subject.

I think the real focus of concern on the part of many Canadians relates not so much to foreign ownership per se, but to control of Canadian assets by foreigners. Foreign control is considered to exist, for definitional purposes, when non-Canadians own 50 percent or more of the assets of a Canadian enterprise. By this measure, there is of course a substantial degree of foreign control of the Canadian industry. About 45 percent of the assets of all Canadian manufacturing industries are majority owned by foreigners and this percentage ranges as high as 60 percent in the petroleum industry.

It should be noted, however, that control in the sense of limitations on the decision-making autonomy of local firms, will vary, even among different wholly owned foreign subsidiaries. Thus, it is difficult to generalize about the nature of the decisionmaking process in Canadian subsidiaries.

The concern of Canadians is that control, in the sense of control over the decisionmaking in domestic subsidiaries by the parent firm, leads to a truncated form of industrial structure in Canada. This is a familiar theme, as Professor Fayerweather mentioned.

A truncated firm can be considered as one which does not carry out all the functions from original research through all aspects of marketing necessary for developing, producing, and marketing its goods. More specifically, certain activities which could be performed by the subsidiary are pre-empted by the parent company, either because the performance of these activities by the Canadian subsidiary does not maximize achievement of the global objectives of the parent firm, or because foreign laws or political and social pressures in the home company of the parent firm impinge upon the activities of the foreign subsidiary. And this is really, I think, the crucial issue in a strong nationalist's case; namely, that the truncation of economic activity in foreign subsidiaries results in significant economic costs to Canada. These costs include things like reduced Canadian exports, increased imports, with a consequent reduction in the capacity of local firms to supply components and inputs, lower levels of domestic innovation, restrictions on the development of local managerial expertise, lower rates of re-investment of Canadian retained earnings and other forms of domestic savings, and faster rates of depletion of Canada's natural resources, among other things. This would be a selection of costs that nationalists might suggest results from truncation.

It seems to me there are two important empirical issues raised for consideration in evaluating this argument: How significant are the costs—and in this case I can focus on the economic costs—associated with foreign ownership in Canada and do the benefits of foreign direct investment outweigh any associated costs?

The benefits of foreign direct investment presumably include increased supplies of managerial and technological expertise, access to new products or production processes, increased availability of venture capital and improvements in the technology transfer process.

I think it is important that the benefits will vary from firm to firm and from industry to industry. To get some impression of the overall benefits and costs associated with foreign direct investments, I think we should consider some of the available evidence on the economic performance of foreign owned firms compared to domestically owned firms in Canada. In considering the evidence from a range of studies, I think one has to be impressed not by the differences but by the similarities in the performances of foreign and domestically owned Canadian manufacturing firms.

Studies indicate that when other factors such as firm size and product mix are held constant, the degree of foreign ownership is not significantly related to the export performance of the firm. Up until recently, foreign owned firms were, if anything, even more intensive performers of research and development than were their domestically owned counterparts. In some industries, foreign-owned firms adapt new technologies faster than domestically owned firms. In other industries, no significant differences in adoption patterns are evident.

There is some tendency for firms with higher levels of foreign ownership to import relatively more than their domestically owned counterparts, but this fact could be explained by the subsidiary's greater knowledgeability about the availability and reliability of foreign suppliers. Foreign-owned firms tend to produce a slightly wider range of products than do their domestically owned counterparts, although both sets of firms tend to be characterized by excessive product diversity.

My own research has focused on the development and adoption of new technology within Canadian companies. And it generally supports the findings I just outlined. Specifically, I found no evidence indicating that the effectiveness of research and development in stimulating an industry's growth was significantly related to the level of foreign ownership in the industry. As another example, I found that foreign-owned companies in the Canadian paper industry were somewhat quicker to adopt new production techniques than were their domestically owned counterparts. However, no differences were found to exist between foreign and domestically owned firms in the tool and die or the carpet industries.

In short, it is difficult to generalize about differences in the economic performance of Canadian firms which are uniquely related to ownership characteristics. This suggests to me and to others that the poorer economic performance of foreign subsidiaries, as compared to the parent affiliates, primarily reflect factors existing in the Canadian industrial environment, rather than the economic control exercised by the parent firm over the subsidiary.

In my opinion, other aspects of the Canadian industrial environment are far more significant influences on the economic performance of Canadian manufacturing companies than is the degree of foreign ownership. Two such factors are the domestic tariff and the significant amount of firm level concentration of sales and assets in domestic industries. Behind the protection afforded by the tariff, oligopolistic manufacturing firms in Canada can survive while being less efficient than their foreign counterparts. This inefficiency is manifested in higher production costs, lower rates of new product innovation, and lower exports as a percentage of total output among Canadian firms and significantly among Canadian firms which are both foreign and domestically owned.

Given the existent Canadian market structure, attempts to regulate foreign ownership might actually lead to an even poorer performance by Canadian firms. No matter how flexible the approach adopted, that is the screening or regulatory approach adopted, one impact of regulating the inflow of foreign capital will be some reduction in the rates of new foreign investments.

Additional barriers erected against the inflow of new capital into domestic Canadian industries will exacerbate problems associated with existing low levels of domestic competition and will further reduce incentives to improve efficiency within existing Canadian firms.

It may be the case, that in certain instances, restrictions on autonomous decisionmaking by subsidiary units inhibit the economic performance of foreign-owned forms. Some obvious examples can be cited where firms in Canada have hesitated to make sales abroad for fear of violating U.S. laws. However, the obvious cases are, in fact, quite limited in number and are already dealt with by forthcoming Canadian legislation. The Foreign Ownership Screening Agency in place in Canada has been established to influence corporate behavior in Canada in areas unrelated to considerations of extraterritoriality. The Agency may be mildly successful in accomplishing its goal of transferring some of the returns to foreign investment from the foreign investors to other segments of the Canadian public in certain cases. However, one danger that I see is that the screening process will serve to protect inefficiency in existing Canadian firms. Another danger is that the uncertainty associated with the screening process will seriously disrupt investment planning in Canada. What would appear most relevant is the fact that policies increasing the competitiveness and efficiency of Canadian industries and improving venture capital markets in Canada would make the existence of the screening agency itself largely unnecessary.

Specifically, I would suggest that policies leading to reductions in tariffs, as recommended by the Economic Council of Canada, and improvements in domestic capital markets, along with a more vigorous application of combined legislation are substantially more effective ways to solicit an improved economic performance from both foreign and domestically owned firms.

Representative LONG. Thank you. Your entire prepared statement of course will be placed in the record.

[The prepared statement of Mr. Globerman follows:]

Prepared Statement of Steven Globerman

An Economic Evaluation of Foreign Direct Investment and the Regulation of Foreign Ownership

A thorough evaluation of the benefits and costs of foreign direct investment to the Canadian economy is quite clearly an extensive and ongoing task for researchers and policy-makers. This statement can only take the form of a broad overview of the major issues surrounding the debate and summarize some of the available evidence bearing on the subject.

It should be noted that the real focus of concern on the part of Canadian nationalists relates not so much to foreign ownership, per se, but to control of Canadian assets by foreigners. For purposes of measurement, foreign control is considered to exist when non-Canadians own fifty percent or more of the assets of a Canadian enterprise. In fact, control, in the sense of limitations on the decisionmaking autonomy of local firms, will vary even among different wholly-owned foreign subsidiaries. Thus, foreign ownership statistics are only an imperfect measure of the more relevant concept which is foreign control. Available data do indicate that a substantial percentage of Canadian assets are majority owned by foreigners. This percentage is about forty-five percent for all Canadian manufacturing industries, and ranges to as high as sixty percent in the petroleum industry.

Foreign direct investment is suggested to provide certain unique benefits to the Canadian economy. These benefits derive, in part, from the increased availability of productive resources which are often a part of the foreign investment package and which may be in short supply in Canada. These resources include managerial and technological expertise, new products or production processes and venture capital, among others. Increased access to certain export markets, improved capability of local suppliers and increases in the rate of new technology transfer across national borders are also considered to be important potential benefits associated with foreign capital investment.

The concern of many Canadians is that the benefits of foreign direct investment are associated with significant costs to the Canadian economy and that these costs may outweigh the benefits in many instances.

The alleged costs associated with foreign direct investment are not only economic but are also political and social in nature. Since economists are generally more comfortable when considering relationships which are measurable, I'll restrict my comments to potential economic costs.

Economic costs associated with foreign investment are suggested to arise from the truncated nature of the foreign subsidiaries operating in Canada. A truncated firm can be considered as one which does not carry out all the functions—from original research through to all aspects of marketing—necessary for developing, producing and marketing its goods. In essence, certain activities which could be performed by the subsidiary are pre-empted by the parent company because the performance of these activities by the Canadian subsidiary does not maximize achievement of the global objectives of the parent firm. A related notion is that foreign laws or political and social pressures in the home country of the parent firm may impinge upon the activities of the foreign subsidiary to the detriment of the Canadian economy.

The truncation of economic activity in foreign subsidiaries is thought to result in reduced Canadian exports, increased imports with a consequent reduction in the capacity of local firms to supply components and inputs, lower levels of domestic innovation, restrictions on the development of local managerial expertise, lower rates of reinvestment of Canadian retained earnings and other forms of domestic savings, and faster rates of depletion of Canada's natural resources, among other things.

The important policy issues raised in the minds of Canadians are whether the benefits of foreign direct investment exceed the costs, and whether certain policies can be implemented which will increase benefits relative to costs.

The benefits and costs of foreign investment will vary from firm to firm and from industry to industry. Some impression of the overall benefits and costs associated with foreign investment can be gained by considering available evidence on the economic performance of foreign-owned firms relative to domestically-owned firms. In considering the available evidence, one is impressed not by the differences but by the similarities in the performances of foreign and domestically-owned Canadian manufacturing firms. Studies tend to indicate that when other factors such as firm size and product mix are held constant, the degree of foreign ownership is not significantly related to the export performance of the firm. Up until recently, foreign owned firms were, if anything, even more intensive performers of research and development than were their domestically-owned counterparts. There is some tendency for firms with higher levels of foreign ownership to import relatively more supply components than their domestically-owned counterparts, but this propensity could derive primarily from a greater knowledgeability about the availability and quality of foreign suppliers. In some industries, foreign-owned firms adopt new technology faster than domestically-owned firms. In other industries, no significant differences in adoption patterns are evident. Foreign-owned firms tend to produce a slightly wider range of products than do their domestically-owned counterparts, although both sets of firms tend to be characterized by excessive product diversity.

It is quite evident from available data that for various dimensions of economic performance, foreign subsidiaries in Canada do not perform as well as their parent affiliates. For example, Canadian subsidiaries have higher costs of production than the parent firm, do relatively less research and development, with a subsequently poorer performance in new product innovation, export less intensively and import relatively more than do the parent affiliates.

The performance differences between subsidiaries and parent companies has led to the notion that policies might be implemented to improve the economic performance of foreign-owned firms in Canada. In this regard, the relevant question is whether the poorer performance of the subsidiary unit primarily reflects the economic control exercised by the parent firm or whether the behaviour of foreign-owned firms is appropriate to the Canadian industrial environment. Put another way, can the economic performance of foreign subsidiaries be made more similar to the performance of the parent affiliates by influencing the way decisionmaking is undertaken in multi-national enterprises, or must the business environment in Canada be changed if important improvements are to arise in the performance of foreign-owned firms operating in Canada? While many Canadian observers might argue that both factors are relevant, my own assessment of the evidence is that ownership per se is of secondary importance.

In my opinion, the single most important factor influencing the economic performance of Canadian manufacturing companies, either domestically-owned or foreign-owned, is the protection provided by high domestic tariff levels combined with a significant amount of firm-level concentration of sales and assets in domestic industries. Behind the protection afforded by the tariff, oligopolistic firms in Canada can survive while being less efficient than their foreign counterparts. This inefficiency is manifested in higher production costs, lower rates of new product innovation and lower exports as a percentage of total output among Canadian firms, both foreign and domestically owned. Indeed, the similarity in the performances of foreign and domestically owned firms attests to the pervasive influence that the basic Canadian market structure has on Canadian industrial performance.

Given the existing market structure in Canada, what effect could be expected to arise from attempts to regulate foreign ownership? The effect might actually be to worsen the performance of the Canadian economy. No matter how flexible an approach is adopted, one impact of regulating the inflow of foreign capital will be some reduction in rates of new foreign investment. Additional barriers erected against the inflow of new capital into domestic Canadian industries will exacerbate problems associated with existing low levels of domestic competition and will further reduce incentives to improve efficiency within existing Canadian firms.

It may be the case that, in certain instances, restrictions on autonomous decisionmaking by subsidiary units inhibit the economic performance of foreign-owned firms. Some obvious examples can be cited where firms in Canada have hesitated to make sales abroad for fear of running afoul of United States laws. However, the obvious cases are, in fact, quite limited in number and are already dealt with by forthcoming Canadian legislation. The Foreign Ownership Screening Agency in place in Canada has been established to influence corporate behavious in areas unrelated to considerations of extraterritoriality. The success of the Screening Agency in this venture hinges upon a number of related assumptions: first, that the net economic benefits of foreign investment can be improved by screening incoming investment; second, that the Review Agency can extract an improved performance from foreign investors without seriously reducing the minimum return needed to make the investment attractive, and third, that the review process will not further reduce domestic levels of competition and production efficiency by providing added protection for existing domestic firms.

The validity and significance of these assumptions can only be evaluated with experience. What would appear most relevant is the fact that policies increasing the competitiveness and efficiency of Canadian industries would make the existance of the Screening Agency itself, unnecessary. Policies leading to reductions in tariffs, and improvements in domestic capital markets along with a more vigorous application of Combines Legislation are substantially more effective ways to solicit an improved economic performance from both foreign and domestically-owned firms.

The real danger involved in the screening process is that it will serve to protect inefficiency in existing firms. Ironically, some of those firms will be foreign-owned.

Representative LONG. I certainly appreciate your approach to it, because in many ways it follows my own. From the business experience I have had, I have concluded that the direct confrontation between political activity and what is best economically sometimes creates economic problems that are very bad. Mr. Fayerweather, you stated in your statement that the concept of creeping continentalism, which I thought was a very good term, seemed to be headed more in that direction than in the direction of creeping nationalism within Canada. And I gathered that that is generally a conclusion that Mr. Globerman would agree with.

You pointed out that the principal development in this regard was the Canadian-United States Auto Pact, which we have explored in some length. I wonder what the political circumstances were that led to the development of this Pact? And then, I wonder whether or not it was not to be expected that this truncated type of economic activity that resulted from it was not to have been expected? Was it created on the basis of economic grounds, or was it as a result of the nationalism within Canada? Was the result expected or was the result not expected?

Mr. FAYERWEATHER. Let me say something and if I haven't answered fully, you come back to me. There was an economic crisis. This essentially origniated in a serious economic problem. The Canadian auto products balance of payments had been moving steadily in an adverse direction and their deficit in 1961, 1962 and so forth, was quite severe. They appointed a one-man Commission—the man's name I believe was Massey—which studied this whole situation. His recommendation was that the Canadians unilaterally set up a system of rebates on exports to try to rationalize with respect to the North American market by themselves; in other words, just on their own, they hoped to set trade up so they could increase their exports of auto products. This was not acceptable to the U.S. industry. A congressional committee—I don't know what group it was—had some hearings in which the industry made some very stout statements about the effect of subsidization of exports, which in effect was what the plan would amount to. It was quite apparent that the Canadians could try and do things unilaterally if they wanted to, but they would be immediately confronted by countervailing tariffs by the United States.

However, the United States was impressed that there was a serious problem. And therefore—I believe this was in Mr. Johnson's regime—they sat down at the bargaining table and worked out this plan which rationalized the industry: Set up a common market for manufacturers, in effect. Now, there were political overtones. Walter Gordon, who I referred to, as an outstanding nationalist, made some very wry comments about this situation in a book. The political effect was there. They were losing control. It was not desirable.

However, there was no apparent alternative. The economic situation was too severe. So, I think you would have to say that there was some recognition of the political impact, but that the economics were so prevailing that the politics were cast aside. And I think this, in a sense, fits with the theme I tried to develop in my initial comments; namely, that when economics are really powerful, the political nationalism slips into the background. I am not sure that fully answers your question?

Representative LONG. I think it does, except I might bring it down to one finer point. While it resolved, or helped to resolve, one aspect of the problem, it really merely created another, which is the truncated system of which we talked about. If you look long-range insofar as the nationalists are concerned, Mr. Fayerweather, could there be a more serious and detrimental effect than was the problem they were attempting to cure?

Mr. Globerman.

Mr. GLOBERMAN. Mr. Chairman, may I say something? I think there are really two ways of the Canadian industry being rationalized and I think the differences in the results will be significant. One way is to engage in a bargaining arrangement with the United States, as the auto pact was, and have the rationalization process be the outcome of the political process where you will produce certain lines and we will produce certain lines. In that case, I would be very surprised to find a rationalization process having significant long-run benefits to Canada.

As compared to the rationalization process, would be the result of reducing tariffs and having Canadian firms compete along lines where they have economic advantages. And I think one of the examples of this is the paper industry. In Canada, being a free-traded commodity, the Canadian paper industry in the newspaper print sector has had to rationalize along the lines which would be dictated by international competition. And although there is some evidence that Canada's competitiveness in this area is slipping, for most of the 1960's, Canadian producers were quite a competitive sector in that industry. This is the result of market forces, rather than political forces. And in that case, you would get a different form of rationalized structure and I think the truncation arguments would be less apparent in that case.

Mr. FAYERWEATHER. I would simply like to point out that the auto agreement did not negotiate rationalization. It eliminated tariffs. The further outcome was what you are spelling out right now. In other words, by eliminating the tariff barriers, the companies immediately saw it was to their benefit to rationalize. And the effect has been real to Canada in terms basically of lowering costs. Their prices of automobiles were much higher, because they had small, inefficient plants turning out all the models. Now, they have plants which are rationalized by separate models for the whole North American market. This, I think, falls along the same lines in the effect that you have benefits to the consumer.

Representative LONG. My question was, was that economic effect foreseen by the political nationalists that were moving in that direction? I would frankly doubt it.

Mr. FAYERWEATHER. No, I don't think the political nationalists had much to say about it, because again, and I want to repeat, the economic problem was so pressing, the balance of payments problem was so pressing. When you have $500 million deficits, you become thoroughly preoccupied with solving them and your nationalism sort of falls in the background.

Representative LONG. To take another economic problem in that regard, a serious economic problem that I think that the United States and Canada both are going to be faced with in the next few years—and really is almost upon us—is the shortage of investment capital and what the effect of that is going to be. That also relates, of course, to the whole question of petro-dollars and the money coming in from the Middle East. But to take the first stage of it, Professor Fayerweather, I would gather that your feeling would be that when the crunch really comes—and everybody realizes how short the investment capital is—Canada is basically going to take the position that the United States is going to take. That is, in my opinion, that we've got to have the dollars for investment.

Mr. FAYERWEATHER. I referred to the "near-bank" situation. I don't know whether your group has run into this before. But this, to me, is a prime example. A "near-bank" is a bank in everything but some small technicalities. I am not a banking expert, but I understand it can't put up a certain type of sign and cannot take sight deposits. Other than that, it is a bank. At the present moment, it is my understanding that the Banking Act does not cover this type of operation. They are outside its coverage. They are handled to some degree by finance regulations and the like.

In the last 2 or 3 years, there has been tremendous influx of bank capital from the United States moving through these offices of banks. There are now, I think, 200 or 300. I forget precisely, but it is in that order of magnitude. They had a big rush in October, because these offices do fall under the new investment provision of the Review Act. October 15 was the date that, instead of just covering takeovers, the review expanded to cover new investments. The Canadians can now stop new bank operations through the review process.

I guess every bank of the United States must have rushed up there, because they have more than doubled in a year the number of these offices. But the main point is, this is a tremendous avenue for capital to flow in. It is highly beneficial. The Canadians getting this capital like it.

Representative LONG. Mr. Globerman, to what extent do the foreign-owned companies really just mobilize Canadian capital and use it in the studies you have seen? Is this a substantial move?

Mr. GLOBERMAN. Over the last 5 to 8 years, there has been a substantial amount of investment in existing firms that is retained earnings in Canada. I would reinforce what Professor Fayerweather is saying. Because of the nature of the political process in Canada, the provinces do have a large political voice. And when the crunch comes, the provincial governments are going to be very reluctant to individually shoulder the burden of nationalism when they see their own capital needs endangered by a benefit which is not clearly going to be accruing to their own province.

Representative LONG. Let's explore the other side of that question. The other side of that question is if you take the nationalization of the potash industry by one of the industries—and I have forgotten which one——

Mr. GLOBERMAN. Saskatchewan.

Representative LONG. When you take that kind of situation, will the provinces be as responsible in this whole attitude toward foreign investment capital as the national government itself has been? Are they able to take that broad a view toward that, in the opinion of you gentlemen?

Mr. GLOBERMAN. I think that ultimately it may take some time, but that provinces such as Saskatchewan, in pursuing those policies, find themselves in trouble. As you know, the NDP party was thrown out of power in British Columbia, partly because of the attitudes of the government toward private investment of all types, but also foreign investment. I think relating to this question of capital availability and the issue of retained earnings, it is impressionistic on my part, but I think that some of the existing foreign-owned firms are starting to think about taking capital out of Canada now, which is something that really wasn't an issue a while back. I think it is going to become more of an issue, if foreign-owned firms don't really invest as much as they have because of the fears of regulations. And as this happens, I think the pressures on provincial governments will intensify.

Mr. FAYERWEATHER. To throw in another aspect of this, we have had, in recent days, a change in the party controlling the British Columbia government and certain nationalistic types of moves being reversed. I think I saw they were going to get rid of a chicken hatchery and a couple of other things that they had nationalized. It is true in Canada that at the national government level, both the Liberal and Conservative Parties, have fairly similar outlooks toward foreign investment. As part of my work, I studied their party platforms, and you couldn't tell that much difference on the national level, because you get a balancing of views on this and that across the board. However, at the provincial level, it has been an interesting fact that some Western provinces have gone socialistic. Three of them went socialistic. Manitoba, Saskatchewan, and British Columbia have had quite socialistic governments within the past decade. Now when you say "responsible" it depends upon your viewpoint. I suppose that in terms of their party adherents, they would regard their actions as highly responsible. From the point of view of the business community, however, the actions I think would be seen as more extreme. And I think more significant is the changeability prospect. First, you are into a socialistic period and then you suddenly switch around and go to another type of system. Instability is the most difficult thing for business to deal with. So I think that is a factor.

Representative LONG. As both of you gentlemen know, we in Congress have been fighting with this problem of an approach toward the inflow of foreign capital—in our instance, the petro-dollars. We have had some reaction to it in the United States. We have set up a commission ourselves to do a study in this regard. We really have had such a free economic movement within the country over the years that we really don't have any idea as to who owns what. I think that before we can assess the problem, we've got to find that out. I think we are in the process now of at least starting that.

I wondered what you thought of applying the Canadian experience of FLRA to the United States in the current situation in which we find ourselves? Do we really have anything really to gain by this approach?

Mr. Globerman.

Mr. GLOBERMAN. Well, I guess I should preface any remark I make by my own philosophical bias, which is against economic controls in most cases. As I stated, my main concern would be, once economic control is put into the political process, it becomes an instrument for protecting special interests. It is very difficult to prevent it from having that result. I think there are more effective ways to guarantee that this investment is going to be productive to the national economy. And it seems to me the most effective way is to insure a market structure where the investors must be competitive, or else they will find they can't survive in the environment. Any other way strikes me as being—well, it strikes me as opening up the whole allocative process to political decisionmaking. And I have grave doubts about the long-run efficacy of that.

Representative LONG. This will come back, then, to basically an antitrust type of situation to be sure the markets are kept open and competitive?

Mr. GLOBERMAN. That is right.

Representative LONG. Mr. Fayerweather.

Mr. FAYERWEATHER. I hesitate to open up this subject in any Canadian discussion, but right now the Canadians are in the midst of a great national debate that Mr. Trudeau kicked of 2 months ago with statements about the whole free market system. I don't want to open that up. I simply want to label this as a major problem in both of our countries. We have some debate about planning in our own society and I am sure you are familiar with it.

So, this is a subject of a very strong debate. One has to question, I suppose, whether the free market system is going to work. I happen to be with you philosophically, but it is awfully hard to prove.

Now, the other point to make is that the present investment review process is secret, as you may well know. We don't know what happens in the review. We know some projects are turned down and some are approved, but we don't really know why. We know that certain criteria exist. If one reads the statements of the people who are involved officially, one gets the impression that this is a really very mild thing. I think they come in and try to bargain for a few more exports, for a few more jobs and so forth, but there is no beating of people on the heads. It is not a nationalistic exercise. It resembles, to some degree, the type of thing that is going on all the time anyway, because we have so many incentive systems, so many tax incentive systems, and so many communities which are offering free plant facilities through municipal bond issues and so forth. Whenever anything like that happens, the company comes to the municipality—whatever it be; whether it be city or state—and sits down and lays out its bundle. And the government people say, "Well, that looks like a good bundle, but do you think you can improve this or that?" So, my perception of the process at this moment is that it is not that much of a departure from what exists in real life anyway.

I was in a meeting a year ago December where we had a chap that was in the head office of the New York Times. He was saying that some people in his outfit were very concerned that the Arabs would take over the Times. You can see that might be quite significant, given the attitudes in New York. I think Canadian nationalists, those who feel very strongly about this, would like to see a strong organization which says, "We like this and this, and we want this." But, I don't see that happening in Canada today, and I don't think it is going to happen. I don't think they are that kind of people. And I can't visualize anything of that sort in our society here. With all due respect to the government people, I just think that the record shows that except under extreme circumstances, like the RFC and so forth, we have not been good at running that sort of thing; that we just muddy things up and break down the natural economic process.

Representative LONG. The New York Times' incident you related brings to my mind the current flack that is going on over the media, and particularly the television, along the border of the United States and Canada. The United States is telecasting into Canada.

Mr. FAYERWEATHER. Cable TV and so forth.

Representative LONG. There is an attempt to jam some of these signals that are going in there. I would be very interested in your comments on it, because I know both of you are very interested in Canada, and in the economic and political aspects of the Canadian economy. What is your thinking about this, Mr. Globerman? Is there any real way to resolve this question?

Mr. GLOBERMAN. Well, I think, Mr. Chairman, one of the significant features that has come out of this is that advertising rates on domestic stations in Canada have gone up since that avenue for Canadians on the Buffalo border stations has been, effectively closed by taking away the tax deduction. And I think it supports this special interest case that I am concerned about. I agree with Professor Fayerweather that I don't see major structural changes taking place in Canada as the result of the operations of the agency, but I can see it being used selectively by certain people, by certain businesses and special interests in Canada to further their interest. And I think this border case is pointing this out. The evidence is indicating who the beneficiaries are directly; namely, the domestic stations in Canada.

And it may be in a sense nickel and dime in individual instances, but accumulated, Congressman, I have real concern that the costs might be quite significant in this kind of protection.

Representative LONG. And the relationship between the economic result and the political activities are very often more than just happenstance.

Mr. GLOBERMAN. Exactly.

Representative LONG. For example, Mr. Fayerweather was talking about the Time-Reader's Digest matter and one of the leaders in the nationalistic movement. So, we've got to look at it very realistically, as to the economic facts of life, and relate those to the political attitudes and political actions that occur.

Mr. GLOBERMAN. Exactly. I think it is particularly pernicious in the case of cultural industries. Because an argument about cultural nationalism can be made very easily. It is hard to measure what the benefits and the costs are in social areas like cultural independence. And these are particularly areas where I think Canadian businesses essentially in cultural industries have been able to further their economic interests by making an argument about cultural independence. And this border TV case might be one.

Mr. FAYERWEATHER. You see, we are talking about another country. If we talk about ourselves, we leave ourselves wide open. The Canadians are really concerned that they not be swamped. I don't know whether it is proper to bring a——

Representative LONG. Well, let me say I can understand that concern. I think it is a real problem.

Mr. FAYERWEATHER. May I submit this cartoon for the record?

Representative LONG. I would be glad to have it.

Mr. FAYERWEATHER. This is from "Canada Today D'Aujourd'hui," which is put out by the Canadian Government. There are two aspects of it which I kind of like: one is the fact that the Canadians themselves have a sense of humor about this whole thing, and the other is the message. In the cartoon, you see Uncle Sam and little Canada, which is just coming into being—this is evidently a very old cartoon—and the script at the bottom shows Mother Britannica saying "See why the dear child can stand alone." And Uncle Sam says "Of course he can. Let him go, Granny. If he falls, I will catch him."

This is a tremendous preoccupation, as you can see. I think it is very hard for us Americans to visualize the possibility that American might not exist in 50 years. Deep down in the cultural feelings, nationalism has this concern going for it at all times. I don't know whether cable TV matters that much and I don't know whether the Reader's Digest matters that much. But, at some point, it is conceivable that all things could become American and non-Canadian and then it would be different for Canadians. So the problem is very real to them.

Representative LONG. Well, thank you for that. We will put that in the record.

[The document referred to follows:]

January 29, 1811: "The characteristic evil of [the United States] democratic system is its tendency to foster an uncontrollable spirit of party. . . . we are happily exempt from those overwhelming tides of party passion. . . . Let us, then, not envy our neighbours, but be contented with and improve our own condition, and . . . lead peaceable and quiet lives in all godliness and honesty."
KINGSTON GAZETTE.

Borderline Sanity

The past is obscured by myths, and it is most often obscured by the myth that people live happily ever after. People are vessels of emotion; they suffer ambition, nobility, fear, pride, greed and confusion. The people of the United States and Canada have lived with each other for a very long time. They have now and then experienced a mutual tranquility and occasionally a common sense of elation, but they have also at times regarded each other's customs, ambitions and forms of government with grave suspicion. They have shared flashes of hatred and moments of murderous passion.

The long, unguarded border is not the triumph of generations of gentle men and women, smiling sweetly at each other across the fence and borrowing cups of sugar. It is the product of the civilized among us who have built an underpinning of mutual respect — Lord Elgin, General Winfield Scott, William Lyon MacKenzie King, Franklin Roosevelt and scores of others.

This issue of CANADA TODAY/D'AUJOURD'HUI celebrates the crises as well as the resolutions. The first hundred years were perhaps the hardest — there were wars and threats of wars and three Canadian rebellions in which some citizens of the United States were more than emotionally involved. The triumphs of peace would come later and, in time, with such regularity that they were often noticed only by the bureaucrats involved.

From the beginning, events on one side of the border have often affected people on the other side. The Quebec Act of 1774 allowed Catholics to sit on the council which governed Quebec — though elsewhere in the British Empire they were barred from office — and it allowed the Catholic clergy to collect tithes. It did not, however, grant Quebec an elected assembly.

Some Canadians had small objections, but to New England Protestants the act was intolerable. It was both too democratic — in that it heeded the desires of Quebec's Catholic majority — and not democratic enough. It also gave Quebec control of the land between the St. Lawrence and the Ohio, and the New Englanders regarded those fertile acres as their own frontier. An act adopted to solve problems in a Canadian colony helped cause the Revolution in the south.

We will also talk about ideas and people who have slipped across the border from the *Fils de la Liberté* (Sons of Liberty) of 1837 to the Alberta immigrants of the early 1900's, from the Loyalists to Lorne Greene, Ferguson Jenkins and Phil Esposito.

Today, in a world of continued crisis, the United States and Canada have found a balanced calm — we share the joys and responsibilities of being North Americans, and we pursue separate destinies with the understanding that comes with years of friendly adjustments.

We Canadians rejoice in our neighbour's two-hundredth birthday as our neighbour rejoiced in our Centennial nine years ago. We are secure in the conviction that whatever crises the next two hundred years may bring, they will be resolved by persons of goodwill.

Familiarity breeds content.

Public Archives of Canada

MOTHER BRITANNIA.—"*See! Why, the dear child can stand alone!*"
UNCLE SAM.—"*Of course he can! Let go of him Granny; if he falls I'll catch him!*"

Representative LONG. I thought it was very interesting, Mr. Fayerweather, that the language immediately above the cartoon, and it is from the public archives of Canada, says:

> Today, in a world of continued crisis, the United States and Canada have found a balanced calm—we share the joys and responsibilities of being North Americans, and we pursue separate destinies with the understanding that comes with years of friendly adjustments.
>
> We Canadians rejoice in our neighbor's 200th birthday, as our neighbor rejoiced in our Centennial 9 years ago. We are secure in the conviction that whatever crisis the next 200 years may bring, they will be resolved by persons of good will.
>
> Familiarity breeds content.

That fits in well, and it really fits in what we are attempting to do here. We are attempting to look at these problems before they get out of hand, either economically or politically, so that we can adjust them as they arise. It is like the proverbial putting out of a fire: if it gets too big, it is awfully hard to put out.

Mr. FAYERWEATHER. I think we are those people of good will.

Representative LONG. I think so. And I hope the people of Canada take what we are attempting to do here in that spirit and that context; because that is really what we are trying to do, to see if we can't cement these relationships and continue trying to work them out before they get out of hand.

Also, by the way, we really felt we had an opportunity to learn from Canada's experience, as we are getting now more foreign investment of capital coming into the United States than the United States has ever experienced before. We have been an exporter of capital for so many years that we've got to give some consideration to this question of how we treat this new development, both economically and politically. Again it cannot get out of hand. Otherwise, it could cause us both political and economic problems that are perhaps not justified.

Mr. Globerman, you have a statement which I am not familiar with. Toward the end of your prepared statement, you noted that the need for more rigid enforcement of the combines legislation is a more effective way to improve the efficiency of the Canadian economy. Now, tell us a little bit about that, if you would? Particularly the recent amendments to this Investigation Act, which I understand is, to block the application of foreign court judgments to firms in Canada.

Speak to the antitrust aspect of this whole problem. I am not completely familiar with that. I wonder if you might give us your knowledge.

Mr. GLOBERMAN. The combines legislation is the antitrust equivalent in Canada. It is, as you state, going through an amendment process now, where the bill is getting a final reading in the House. There are several substantative changes in the current legislation over the preceding legislation. If you read the whole set of amendments, they are essentially making the combines legislation potentially stronger. Certain particular business practices have been made illegal under the legislation, which they weren't before. You had to prove that they were anticompetitive in nature.

But, one aspect of the legislation is the issue of extraterritoriality in that domestic firms cannot refuse to make exports to foreign countries because of legislation in another foreign country. This is the area that I was talking about in that statement: That issues of extraterritoriality related to U.S. laws in terms of exports are illegal under this Canadian combines legislation.

Representative LONG. In that regard, one criticism made of the foreign investment in Canada is that American investment has led to an over-proliferation, of the product for the Canadian market. The classic case everybody has been pointing out for years is the nine different brands of refrigerators in Canada. Would rereduction of the tariffs and improvements of the domestic capital market remedy this inefficient allocation of resources, both capital and otherwise?

Mr. GLOBERMAN. I think the feeling of most Canadian economists who studied this question is that it would be the single most significant factor leading to product rationalization in Canada and reduction in tariffs—and really a bilateral reduction in tariffs—really a reduction of United States tariffs would also help in assisting in that process.

Representative LONG. And in that regard, if the Canadian government encouraged mergers of subsidiaries to nationalized Canadian production—and they were owned by Americans but located in Canada—that might run counter to our antitrust laws. Mr. Fayerweather, you are shaking your head no?

Mr. FAYERWEATHER. No, you put your finger on it. It is not the direction the companies are going; that is, for example, General Electric and General Motors trying to have a combined refrigerator plant. There are a few cases related to that. RCA acquired the color TV tube business of General Electric. That is a direct transfer. In other words, they had two different color tube plants and one of them sold the business to the other, and now buys its tubes from the other. But that is different from what you are talking about, which is a merger where they join.

I can't see that under our antitrust law, and I am very dubious whether a joint plan makes sense under the Combines Act.

Representative LONG. I also mention product allocation. Now, isn't that product allocation?

Mr. FAYERWEATHER. I referred to an Ontario government study. Ontario itself has a tremendous portion of this investment and their own studies are very thorough, Mr. Chairman. This was a study done for them which encourages the rationalized truncated concept. In principle, under it, what you do is get one of the companies to make most of its refrigerators in Canada and some other products in the United States, and you get a cross-flow in the same sense that you have for the automobile business.

Now such plans are not negotiable. Unfortunately, a lot of the Canadians worry that if you open trade up, industry won't rationalize; it will all go down to the States. This is a justifiable worry, but I think it is a timerous one. In point of fact, there are a lot of attractions up in Canada. It was a little cold the other day. But, if you can stand the cold, Toronto is a delightful city compared to New York, which I am familiar with. It has a lot to recommend it. It has a good population, with high intelligence and what have you.

So that I think to go this route, you have to have a certain underlying faith that some plants will go to Canada. The impression one gets is that that faith is not sufficiently present in some people. But

I will concede that it is a matter of faith to some degree, which makes it hard for them to take this route to rationalization. The other route I just don't think legally is viable.

Mr. GLOBERMAN. In fact, I think it has been the attitude in both the United States and Canada that there is sovereignty in this area of antitrust, anticombines legislation. And I don't think it is a real concern on the part of people in the Consumer and Corporate Affairs Division administering the act that in fact they would be in confrontation with U.S. antitrust law.

I think the feeling is that in the past it has been recognized that antitrust and combines legislation has a sovereign state in Canada, when applied to firms in Canada. I think this is the feeling that exists amongst the people in Canada today.

Mr. FAYERWEATHER. I don't know whether you have gotten the extreme viewpoints, the so-called Waffle group and so forth. Their route to rationalization would be a national company and then you don't have an antitrust problem. The refrigerators are all made by the Canadian Government refrigerator firm then. I don't think this has significant following, but it is another alternative.

Representative LONG. Well, I've followed this situation closer than most people in the United States. Yet Mr. Trudeau's statement was a surprise to me and the degree to which he pursued it was a surprise to me. It seems to me that this could cause us some problems, as we each march parallel in our own lives. I was wondering if it was a surprise in Canada and a surprise to the students of Canada, and I wonder, secondly, what problems does it bring forth in the relationship between the United States and Canada, if Canada does pursue this policy?

Mr. GLOBERMAN. I think it certainly was a surprise to me in its strength. I think there were some indications of philosophical problems in the Canadian Government when John Turner resigned as Finance Minister. It was never made public or clear what his reasons were. He said it was personal and private. But there was some feeling that he had come to some ideological conflict with Trudeau and several of the other Ministers who had socialistic leanings and were in favor of first wage and price controls, but then possibly a much broader range of controls that Trudeau hinted at in his statement. So there were warning signals on the horizon.

In terms of its impact, it moves Canada's thinking away from relying on the market system to achieve Canada's objectives, and rather towards governmental regulation and legislation to achieve economic objectives. That again gets back to the concern I have about the screening agency and this broad range of political interferences of a discretionary nature with the market system. I think it could jeopardize the tariff discussions that are going on in Canada; jeopardize the whole debate about moving to a free trade area with the United States. I think those are jeopardized by statements such as the Prime Minister made. And I think the issue of wage and price controls, to the extent that it turns attention away from efficiency and productivity, jeopardizes the mobility of capital between Canada and the United States. So, I can see it potentially having some significance.

Mr. FAYERWEATHER. There are a couple of things that come to mind. Mr. Trudeau is a true intellectual. I think he was a professor at one time——

Representative LONG. Does that make him a true intellectual?

Mr. FAYERWEATHER. And with all due respect to my colleagues, we are inclined to go off in varying ways when thoughts come to our minds. He went through a period in 1972 in the election in which he lost contact with his people and he almost went down. He pulled himself up by getting in line with public attitudes. He was an anti-nationalist originally. If you read his early writings, he doesn't believe in nationalism, but he has picked up its tone from the people. So, I think it isn't really clear what he is trying to do. That is to say, I don't think necessarily his position is locked in cement. This is something that is just going on in the mind of the man.

Representative LONG. You think this might be intellectually ivy-towerism?

Mr. FAYERWEATHER. It could be, sir. Those are your words. Yes, I think so.

The second point I wanted to make was that there is a body of opinion with considerable respectibility in Canada which has this flavor. I have a long quotation here that I won't read to you, but it is from the Senate Special Committee on Science Policy, written by Maurice LaMontagne. The essence of this—it was a general study they made of the scientific research and development situation—the thing that comes out of it is a proposal for a master plan with the government interfering in all sorts of ways in industrial sectors and the like. Now, this is not a radical man. This is a man who has looked at the situation and come to the conclusion that that is the rational way to handle it. But that does not mean it will happen, because again I want to emphasize, Mr. Congressman, the diversity of opinion in Canada. They are a very mixed lot—as much as us, I gather. And getting a conscensus on anything like this is extremely difficult. However, there is this thrust. And when you are pushed, you always move in that direction. When you are under pressure, when your inflation is high, when your unemployment is high, you've got the nationalists on your back, when your businessmen are screaming about profits, then you try to act. And in point of fact, there is a steady transition away from full free enterprise in Canada. The Canada Investment Corporation, which I mentioned, is one example. They set up their own oil company, which is government sponsored. It is automonous, but government sponsored.

Mr. GLOBERMAN. No, government owned.

Mr. FAYERWEATHER. They have a government-owned plastics firm, too. Correct?

Mr. GLOBERMAN. Yes, it is plastics.

Mr. FAYERWEATHER. Now, there is a slow movement toward government ownership and government control and much more so than here. But there is enough reluctance on it so that the process won't move rapidly.

So, I think what Trudeau said expresses, in his own intellecutal way, a feeling that quite a few Canadians probably have about the whole system. And maybe it will drift that way. That won't be historically wrong. You can see that trend, long-term, I think, in all countries.

Representative LONG. Kari Levitt, who teaches at McGill, was to be with us today. She criticized in her book, "Silent Surrender," Canada's policies of high tariff protection leading toward foreign investment. According to her, this undermines the entrepreneur psychology of Canada by creating a bourgeoisie satisfied with managing a branch plant economy. Those are her words in that regard. What are your views on this attitude by Kari Levitt?

Mr. FAYERWEATHER. She is much more challenging than we are. I am sorry she couldn't come. She is quite far along in the general movement toward socialism. I am not sure if it isn't farther than that, if you read "Silent Surrender." The greater portion of it really is speaking against the private market capitalistic system and not against foreign investment. That is the way I've read it. She is one of a group of people that have these strong views, in Canada. They are stimulating. Do you want to react?

Mr. GLOBERMAN. Part and parcel of her criticism of foreign ownership is her disbelief in the efficacy of the market situation. She has a view of companies all being large, international oligopolies, which are under no market discipline whatsoever and that is something I can't subscribe to. I think this issue of truncation in management decisionmaking is, again, a reflection of Canada's basic economic condition. That is to say, in many cases the range of decisions which a Canadian manager makes reflects the economic environment that Canada finds itself in with basically an inefficient market structure.

In other areas, Canada is competitive, such as the petroleum industry and farm equipment industry. You don't hear Canadian managers making those complaints, however. I think it is very significant, for example, that Exxon continuously appoints the president of a Canadian subsidiary to become the president of Exxon. Another one is Gulf. These men are perfectly capable of making decisions in any organization at any level of world trade activity. I think it is significant and reflects the fact that they come from strong sectors in the Canadian economy.

Mr. FAYERWEATHER. Could I add something that relates to what I said a minute ago? As you may gather, my research is of an attitudinal thrust. I had a doctorial candidate make a study of the attitudes of workers in the Ford plant in Canada, as far as nationalism, foreign investment and big business went, Mr. Chairman. There is a striking correlation between the attitudes toward big business in general and the attitudes toward foreign investment. I think one does find this quite commonly. What we read as nationalism is simply in the minds of many people an attack on big business in general.

Representative LONG. Which is, of course, considerably more accelerated than it has been in a number of years since the days of the Great Depression. Along the lines you are talking about, it has often been suggested Canada should stop its inefficient industrial effort in this regard and instead move toward something like the OPEC nations have, that is, if centering their activities toward the development of their national resources and toward exploration for natural resources. And when you look at it from nothing but an efficiency basis, it is hard to argue with. But, from the standpoint of a Canadian nationalistic policy, do you think it would be a wise policy?

Mr. GLOBERMAN. I don't think it is a wise policy, but I don't see that as the outcome of the liberalization of trade relationships. I think this is a misleading argument, made by nationalists and others—well, not just nationalists, but people concerned about the industrial structure—but it has, I think, limited support. I don't see a rationalization in Canada taking place along the lines that manufacturing will disappear and Canada will only be exporting resources. I think in many manufacturing industries that with product specialization, Canada could be quite competitive internationally. There is no doubt some industries in secondary manufacturing, such as textiles, which is one example, would shrink in overall size. But I would suggest that even in the textile industry most of the rationalization would be a reduction in the number of products produced, rather than a disappearance of plants going out of business. In other secondary manufacturing industires, I think there is a lot of scope for Canada to be internationally competitive. As Professor Fayerweather said, the educational level of the labor force is quite high and the capital stock is quite high and access to resources is great. There really is a good solid base for industrial effort. And if you look at the European Common Market experience, you don't see whole manufacturing industires disappearing from countries as the move toward free trade takes place. But you certainly see increased product specialization. This is what I would see as the outcome of trade liberalization.

Representative LONG. My experience is representing a State that is high in natural resources—and is unduly, and unwisely relying, and has relied upon, the exportation of those natural resources rather than developing a broad economic base—is that I certainly would agree with you. I think it smacks a banana republicanism to a degree that is, from a long-range economic point of view, very dangerous, in my opinion. Because natural resources are finite. They are not infinite.

Mr. Fayerweather.

Mr. FAYERWEATHER. You and I agree, sir. We can go back and look to the 30's. Manufacturing growth in your area and the South in general has been tremendous. Nobody dictated that that take place. The industries moved in. Natural gas was cheap. They moved toward that and moved toward cheap labor, which was the biggest factor. If you look at the map, Ontario strikes one as being a big bulge down into the intudtrial heartland of the United States. The border is something of a barrier, but, if it is not too much of a barrier, it is just as natural to set up your plant in that part of the heartland as it is in the rest.

Again, marginally, there might be some differences, but really it is hard to visualize a major reduction in Canadian manufacturing, given the labor force and economic arguments.

Representative LONG. I think that is certainly right. My comments were relating specifically to the State of Louisiana more than they were to the South in general. What you say is certainly true with respect to the South in general and with respect to North Carolina, Mississipi, and South Carolina. It has been true there, but it has not really been that true in Louisiana to anywhere near that degree. And I think it has resulted from the same situation as happens to people who have a very substantial ability; namely, they come to rely upon that ability rather than preparation. I think those of us blessed in natural resources tend to rely on those natural resources rather than looking at the things as objectively as they should be looked at in long-range planning.

We now find ourselves in Louisiana where the petrochemical plants, the refineries, the fertilizer plants along the Mississippi River between Baton Rouge and New Orleans are having an increasingly difficult time getting the products that they need. They are also rather capital intensive rather than labor intensive and therefore really don't employ a lot of people, so we don't get a lot of benefit out of it. But as I say, they are subject to high automation. If we are not careful, these plants will turn into architectural steel monuments to bad planning, with a resulting severe economic depression in this area. I think this is something that might be the direction in which they would go, should there be an undue reliance upon natural resources. If we get a little rich, we tend to overlook the other opportunities that are available to us. I think that has happened to us in Louisiana over the years.

Mr. FAYERWEATHER. Getting into Canada's issues, one of the major ones is their industry development. As I suspect you have learned, they are now a net importer of petroleum products, which has been an extraordinary development. How have they gotten to this state? I don't think as a function of the way the multinationals have acted, but rather it is a function of taxation and various other things. It is a very moot question as to whether the Canadian Government or the provincial governments have the capacity through administered directive decisions, Mr. Chairman, to change that type of situation. I think this is the type of problem which is really more central to what you are getting at. In other words, they probably at the moment should be putting more effort into resource development, because it is there and they need the resources. But, the mechanics for accomplishing that are very hard to work out in their particular democratic federal and provincial decisionmaking system. As I have said, I don't believe that the multinational firms' role is really very critical. I think it is the governmental policy.

Representative LONG. Gentlemen, we are most appreciative of your coming. Mr. Fayerweather, I note you have some documents here, and they will go in the record at this point.

[The documents referred to follow:]

Elite Attitudes Toward Multinational Firms

A Study of Britain, Canada, and France

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The future evolution of multinational firms will depend to a large degree on the policy decisions of host nations, made essentially by leadership groups. Thus, knowledge of how elites feel about foreign business firms is a key element in analysis of the outlook for international business.

There have been assorted expressions of elite attitudes on multinational firms including official national policies, speeches, and popular writing. But there have been no studies to identify systematically the views of the significant elite groups. To fill this gap, I undertook surveys in Britain and France in late 1970 and Canada in late 1971, results of which are summarized in this article.

The Surveys

The surveys covered four groups—national legislators, permanent government officials, heads of business firms, and labor

AUTHOR'S NOTE: I am indebted to my colleague, Professor Jean Boddewyn, for help in formulating the questionnaire and preparing the French translation and to my research assistants, Richard Sorrenson and Peter Sugges, for computer analysis of the data. Experts in Britain, Canada, and France too numerous to list provided invaluable advice and help in the survey.

union leaders. A mail questionnaire was employed for reasons of breadth of coverage, economy, objectivity, and anonymity, the latter point applying especially to the government officials. For each group in each country, about 200 questionnaires were mailed.

Mail surveys of foreign elites, especially government and labor groups, are not common, and they present assorted problems. This study provided a variety of useful insights on methodology for such surveys, but space permits noting only a few highlights here. More details will be set forth in later writings. It was assumed that a major handicap to be overcome was the image of a meddling American question asker with little interest in the welfare of the host country. The author has devoted substantial time to seeing problems from the host country viewpoint by frequent communication with host nationals, most recently during residence in France in the fall of 1970 and assorted trips to Canada in 1971. A strong effort was made to convey an image along these lines in the cover letter. With appropriate permission, the author noted in the letter that he had sought advice from specific organizations in each country (e.g., the Canadian Institute of International Affairs and the Private Planning Association of Canada). Also, French and Canadian return addresses were used.

While it is difficult to judge the effect of these and other efforts to encourage response, they apparently had a positive result. Some competent advisers were quite doubtful about the prospects of adequate response, especially with some groups like the French *fonctionnaires* who are notably suspicious of *investigateurs*. But the methodology, supported undoubtedly by the strong interest in the subject matter, proved satisfactory. A response of about 25% had been expected, giving a statistically satisfactory group of 50 replies per group. In fact the response rates were generally well in excess of this minimum:

	Legislators	*Government officials*	*Business heads*	*Labor leaders*
Britain	30%	29%	25%	41%
Canada	23%	40%	30%	30%
France	26%	39%	25%	47%

Essentially, the same questionnaire was used in all countries. The standard translation and retranslation process was applied for the version used for the French and French-Canadians. A question on labor union recognition had to be changed because of legal differences in the countries; one question was rephrased for Canada because of unsatisfactory results in the European surveys; three questions were dropped and one added for Canada. Much of the information sought in the questions applies to the author's long-term studies of the relation of nationalism to multinational firms. Only the main responses bearing on the expressed attitudes of the elites are reported in this article.

The questionnaire provided for responses on a 7-point scale. The right-left location of response options was varied in an erratic manner to avoid repetitive answers. In the data in this article, the responses have been reversed where appropriate, so that 1 always indicates the most favorable attitude toward foreign firms and 7, the least favorable. Except as noted, the data are mean scores for groups. The tables also show averages of mean scores for the four groups for each country. These averages of averages are questionable in statistical methodology but are a convenience for readers in putting the data in perspective. In order to devote maximum space to reporting results, comments are not made about statistical significance for each table. Significance values differ from question to question because of differences in number of answers and standard deviations. However, as a general rule of thumb, the reader may assume that differences of 0.7 are always significant at the .005 level. Those from 0.4 to 0.6 are sometimes significant. Those below 0.4 are rarely so.

The Subject in Perspective

To place the opinions of the leaders in overall perspective, two broad questions were asked at the outset of the questionnaire: (A) how great an effect the operations of foreign

TABLE 1

OVERALL OPINIONS

Q.A – How great an affect do you believe the operations of foreign companies in X have on X? Small = 1; Large = 7.

Q.B – In your opinion what is the overall effect on X of the activities of foreign companies in X? Good = 1; Bad = 7

For "X" in all questions read "Great Britain" (British); "France" (French) or "Canada" (Canadian)

		Leg	*PG*	*Lab*	*Bus*	*Ave*
Q.A. –	Br.	5.0	5.0	5.2	4.4	4.9
	Fr.	4.5	4.9	4.9	3.9	4.6
	Can.	5.6	6.1	6.3	5.9	6.0
Q.B. –	Br.	3.2	2.8	4.0	2.9	3.2
	Fr.	3.1	3.1	4.3	2.8	3.3
	Can.	3.5	3.2	4.2	2.6	3.4

Leg = National legislators; PG = Permanent government officials; Lab = Labor union leaders; and Bus = Heads of business firms

companies had on their country, and (B) whether the overall effect was good or bad. The results are shown in Table 1.

The responses to question A indicate that most of the leaders regard the impact of foreign investment in their country as a matter of substantial magnitude with scores ranging from 4.4 to 6.3 along a scale from 1 = small to 7 = large. As might be expected, the Canadian scores are distinctly higher. With 60% of their manufacturing industry foreign-controlled vs. around 10% for the British and the French, there is a major difference. If the data hold any surprise, it is that the European and Canadian scores do not differ more.

Question B reveals a moderate overall favorable appraisal by most groups, with scores around 3 (4 would be neutral). Thus, despite a number of negative reactions on specific points which will be noted later, the majority of the leaders seem solidly favorable in their judgment of the net effect of the role of multinational firms in their countries. The other significant feature is the substantial similarity across countries among the groups: the businessmen, except in Britain, are the most favorable; the two government groups are close to them; and

TABLE 2

CRITERIA FOR EVALUATING FOREIGN FIRMS:
Computed Rank Order Scores, 1 = Most Important

	Britain					*France*					*Canada*				
	Leg	*PG*	*Lab*	*Bus*	*Ave*	*Leg*	*PG*	*Lab*	*Bus*	*Ave*	*Leg*	*PG*	*Lab*	*Bus*	*Ave*
Effect on X national income	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.1	1.0	1.0	1.5	1.4	1.0	1.2	1.3
	(2.2)	(2.3)	(2.1)	(2.8)		(2.5)	(2.5)	(2.1)	(2.4)		(2.9)	(2.4)	(2.0)	(2.6)	
Effect on balance of payments	1.0	1.0	1.1	1.1	1.1	1.3	1.3	1.1	1.4	1.3	1.1	1.6	1.8	1.1	1.4
Control over national affairs	1.4	1.7	1.6	1.3	1.5	1.2	1.0	1.1	1.5	1.2	1.0	1.0	1.1	1.2	1.1
Benefits for X workers	1.1	2.0	1.0	1.1	1.3	1.3	1.6	1.0	1.9	1.4	1.8	1.6	1.0	1.3	1.4
Opportunities for X managers	1.8	2.4	2.0	1.6	2.0	2.1	3.0	2.7	2.1	2.2	1.5	1.9	1.9	1.0	1.6
Role of X in the world	1.8	2.8	2.1	1.3	2.0	1.1	1.5	1.6	1.7	1.5	1.5	1.4	1.0	1.2	1.3
Changes in X way of life	2.4	3.0	2.6	2.4	2.6	1.8	2.0	2.0	2.1	2.0	2.1	2.3	2.2	2.4	2.2
Opportunities for X investors	3.1	3.4	2.9	2.0	2.8	2.7	3.6	3.2	1.8	2.8	2.1	2.1	1.9	1.2	1.8

X = British, French or Canadian

BASIS. Question "How important should the following considerations be in judging the value of foreign companies operating in X?" Major Importance = 1; Minor = 7.

NOTE: In the above table the consideration with the lowest average score for each group was given the rank of 1.0. The ranks of the other criteria are the sum of 1.0 plus the difference between their scores and those of the top ranked criteria for the group, e.g. for British MP's. Effects on National Income had an actual score of 2.2 and Opportunities for Investors, 4.3. The actual average scores of first item are given in parentheses.

the labor leaders are clearly set apart, with a slightly adverse judgment.[1]

CRITERIA FOR EVALUATING FOREIGN FIRMS

Table 2 gives a picture of the criteria by which the merits of foreign firms are judged. The respondents were asked to rate the importance of eight criteria on the scale from major (1) to minor (7). The table is designed to show the most significant facts—the rank and relative weight of each criterion. The criterion rated as most important by each group is given a rank of 1.0. The rank numbers of the other criteria indicate the difference between their actual scores and those of the top-ranked criteria.

A variety of features appear on Table 2. Most obvious is the consistent prominence of the top three criteria. With a few exceptions, economic and control considerations rank close to the top of all lists. There is little statistically significant distinction among the scores of these three in most cases. However, the pattern of differences among countries is interesting. The effects of foreign investment on control of national affairs seem to loom somewhat larger in the eyes of Canadians than of Europeans. A notable feature is the generally much lower ranking of effects on the national way of life by all elites. It appears that, at least among leadership groups, the highly publicized reaction against the "Americanization" of Canada

1. An obvious question in this whole survey is the possible bias of those who responded as compared with nonrespondents. A full check on this point was not feasible, but a check was made of one group. A random sample of 20% of the Canadian Members of Parliament was covered directly by a researcher. (The interviewing was done by Bruce Thordarson with guidance from Julian Payne of the Canadian Parliamentary Centre in Ottawa.) They were asked whether they had returned the questionnaire, and they each answered question B on Table 1. Some 30% had responded, compared to the 24% rate for all MP's surveyed. The average of the scores of the nonrespondents on question B was 2.3 and for the respondents it was 3.0 compared to 3.5 for MP's responding to the mail questionnaire. These latter figures indicate that the group was either not comparable to the mail respondents or that the direct checking process elicited different responses. However, the main point is the apparent favorable bias among nonrespondents. One cannot with assurance assume a bias of similar magnitude or direction among other groups, but it is at least a fair possibility. Thus, the indications of favorable overall attitudes from the mail survey are reinforced.

and Europe is of distinctly less importance than economic and political effects.

Among the effects on specific national groups, the labor element stands out as definitely most significant. The highest rating for it naturally comes from the union leaders, but there is substantial reinforcing support from other groups. The chief deviation from this pattern is the high ranking of opportunities for both managers and investors in Canada by businessmen. It seems likely that this is a product of the relatively large scale of foreign investment in Canada. If only 10% of manufacturing firms are foreign-owned, local investors and managers presumably feel little effect on their opportunities, but at 60% or so, the impact is of real concern.

The rankings for the role of the nation in the world may reflect this same sort of reaction. The Canadians generally place this criterion appreciably higher than do the Europeans. One may surmise that the massive impact of U.S. investment makes the Canadians more concerned about its effect on the whole character of their nation. The other score that strikes one in this criterion is the 1.1 for French legislators. One gathers that, among deputies, General de Gaulle's preoccupation with the glory of France struck a sympathetic chord.

Another interesting way to look at Table 2 is to compare the spread of scores. For British and French business leaders and all Canadian groups, the spreads are 1.4 or less, while for other British and French groups they tend to be appreciably higher, 1.7 up to 2.6. Doubtless, a number of factors are at work here, but two suggest themselves as possible explanations. First, among the Europeans, it is likely that rather specialized interests and responsibilities of government and labor people lead to discrimination as to the importance of criteria, whereas the businessmen have a more diffused picture which results in less discrimination among effects of foreign investment. The Canadian story, on the other hand, may be one more manifestation of the difference between foreign investment on a major versus a minor scale. The massive impact of foreign firms in Canada elevates all sorts of effects to prominence in the eyes of varied groups.

Performance Appraisal

Most of the questions in the survey were designed to elicit attitudes on effects of foreign firms on four aspects of host nation affairs: economics, control, culture, and labor. The results of these questions will be considered separately and in relation to each other.

ECONOMIC IMPACT

The three questions in Table 3 are different ways of looking at the economic impact of foreign firms. Question C suggests a rather broad appraisal of economic contribution. Among British and French elites, with the exception of the union leaders, the appraisals here are moderately but clearly favorable. In Canada, the weight of opinion is on the other side: all except the business leaders take a negative view. This is an interesting judgment, somewhat at variance with the view commonly heard in Canada that foreign investment has been a good thing for the

TABLE 3

ECONOMIC MEASURES

Q.C – What do you believe is the net economic result of the operations of foreign companies in X? They give more than they take = 1; They take more than they give = 7

Q.D – In relation to their economic contributions, the dividends, royalties, and other payments which foreign companies received from their operations in X are: Too small = 1; Too large = 7

Q.E – Do you feel that the magnitude of the receipts (dividends, royalties, etc.) from X overseas operations in relation to their contributions is: Too small = 1; Too large = 7

		Leg	*PG*	*Lab*	*Bus*	*Ave*
Q.C –	Br.	3.8	3.2	4.8	3.4	3.8
	Fr.	4.1	3.8	5.2	3.3	4.1
	Can.	4.6	4.2	5.2	3.8	4.4
Q.D. –	Br.	4.5	4.4	4.9	4.3	4.5
	Fr.	4.5	4.5	5.3	4.2	4.6
	Can.	4.7	4.8	5.6	4.5	4.9
Q.E. –	Br.	3.4	3.7	4.2	3.3	3.7
	Fr.	3.5	4.0	4.4	3.6	3.9
	Can.	3.8	4.0	4.0	3.7	3.9

country economically. This view and the responses to question C are not inconsistent, for one can interpret the latter to mean "While we may benefit economically from foreign investment, the foreign firms gain even more." But the implication nonetheless is that, compared with the Europeans, Canadian leaders are skeptical about the balance of economic gains.

Question D is essentially an appraisal of the items which enter into the balance of payments. Here the elites take a distinctly more negative view. In effect, the data say that the balance of external economic benefits and costs is considered clearly adverse to the host country, as compared to the more favorable views on overall economic impact. Another feature of these data is the smaller spread in the average scores among the groups–0.6, 1.1, and 1.1 on question D versus 1.6, 1.9, and 1.4 on question C.

The differences in responses to questions C and D fit a frequently observed picture of opinions about foreign investment. The internal economic benefits from employment gains and inputs of capital and skills are quite widely recognized, though there are substantial differences in the degree of recognition among groups because of differences in impact on specific interests. Consideration of the external balance of costs and benefits, however, brings into play a different type of thinking on which there is more homogeneity among groups. This thinking apparently incorporates elements of both mercantilistic economics and nationalistic defensive reaction against the drain on national wealth by outsiders.

The responses to question E give some further confirmation to the nationalist element in the economic appraisals. This question was one of a small set at the end of the questionnaire in which the respondents were asked to look at the effects of companies from their own nation in other countries. The questions were mirror images of those asked earlier in the questionnaire. In all cases, the average scores on question E are distinctly lower than for question D, the differences ranging from 0.5 to 1.6. If the replies to the two questions were based solely on general economic concepts, there should be no difference in them. That is to say, it is hard to conceive some logic which would demonstrate that the receipts of French companies from subsidiaries in Brazil, India, and the like were more equitably related to their economic inputs than were the payments by subsidiaries in France to parent firms in Germany, the United States, and so on. When we find such a position endorsed across the board by all twelve elite groups, therefore, we must assume that something other than logic is at work. The explanation presumably lies in the nationalistic bias of the respondent considering his nation's interest in the benefits received from investments in other countries in question E as compared to his protective nationalistic reaction against the external drain caused by outside investment in his native country in question D.

THE CONTROL DIMENSION

Tables 4 and 5 describe various ways the elites feel about the effects of foreign companies on control of national affairs. The main dimensions of the picture are expectable and quickly stated. The loss of control is seen as a significant problem (somewhere between major and minor in Table 4, question F) with the impact of American companies a matter of notably greater concern than that of other firms. Furthermore the effects, if greater control is acquired, are quite worrisome (Table 5, question H).

Underlying these attitudes are beliefs that, when companies are foreign-owned, their decisions are more often adverse to national interests than if they are domestically owned (Table 5, question I) and that the home country loyalty of foreign managers creates a moderate problem (question J). The interesting features of the data lie in more refined analysis. They show one really surprising finding and some other intriguing points.

The major surprise is the score for Canada on question F, Table 4. In light of the recent strong public reaction against American control of Canadian industry and the traditional

TABLE 4

CONTROL EFFECTS RELATED TO COUNTRIES

Q.F – To what degree do you feel that the activities of the companies of the following nationalities cause a loss of X control over X affairs? Minor loss of control = 1; Major loss of control = 7

Q.G – What effect do you believe the operations of X companies have on the control of national affairs by the nations of the following countries? Loss of control Minor = 1; Major = 7

(Averages of all elite groups)

Country – Y	*Question F - Companies of country Y in X*		*Question G - X companies in country Y*
United States	Br.	4.5	1.8
	Fr.	5.4	1.6
	Can.	4.8	0.9
France	Br.	2.6	2.1
	Can.	2.9	0.7
Britain	Fr.	3.5	2.2
	Can.	3.1	0.8
Canada	Br.		2.5
	Fr.		2.3
Germany	Br.	2.7	
	Fr.	4.3	
	Can.	2.9	
Holland	Br.	2.8	
	Fr.	3.5	
Japan	Br.	2.6	1.8
	Fr.	2.9	1.6
	Can.	3.3	0.8
Brazil	Br.		2.6
	Fr.		2.8

worries in Canada about domination by the "friendly giant" to the south, one would have expected a much stronger adverse score here than for Britain and France—something like 6.0, for example, compared to the 4.5 and 5.4 for the British and French. But no, the Canadians come in with a relatively mild 4.8. As the data in Table 6 show, this pattern holds for all groups. There is actually an indication of greater national consensus in the smaller spread between groups than for the other two countries (0.9 versus 1.2 and 1.5).

There is no apparent simple explanation for this Canadian response. As we saw in Table 2, the control question is as important for Canadians as for the other elites. The Canadian

TABLE 5
CONTROL

Q.H – What will be the result for X if foreign companies have greater control over policy decisions in X industry? Good = 1; Bad = 7

Q.I – How often do you think a typical foreign company operating in X acts in ways contrary to X national interests as compared to a typical X firm? No difference = 1; Frequently = 7

Q.J – How frequently do you believe X firms operating abroad act in ways contrary to the national interests of host countries as compared to a typical local firm? No difference = 1; Frequently = 7

Q.K – To what degree does the loyalty of a foreign manager in X to his own country have a bad effect for X? Minor problem = 1; Major problem = 7

		Leg	*PG*	*Lab*	*Bus*	*Ave*
Q.H. –	Br.	5.3	4.6	6.0	5.0	5.2
	Fr.	4.8	5.0	5.8	5.1	5.2
	Can.	6.0	5.8	6.3	5.3	5.8
Q.I. –	Br.	3.5	3.0	4.1	3.1	3.4
	Fr.	3.7	4.0	4.3	3.0	3.8
	Can.	3.5	3.8	4.0	3.3	3.6
Q.J. –	Br.	3.2	3.1	3.8	2.4	3.1
	Fr.	3.1	3.5	4.1	2.4	3.3
	Can.	2.7	3.1	3.4	2.7	3.0
Q.K. –	Br.	3.2	2.6	3.8	2.8	3.1
	Fr.	3.7	3.8	4.7	3.2	3.8
	Can.	4.0	3.8	4.3	3.5	3.9

reactions to control by companies of other countries (e.g., Germany and Japan) are sufficiently within the range of those of the British and French so that one cannot say that there has been a general pattern of lower scoring among Canadians for this whole question. The responses to question H indicate that the Canadians do demonstrate a different degree of concern about *future* loss of control. But there is quite solid evidence here that, despite all the public uproar, Canadian elites do not

TABLE 6
LOSS OF CONTROL OF NATIONAL AFFAIRS BECAUSE OF U.S. COMPANIES (see Question F, Table 4)

	Leg	*PG*	*Lab*	*Bus*	*Ave*
Britain	4.4	3.9	5.4	4.1	4.5
France	5.1	5.6	6.1	4.9	5.4
Canada	4.5	4.9	5.4	4.5	4.8

in fact look upon the *actual* loss of control resulting from having 60% of their factories foreign-owned as any more of a problem than the British, with less than a tenth of the actual degree of loss of control.

How can one explain this Canadian response? For a conservative researcher, the sound answer must be that it is a puzzling matter to which further research must be directed. But one can advance a few thoughts to which other responses in this survey contribute. The most obvious point is that, in terms of overall national welfare, the elites register a quite consistent and generally favorable appraisal (Table 1, question A). Thus it would appear likely that the reaction on the control question is influenced heavily by political psychology, the importance to national independence of control for itself, more than because of tangible results of that control. If this is so, scores may be expected to be influenced more by the character of nationalism in a country than by the actual amount of foreign investment. The reactions to American control are consistent with this line of reasoning in terms of the general character of nationalism in the three countries. The high French score fits with the French preoccupation with retention of political independence vis-à-vis the United States, the EEC, and so on. An interesting confirmation of this preoccupation appears in the difference in degree of concern over control effects of German firms compared to the British score (4.3 versus 2.7, question F, Table 4). The British, even though they have a greater volume of U.S. investment, are less worried about political control. The Canadians, while vocally expressing concern about political identity, in fact are for the most part hard-headed and pragmatic in acceptance of the realities of political interdependence and powerful influence from the United States. These are, it must be emphasized, tentative explanatory thoughts, but they would seem to provide fruitful hypotheses for further work.

The influence of nationalist attitudes also shows up again in the mirror-image question on control. The responses to questions I and J in Table 5 are similar to those to questions D and

E in Table 3 on economic effects, in that the host elites express a more adverse view of the effects of foreign firms within their own countries than within other countries on identical propositions. One notes, however, an intriguing difference in the degree of bias–score differences of 1.2, 0.7, and 0.7 on the economic question versus 0.3, 0.4, and 0.8 on control. While the pattern is not consistent, there is an apparent tendency toward less bias on the control aspects.

A more complicated but presumably even sounder piece of evidence on the same tack is the scoring of the elites in evaluating the loss of control concerning investment in their own countries (question G, Table 4). Here we have two viewpoints on two factual, identical situations. When British elites consider the activities of French companies in Britain, they score the loss of control at 2.6. When the French elite consider these same activities in Britain, they rate the loss of control slightly lower at 2.2. As to the activities of British firms in France, the French rate the loss at 3.5 and the British, much less serious at 2.1.

The details of these differences may involve a complexity of explanation. But, for present purposes, the obvious point is that, in both cases, there is clearly a tendency to see the loss of control as more serious when it is in your own country embodied in foreign entities than when it is a distant problem in which the potential danger sources are your own nationals. These, of course, are just small pieces of evidence in a complex story, but they give credence to the hypothesis that the worry over loss of control of national affairs springs not only from tangible issues but from a deep-seated reaction to foreign pressure in the host society.

CULTURAL IMPACT

From the data in Table 2, we already know that the elites do not attach major importance to the cultural impact of foreign investment. Table 7 gives other dimensions of their views on this impact.

The elites apparently recognize that a moderate degree of change in national life is induced by the activities of the firms (question L) with the British on the low side (3.3) and the Canadians the high side (4.1). The appraisals of the merits of the effects are all at least slightly favorable, with the one exception of the French union leaders (question M). The even more favorable reaction to management practices of foreign firms (question N) is not unexpected in light of the general respect with which American management is regarded. But the receptivity to foreign ways in personal activities (question O) is stronger than one might have anticipated. Perhaps the most decisive demonstration of the weakness of resistance to cultural penetration is the fact that the proud French have the lowest scores on question O, and that among them, the *hautes fonctionnaires*, the mandarins of their society, along with the

TABLE 7

CULTURAL EFFECTS

Q.L – To what degree do you believe that the influence of foreign ways of life brought in by foreign companies in X changes the X way of life? Small change = 1; Large change = 7

Q.M – Are the changes in way of life referred to in Question (L) good or bad? Good = 1; Bad = 7

Q.N – The general effect on X of changes in methods of management caused by introduction of practices of foreign companies is: Desirable = 1; Undesirable = 7

Q.O – In your personal activities, to what degree do you feel it is desirable to adopt ways of life or work brought in by foreign companies? Large degree = 1; Not at all = 7

		Leg	*P G*	*Lab*	*Bus*	*Ave*
Q.L –	Br.	3.5	3.2	3.3	3.2	3.3
	Fr.	3.6	4.5	3.6	3.7	3.8
	Can.	4.3	4.0	4.5	3.7	4.1
Q.M –	Br.	3.3	3.8	3.9	3.7	3.7
	Fr.	3.2	3.4	4.3	3.1	3.5
	Can.	3.7	3.9	3.9	3.2	3.7
Q.N –	Br.	2.9	2.7	4.2	2.6	3.1
	Fr.	2.7	2.6	4.1	2.4	2.9
	Can.	3.3	2.8	3.9	2.6	3.2
Q.O –	Br.	4.5	5.3	4.8	4.7	4.7
	Fr.	3.7	3.4	4.6	3.3	3.8
	Can.	4.9	4.8	4.7	4.6	4.8

French businessmen, are the most receptive of all. While these assorted pieces of evidence do not eliminate cultural impact as an issue, they clearly suggest that it is a much lesser one than the economic and control effects of foreign firms.

LABOR RELATIONS

The data in Table 8 indicate some distinct differences in the image of various aspects of the labor relations of foreign firms. The responses to question P affirm the generally observed view that foreign firms pay higher wages than local firms, a point which may at least in the case of Britain not be entirely accurate according to a recent study (Gennard, 1972: 30). When it comes to other working conditions like job security and handling of grievances (question Q), however, the weight of opinion shifts toward a less favorable image overall and a distinctly negative one with the British and French union leaders.

On the third point, union relations, the results present a quite mixed picture. While the questions are not quite comparable,

TABLE 8

LABOR RELATIONS

How do you believe the treatment of workers by foreign companies in X compares with that by X firms in respect to wages and other working conditions (job security, handling of grievances, etc.)?

Q.P – Wages: Foreign firms Better = 1; Worse = 7

Q.Q – Other Conditions: Better = 1; Worse = 7

Q.R – Do you believe that foreign companies in X are more *or* less willing to recognize trade unions than X firms are? (Fr. Q - Disposees . . . a s'entendre avec les syndicats) More willing = 1; Less willing = 7

		Leg	*P G*	*Lab*	*Bus*	*Ave*
Q.P –	Br.	2.6	3.3	3.5	2.8	3.1
	Fr.	2.9	2.7	3.2	3.1	3.0
	Can.	3.3	3.4	3.3	3.3	3.3
Q.Q –	Br.	3.5	3.8	4.5	3.6	3.8
	Fr.	3.8	3.5	4.8	3.8	4.0
	Can.	3.7	3.8	3.6	3.5	3.6
Q.R –	Br.	4.9	4.3	5.6	4.3	4.7
	Fr.	3.8	3.6	5.0	4.0	4.1
	Can.	3.3	3.4	3.4	3.1	3.3

the data confirm a general impression that in France there is not the same intensity of struggle between unions and foreign firms as in Britain. In Canada, the situation is clearly quite different. It is notable that not only are the scores generally lower, but that the union leaders themselves rate the foreign firms as more tractable than domestic companies.

THE "JOINT-VENTURE SYNDROME"

From Japan to Canada to Chile, the most popular host nation desire seems to be that multinational firms subordinate their role by investing in local enterprises on a minority ownership basis. A set of six questions in the survey was designed to shed some light on elite attitudes on this subject. The respondents were asked to rate the effects of a foreign firm owning less than 50% of a national company compared with it owning 100% for the six aspects of national interests listed in Table 9. Two main conclusions are suggested by the pattern of responses.

TABLE 9

ATTITUDES ON JOINT VENTURES

	Average Scores of all Elites		
	Britain	*France*	*Canada*
Effects of foreign minority ownership as compared to 100% foreign ownership rated as worse (1) to better (7) for each factor.			
Opportunities for X managers	5.0	4.5	5.6
X control of national affairs	4.9	4.4	5.3
X balance of payments	4.9	4.4	5.3
X national income	4.7	4.7	4.8
Opportunities for X investors	4.9	4.6	5.6
X industrial productivity	4.4	5.0	4.2
Average	4.6	4.6	5.1
Average of differences between lowest and highest ratings for the six host nation interests by each respondent.			
Legislators	1.8	1.9	3.0
Government officials	1.6	1.9	2.6
Heads of firms	1.6	2.2	2.8
Labor leaders	1.9	1.9	2.5

First, although the attitudes are clearly favorable to joint ventures, they are not as strongly so as the prevalence of stated opinions and the character of some government policies would lead one to expect, especially in Britain and France.

The second point is the modest degree of differentiation shown in the European data at the bottom. In reality there are major differences in the effects. For example, joint ventures are often less productive because of technology communications problems (e.g. a score of 2 or 3), while host national investors almost always benefit (e.g. a score of 6). The survey shows that the Canadians make such significant distinctions, but the British and French tend to regard joint ventures as all-purpose devices that will help them fairly uniformly in many ways.

Over-all Attitudes Toward Foreign Firms

Among the four major subjects examined, the control and economic impacts stand out as being most important and having the most questionable results in the eyes of the elites. The loss of control over national affairs is clearly considered adverse, while the economic appraisals are mixed, generally favorable in overall terms but unfavorable when external payments are considered. The effects on workers are also considered quite important and, while the appraisals are varied, the general picture is favorable to the foreign firms. The opinions on cultural effects indicate that criticism of business influences leading to the "Americanization" of Canada and Europe are of doubtful significance. The elites rated this criterion distinctly lower than the others and were generally favorable in their judgments of the cultural impact of the firms.

Since the assessments on the two most important criteria (control and economics) tend toward the adverse side, it is notable that most respondents expressed an overall favorable opinion on the effects of the foreign firms. While there may be diverse, specific factors affecting this overall view, it seems quite likely that, for many respondents, it represents a "gut feel," a synthesis of assorted factual and emotional imputs into the mind. Thus, it would appear that there is among most of them an intuitive view that the foreign firms are beneficial which balances the somewhat negative views which one might compute by adding up their thoughts about the specific effects weighted by the importance attached to them.

The data also provide small but reinforcing evidences of the underlying nationalistic emotions which affect appraisals. In both the control and economic questions, it is clear that the judgments of the elites were not based entirely on tangible facts or basic logics. Thus the influence of nationalist reaction to external control and drain on national wealth which can be hypothesized from concepts of nationalism seems to be confirmed by the data.

Putting the evidences of intuitive overall appraisal and nationalist reaction together, we have an interesting combination of attitudes. It would appear that, among the developed nations, there is a generally receptive overall environment for foreign firms. However, always simmering beneath the surface are basic nationalist views, which are adverse to the firms and which are closely related to the two specific issues on which negative views are most evident–loss of control of national affairs and economic outflow. Recurring resistance to the firms based on this combination of specific issues and nationalist reaction is a natural expectation, therefore, despite the basically favorable overall appraisal.

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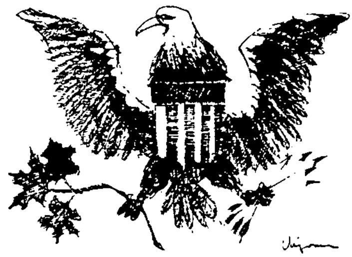

JOHN FAYERWEATHER

Nationalism or Continentalism? Canadians React to U.S. Investment

Canadians are becoming increasingly sensitive to foreign ownership and influence, but if the price of distinctiveness is slower growth and less employment, are they willing to pay it?

Where is Canadian national policy on foreign investment headed? Recent events have created some apprehension that a strongly nationalistic policy is in the offing. Perhaps. But there is much more to this story than the rabid anti-foreign-investment cries, which make the biggest headlines. Indeed, some forces at work today suggest that the future position of the multinational firm in Canada may be stronger than in the past.

There is no doubt that recent months have seen a major change in Canada's approach to foreign investment. In May 1972 a general report on the subject by a committee working under the direction of then-Minister of National Revenue Herb Gray was published. Although not official policy, the Gray Report is the first such study with an aura of government blessing—in contrast to the 1968 Watkins Report, which was virtually disowned by the cabinet. Close on its heels came the Foreign Takeovers Review Bill, proposed by the Trudeau government to establish screening of all acquisitions by foreign-controlled companies of Canadian

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firms above a certain size. The takeovers bill never reached a vote because of a jam-up at the end of the 1972 session of Parliament. Then, in January 1973, the government proposed a Foreign Investment Review Bill which included the takeover provisions along with an added plan to screen some types of new investments.

The Gray Report and the two bills signal one point loud and clear: the slow evolution toward a general policy on foreign investment is starting to crystallize into action. "High time," say many Canadians. A rapid influx of capital after World War II raised the proportion of Canadian manufacturing under foreign control from about 45 percent to 60 percent by 1963, some 75 percent of it being owned by U.S. interests, with percentages in industries like automobiles, chemicals, and electrical equipment being even higher. Mining and petroleum were equally dominated by foreign control: 59 and 74 percent, respectively.

The percentages have not changed much since 1963, but the sensitivity of Canadians to their significance has. In 1958 Walter Gordon headed a royal commission whose report sounded a warning about the degree of foreign control. The report was largely ignored. But in the 1960s, concern spread. Canadians found that foreign ownership complicated many of their efforts to manage their economy. Furthermore, anti-American feelings were fanned by an assortment of issues, ranging from the Vietnam War to attempts by the United States to solve its balance of payments problems. The latter reached a traumatic climax on August 15, 1971. President Nixon's imposition of an import surcharge and related measures designed to alter the trade balance was a severe blow to Canada, which exports 25 percent of its manufactured goods and carries on 70 percent of its trade with the United States.

Nationalist sentiments

These influences have resulted in a striking change in national attitudes toward foreign investment. Throughout the 1950s Canadians generally encouraged foreign investors. With vast natural resources still to be developed and only a modest manufacturing sector, they welcomed capital and technology from abroad. But by the mid-sixties, a new mood was spreading strongly across the land.

The following responses to several Gallup polls asking if Canada had enough U.S. capital tell the story:

	Enough U.S. capital	Want more	No opinion
1964	46%	33%	21%
1967	60	24	16
1970	62	25	13
1972	67	22	11

The change was also manifest in the organization of two Canadian nationalist groups in 1970. The Waffle group emerged under the leadership of Professor Melville Watkins, who was aroused to aggressive action by the official coolness to his committee's report of 1968. The Wafflers proposed a socialist reversal of the foreign investment process—sweeping nationalization of foreign-owned firms. Although highly visible, the Waffle group is very small, significant only as an aggressive prod to national action.

Of considerably more importance is the Committee for an Independent Canada (CIC), formed under the leadership of Walter Gordon and a few other strong nationalists. The CIC rejects the socialist approach of the Wafflers, essentially seeking to deal with foreign investment within the prevailing government-business structure. But its members are prepared to accept the costs—both economically and in some degree of greater government economic control—of decreasing the extent of foreign control of Canadian life. The CIC is larger than the Waffle group, but still small in terms of the whole population. In 1972 it had only 8,000 paid-up members. But in 1971 it was able to enlist 170,000 signers for a petition to Prime Minister Trudeau seeking stronger policies on foreign investment. Its leaders are widely respected. They include former Finance Minister Walter Gordon; Eddie Goodman, a former leader in the Conservative Party; and Professor Abraham Rotstein of the University of Toronto. The CIC also has members or supporters in key spots—56 MPs in the present House of Commons and three cabinet members, including Alastair Gillespie, the Minister of Trade, Industry and Commerce, who has primary responsibility in the cabinet for foreign investment legislation.

The great majority of Canadians are only moderately nationalist and are not prepared to accept the economic and other sacrifices the Wafflers and CIC propose as the price of reducing foreign control of the economy. A fair proportion of the people are scarcely nationalist at all: there are internationalists, non-nationalists, and continentalists. The last favor a high degree of integration with the United States.

Continentalism is treason in the eyes of many Canadians. The overriding theme of Canadian nationalism is keeping the country from being overwhelmed by the friendly giant to the south. Deliberately to open the door to absorption even by limited forms of integration such as a free trade association with the United States is therefore anathema to Canadian nationalists. Still, a moderate number of Canadians advocate this course either for its apparent economic benefits or because of their conception of realism.

Continental realities

Realism is a major factor in this story. Is Canada viable as a nation? Some say it is scarcely a nation now. Culturally, the majority of the people—the Anglo-Canadians—hardly differ from the Americans, whose lifestyle from schooling to sex they have largely absorbed. Only the French Canadians have a truly distinctive cultural base for nationalism. Economically, the Canadians are paying a high price for a moderate degree of distinctiveness. Their per capita income is some 25 percent less than that of the average U.S. citizen. Essentially the difference is a measure of the costs of running a small-scale economy, with less than optimum-sized factories and a smaller market over which to spread overhead and research costs. For all their nationalism, most Canadians are not prepared to see the gap between Canada and the United States widen; most want to see it narrow. Wage parity, for example, is a prime goal of Canadian unions, which are typically affiliated with U.S. "internationals" and negotiate with companies that span the border.

To some degree Canada can solve its problem of economic smallness by internal measures such as rationalization or by increased exports. But a major option, and to many people the most logical one, is continental rationalization: opening the vast U.S. market to Canadian plants—with the *quid pro quo* of open access to Canada for U.S. firms.

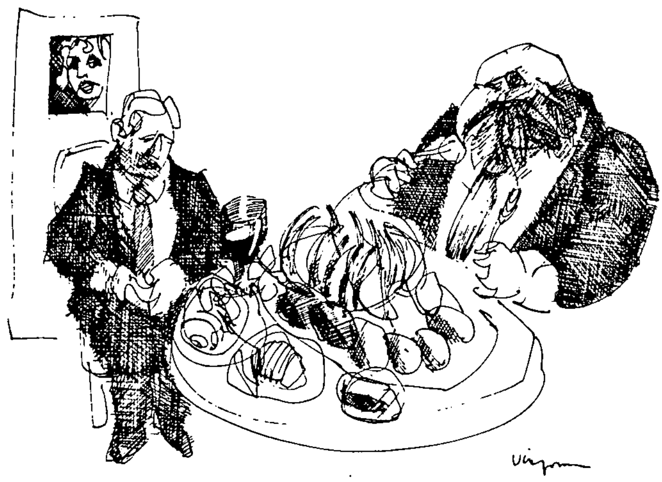
The compelling logic of this approach has already exerted itself in one major case. In the early

1960s, the trade balance of the Canadian automotive industry was bad and getting steadily worse. The mass production economies were so overwhelmingly favorable to the United States that the companies were inevitably basing their production there, relegating Canadian plants to assembly and minor production roles. Under extreme economic duress, Canadians set aside nationalistic concern about continentalism and agreed in 1965 to a system that in essence created a North American free trade area for auto manufacturers (though not for individuals, who must still pay 15 percent duty on imports into Canada). The auto pact has permitted Canadian plants to specialize in the production of single models and has brought their costs essentially into line with those of U.S. factories.

The auto situation is a dramatic example of the economic rationale for integration with the United States. That rationale is a powerful force. In an official statement of basic policy on relations with the United States issued in August 1972, External Affairs Minister Mitchell Sharp took as his central theme the effort by Canada to retain "distinctiveness" in the face of the "continental pull." He was speaking broadly of cultural and social as well as economic affairs when he stated that the continental pull moved Americans and Canadians toward integration inadvertently, with "a momentum . . . subject to profound internal growth."

In the automobile case, the continental pull became so great that distinctiveness could not survive. As the price for a vastly improved balance of payments, more jobs in auto plants, and lower car prices, the Canadians have given up most of the limited control they had over the auto firms. Manufacturing, procurement, and export decisions are now centralized in Detroit. Research has shifted in the same direction. Canadian subsidiaries are little more than subordinate producing arms and sales organizations.

The auto pact was exceptional both in the pressures for action and in the magnitude of the economic benefits. But similar logic exists in other industries. Canadian tire factories are burdened by the costs of small-scale output of a full range of products. Construction of petrochemical plants is



deterred because costs are not competitive with the large-scale units across the border. In these and other industries there are possibilities for beneficial continental rationalization.

But action on a large scale comes slowly because many interests must be balanced and decision-making on economic issues both within and between the Canadian and U.S. governments is ponderous. Indeed, some people feel it will take a crisis such as confronted the auto industry in the early 1960s to achieve a major breakthrough. Such a possibility exists in petrochemicals, in which the economies of scale are critical and the Canadian balance of payments and employment picture have been deteriorating steadily. But it is not on the immediate horizon, and small moves may be successful in averting a crisis.

Small moves, in fact, look like the probable route for the future, a creeping continentalism which carries Canada slowly toward economic integration only where it is useful, without raising the red flag of nationalism vs. overt continentalism. The most visible moves of this nature are evident in a handful of new Canadian-based, U.S.-owned operations planned to serve continental markets and to export outside the continent. For example, the National Cash Register Company has started work on a $16.6 million Canadian research facility (partly financed by the Canadian government) to develop a new product line that will eventually lead to a factory with full access to global markets, including the U.S. The prospect is that on an item-by-item basis, many U.S. companies will move toward assigning full continental responsibility for production and even research to their Canadian units, with the Canadian government assisting on an *ad hoc* basis in negotiating open access to the U.S. market in return for providing comparable freedom for other company products to enter Canada freely.

The gradual shift in some industries toward continental specialization promises to reduce one of the economic costs of nationalism. It is relevant to underscore the tangible costs working against nationalism—what advocates of continentalism view as the realism factor. But motion toward continental specialization is no real answer to nationalism. Indeed it tends to incite it: it is the awareness of creeping continentalism that impels the nationalists to overt counterefforts. The key questions are where they will pick to stand and fight and how strong they will prove to be.

Emerging policy trends

The Gray Report and recent legislative moves give a fair picture of what to expect. Through the sixties the major cry of the nationalists was for a share in the ownership of foreign-controlled companies. The striking feature of the Gray Report was that ownership participation was dismissed as relatively unimportant. The analysis was highly practical. Minority ownership in a foreign-controlled subsidiary offers little gain in control, the report said. Acquiring majority ownership on a large scale is financially impractical when so much industry is in foreign hands. But most important, majority participation or even full Canadian ownership does not necessarily spell real control in such critical areas as product planning and exports if technology comes from the foreign company.

So the report concluded that emphasis should be on direct means of controlling, or at least influencing, management decisions, regardless of where ownership lay. And that is the prevailing philosophy in the proposed legislation. Specifically, the government is to have the power to bargain, at first in takeovers and later in some forms of new investment, for company actions that will benefit Canada. The screening agency will try to get companies to set up R&D in Canada, to increase local procurement, and to institute other advantageous measures as the *quid pro quo* for being allowed to make their investments.

Other moves are planned, such as requiring that a majority of the directors of a subsidiary be Canadian. But the main ground upon which the Canadians will stand in their efforts to protect the identity and welfare of the Canadian economy is direct negotiation with foreign investors. That is clear enough, but it remains to be seen how far and how fast they will move in this direction. The initial step—takeover screening—is a modest one affecting only about one-eighth of annual capital inflow. The magnitude of the next move—review of newly entering investors and entry into new fields by established ones—is also fairly modest. The major question is whether and how soon some control will be exerted over the normal growth of the roughly 9,000 foreign-controlled firms now in the country.

Three quotations from government leaders give some useful clues on this point. In 1972, defending the decision to go no further than the takeover review system, Prime Minister Trudeau said that this was the strongest step Canada could afford to take then, although "in the future other trade-offs will be possible and other decisions made. The alternative would be to have a fall in our standard of living, less jobs for Canadians and certainly great fights between the provincial governments and the federal government." The then-Industry Minister Jean-Luc Pepin expanded along these lines in presenting the takeovers bill to Parliament: "The extension of the review process to other forms of foreign direct investment could slow down the creation of new industry, partly through reduced business confidence at home and abroad and partly through the disruptive effects such a major intervention could cause, resulting in fewer jobs being created."

Finally, Premier William Davis of Ontario, while somewhat critical of the federal government for its timidity, observed: "To threaten precipitate action on foreign investment at this time is to gamble with the livelihood of countless Canadians."

Deterrents to nationalism

Underlying these quotations are some strong deterrents to stiffer investment policy. Whatever the shortcomings that may be attributed to extensive foreign control, the fact is that the Canadian economy, incorporating a very large degree of foreign ownership, has functioned quite well. Any major fiddling with the mechanism may risk substantial impairment of the whole economic machine; and in the crunch, most Canadians are more concerned with jobs and economic growth than with nationalism. Jobs are especially critical because Canada now has the fastest growing labor force of any industrial country in the world. Canadians don't want to scare new foreign investment away or put a damper on the activities of foreign-owned firms.

The critical importance of economic factors ties in with federal-provincial government relations to create another major deterrent to action. The provinces have considerable autonomy in economic matters. They are especially sensitive to the job-generating role of new foreign investment. There is a substantial competitive orientation in their outlook, each wanting new investors to come to its domain, not to other provinces. This is why

Trudeau and Pepin have emphasized the risks of provincial resistance to extension of federal screening. The provinces will stoutly resist the federal government's acquiring power to decide, or even strongly influence, where new foreign-owned factories are to be located.

Intermixed with these economic and political deterrents is the diversity of nationalism among Canadians. The moderately inclined majority in the center is pushed back and forth by those with more extreme views at either end of the spectrum. In a fully democratic country, with a tradition of gradual evolution of mild government action, this sort of mixture militates against rapid or strong action on foreign investment policy.

One significant element of uncertainty must be injected into this otherwise logical assumption of moderate progression of policy: the effect of what may be called the politics of nationalism. The minority Liberal government is dependent for its life on the New Democratic Party (NDP). The program of the aggressive NDP is economically oriented toward jobs and incomes vs. big business—the "corporate rip-off" theme it used so well in the 1972 election campaign. But it is also strongly nationalistic, following much the same tack as the Committee for an Independent Canada. There are clear indications that the 1973 Trudeau proposals on foreign investment were concessions in part to NDP-CIC thinking. They certainly went a good deal further than the Liberals thought they should go just a few months earlier.

The big question is whether the politics of nationalism will push the Liberal government to go yet further to win support away from the NDP in a new election. Nationalistic moves have a strong popular appeal, their potentially adverse economic effects often not being well perceived by the public. Hence it is possible that a weak minority government might feel impelled to shift still more toward the NDP-CIC approach to curry electoral favor. An important offsetting factor here is that in 1972 the Liberals lost more ground to the Conservatives than to the NDP. Therefore, they will logically seek to hold their middle-of-the-road image in order to regain that support rather than appear to be swinging to the more radical NDP line. But the Conservatives have taken just as nationalistic a position as the Liberals. And the politics of nationalism in an unstable period just might shift the government toward stiffer action on foreign investment.

Adding this all up I come out with a picture of both continentalism and nationalism creeping steadily forward, each asserting itself where conditions are propitious. The continental pull emerges most strongly in the economics of continental specialization in basic industries. The technological strength and established status of multinational firms virtually assure that their role will expand as an essential requirement of Canadian economic welfare. Still, the rising surge of nationalism must be satisfied. Efforts to foster cultural identity in the arts and in the communications media are a partial response to this national desire. But the demands for a response at the economic level are insistent. A progression toward more screening of foreign investment seems the probable Canadian response. Assorted deterrents, however, suggest that the pace will be slow—contingent, of course, on the uncertainties of the politics of nationalism in an unstable period of minority government rule.

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MSU BUSINESS TOPICS

JOHN FAYERWEATHER

Canadian Attitudes and Policy On Foreign Investment

One of the few clear-cut facts in the current Canadian picture is the strong trend toward less favorable views of foreign investment.

The year 1972 was an important turning point in the evolution of Canadian policy on foreign investment. For the first time, a comprehensive cabinet level report on the subject was published. The report was prepared under the direction of National Revenue Minister Herb Gray and is a significant indicator of government thinking, although it is not an official policy statement. The Foreign Takeovers Review Bill, which was introduced in 1972, was the first piece of legislation to propose some degree of general regulation of foreign investment. Under this bill, all acquisitions by foreign investors of Canadian firms (above a size limit) would have to be proven to provide benefits to Canada in order to be approved.

While the Gray Report and Foreign Takeovers Review Bill convey some sense of official thinking about policy on foreign investment, many aspects of possible future action still are being actively debated. To assess this situation, during the summer of 1972 the author made an extensive study which resulted in a report on the major influences bearing on the future evolution of Canadian policy. Key observations from that report, with particular emphasis on attitudes, are summarized in this article.[1]

The evolution of Canadian national policy on foreign investment is a political matter — the product of decisions by political leaders responding to their perceptions of the desires and needs of their constituents. Thus it is appropriate to focus this analysis on trends in attitudes, the quality of the attitudes, the goals underlying them, the range of attitudes among different Canadian groups, and their future evolution. This analysis will conclude with a look at the prospects for Canadian policy on foreign investment.

Trends in Attitudes

One of the few clear-cut facts in the current Canadian picture is the strong trend in recent years toward less favorable views of foreign investment. Two surveys provide quantitative confirmation of this trend. Gallup polls record the following change over an eight-year period in responses to

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the question of whether Canadians feel they should have more U.S. capital.[2]

	Enough U.S. Capital	Want More	No Opinion
		(Percentage)	
1964	46	33	21
1967	60	24	16
1970	62	25	13
1972	67	22	11

A survey reported by J. Alex Murray and Mary C. Gerace gives the results of interviews with 5,000 Canadians over a three-year period.[3] In 1969, 34 percent of those interviewed replied that they felt U.S. ownership of Canadian companies had a bad effect on the Canadian economy; this number rose to 41 percent in 1970, and to 44 percent in 1971.

The trend in attitudes cannot be directly correlated with changes in the actual foreign investment situation. In 1948, foreign firms controlled some 43 percent of Canadian manufacturing but there was virtually no concern because of it and the government was energetically encouraging a greater inflow of foreign capital. The degree of control of Canadian manufacturing by foreign firms rose to 57 percent in 1958; the further increase since that time has been very minor, yet the rise in public interest has largely developed since 1958.

Therefore, we must attribute the trend in public attitudes to other factors. In part the evolution simply may be an indication of the time required to communicate a fairly complex subject to the people and to arouse their interest in it.

Another quite visible potential factor is the effect of U.S. economic policies in the 1960s, reinforced to some degree by adverse reaction to other U.S. affairs such as the Vietnam War and racial problems. Certain economic policies have had potentially severe implications for Canada, notably various efforts of the United States to correct the balance of payments deficit: the Interest Equalization Tax, the direct investment restraints, the 10 percent surcharge on imports imposed on 15 August 1971, and the creation of the Domestic International Sales Corporation (DISC) to foster U.S. exports by tax deferrals for one-half of the export profits.

A third line of explanation suggested during my interviews is more subtle but perhaps just as important; it relates to the general approach of Canadians to internal affairs. Traditionally it is said that government activities went along from year to year with little reexamination or innovation. As one official put it bluntly, "Life was dull." Then in the 1960s an awakening process gained momentum and a number of matters ranging from constitutional reform to economic policies came under scrutiny. As these reviews proceeded, foreign investment emerged in the minds of government officials and others as more and more important for two reasons: first, it was identified as a contributing factor in many of the internal issues being examined and, second, its character was a complication in many of the solutions being proposed.

The Quality of the Attitudes

To fully understand the nature of the attitudes one must look at the perceptions of Canadians of the effects of foreign investment and its importance compared to interrelated matters.

A broad picture of the perceived effects of foreign investment is provided by a recent attitude study. In late 1971, I made a survey of four elite groups (members of Parliament, permanent government officials, heads of business firms, and labor union leaders).[4] A related survey of a sample of the general public was made for me early in 1972 by a private organization. The results of the latter survey were not entirely satisfactory as there was a poor response from low income groups. However, the data from both surveys (shown in Table 1) confirm a quite consistent pattern of attitudes on the three main types of effects of foreign firms on Canada. The judgment of the cultural impact is essentially neutral; the economic effects both overall and on the balance of payments are considered somewhat on the negative side; and the loss of control of national affairs is viewed as quite adverse.

This pattern may be considered with other evidence on the subject. Dr. Murray and Ms. Gerace report that those who were favorable to foreign investment mentioned most often its economic contributions.[5] Those with adverse views based them most often on the loss of control of national affairs. The Gray Report observes that

> such studies as have been done by others — and they involve many qualifications — tend to suggest that the overall impact of foreign direct investment on economic activity has had a moderately favourable effect.[6]

Its economic criticisms are directed at specific multinational firm actions more than their total performance and again the critical emphasis is on the control aspect.

This evidence fits a generally perceived Canadian view that there is a trade off between economic benefits of foreign investment and loss of control of national affairs. The perception that greater independence through reduction of foreign investment would carry an economic cost leads naturally to putting that choice directly to the people. Such efforts have been made and the results provide some indicator of reactions. One general survey asked if people would accept a lower standard of living in order to keep further foreign investment out of Canada. More people answered "no" (46.6 percent) than "yes" (43.9 percent).[7] In another survey, M.P. Max Saltsman found that 95 percent of his constituents wanted more independence — but with no loss of standard of living.[8]

These results indicate the difficulty of determining clearly the degree of sacrifice Canadians are willing to accept as a cost of independence. Per capita income is now 25 percent less in Canada than in the United States. Thus, most Canadians are aware that they are paying a high price for independence. Without any pretense at precision one can simply impute from the surveys and other impressions that it is doubtful whether a majority of Canadians today are prepared to accept significant further economic sacrifices to reduce the role of foreign firms.

To assess the quality of the Canadian attitudes one also must know where the various elements fall in the priority scales of the people. Gallup polls reporting the "main worry" of Canadians place the question as clearly subordinate to economic issues.[9]

	1966	1972
	(Percentage)	
Employment	7	41
The Economy	35	14
U.S. Control	3	8

This view was evident from the negligible role of the foreign investment question in the 1972 political campaign. While its minor role was due in part to the lack of significant differences between the two major parties which will be discussed later, in large part it confirms the relatively low priority given to the subject. The decisions of the Conservatives and Liberals not to emphasize the issue were based on their private polls which showed that the subject had little voter appeal as compared to economic issues. The New Democratic Party made periodic efforts to push the foreign investment question to the fore but it also got little response. By comparison it apparently was highly successful with its basic theme, *the corporate welfare bums,* charging that business was reaping rewards of assorted government handouts while the people suffered from unemployment, inflation, and other economic troubles.

The conclusion to be drawn from the evidence is that in the crunch Canadians are far more concerned with the economic problems immediately affecting their lives than with the nebulous question of foreign control. Since actions to deal with the latter are perceived as having possible adverse economic effects, Canadians are generally hesitant about them. Thus, while the desires of many Canadians to limit foreign investment and reduce the degree of control it exerts are real, their quality as a factor in actual decisions is strongly moderated both by the ranking of the problem beside other issues and the effect of those issues on it.

The Quest for National Identity

The differences in attitudes on foreign investment and the changes in those attitudes over time are due in no small part to the difficulty Canadians experience in defining the goals of their nationalism. Virtually all Canadians will agree that they wish to preserve the "national identity" of Canada. But what does that mean? There are a variety of views underlain by differences in opinions as to what is desirable and what is feasible.

An excellent presentation of the thinking of those who regard the preservation of national identity as hopeless is found in George Grant's *Lament for a Nation.*[10] Dr. Grant's scholarly treatise develops at some length the nature of the impact of the United States on Canada and the evolution of the response to that impact. His conclusions are based on two main points. First, he observes that the basic purpose of life is consumption and that the benefits for consumption from economic integration with the United States are so overwhelming that the border is an anachronism.[11] Second, he argues that there is virtually nothing unique about Canada in its culture or other characteristics so its preservation as a nation is not only impractical but not even worthwhile.[12]

Dr. Grant foresees a considerable passage of time before these basic forces will deliver the final blow to Canadian identity: "Canada has ceased to be a nation but its formal political existence will not end quickly,"[13] he says. Inertia, the political decision-making process, and, ironically, U.S. resistance to absorption of Canada particularly because of the French Canadian problem will, he anticipates, defer for many years full political union with the United States.

Concepts of desirable and feasible national identity grade away from this in varied directions. So far as foreign investment is concerned, the main thrust is in the direction of formal and institutional aspects of industrial control. The extreme views consider that national identity requires that industrial decisions be entirely within Canadian hands including both top executives in business and direct government control. The more moderate views are satisfied that national identity is protected if the industrial decision-making structure is responsive to national desires which may be accomplished in a variety of ways, including limited regulatory measures, presence of Canadian nationals in management, or simply sensitivity of industrial executives to Canadian viewpoints.

Another approach looks more to the options open to Canadians in specific economic situations than to control of the whole economy. It accepts the fact that all nations, even the United States, are constrained in their overall economic control by international interdependence. The outlets for national identity therefore seem to lie in having sufficient control to realize fully the limited separate capabilities which each nation may have within it. This philosophy is concerned with preservation of sufficient elements of control in Canada so that the nation may exercise its identity when it so desires. Important objectives in pursuit of this philosophy are the support of Canadian entrepreneurs, the assurance that products appropriate to the distinctive life style of Canada can be developed, and the availability of opportunities for individuals to find employment within Canada according to their educational capabilities and personal inclinations.

It is in this context that the concept of the "truncated" firm emphasized in the Gray Report must be understood.[14] The truncated subsidiary is one in which key functions are absent, being in the hands of the parent organization. The deficiencies most often mentioned are top management, research and development, and exports. The question as defined by Carl Beigie, executive director of the Private Planning Association of Canada, is whether "foreign-owned enterprises have become so predominant — reaching a certain 'critical mass' — that important gaps have emerged in Canada's capabilities."[15]

To round out this discussion of the meaning of national identity, it is appropriate here to summarize an article entitled "Canada-U.S. Relations: Options for the Future" written by External Affairs Minister Mitchell Sharp.[16] Mr. Sharp concentrates on just a few central ideas. His main preoccupation is with "the continental pull" which has and will continue to draw Canada into greater ties with the United States. He observes that the consequent close interrelationship "even as an inadvertent process, has acquired a momentum that, as one American student of Canadian affairs has recently put it, is 'subject to profound internal growth.'" The logics of proximity and similarity lead naturally to cultural and economic integration and as the interaction proceeds, largely through the free action of private individuals and institutions, the ties between the nations become more numerous and stronger.

Mr. Sharp's analysis is guided by the dual criteria of distinctness and harmony. Accepting harmony with the United States as an obvious requisite, he focuses his main attention on distinctness. The problem in 1972, according to Mr. Sharp, was in a growing sense that "the underlying trend in the Canadian-U.S. relationship may be becoming less congenial to the conception of Canadian distinctness." He sets forth three policy options as possible responses to this situation. The first is that Canada go along as it has, reacting to problems as they arise, working out in each the best possible balance of results. He rejects this "reactive posture" as "not likely to represent much of an advance. On the contrary, if the continental pull is, in fact, becoming stronger, we may . . . have to run harder simply to stay in place."

The second option is to move deliberately toward closer integration with the United States. Mr. Sharp accepts the value of such steps which have been taken, (the auto agreement, for example) and apparently opens the door to some further movements in that direction — giving careful attention to their limitations. He feels, however, that the loss of economic and, possibly, political distinctness is a major deterrent if this approach is followed. He says that it is a "moot question whether this option, or any part of it, is politically tenable in the present or any foreseeable climate of Canadian public opinion."

"The third option would be to lessen, over time, the vulnerability of the Canadian economy to external factors — including, in particular, the impact of the United States and, in the process, to strengthen our capacity to advance basic Canadian goals and develop a more confident sense of national identity." This is the course Mr. Sharp prescribes as being both consistent with national goals and feasible. He stresses the "over time" aspect because the elements of national policy required can only evolve slowly given cost and other constraints. The guiding philosophy will be to build a stronger Canada with more varied world relations, better able to maintain its distinctness.

Mr. Sharp's views are probably as close as one could come today to the central tendency of Canadian attitudes on the meaning of national identity and the basic ways to pursue it. But, in light of the other views we have noted, the picture is not clear; that is probably the most important point to be observed about the whole subject. In Canada there is no consensus on the matter and there is unlikely to be one; this is because of basic differences in personal psychology and in individual circumstances and goals, and also because the feasibility of the options open to Canadians are so uncertain and changing constantly. The reality with which one must deal in assessing the situation is that a variety of viewpoints exist as to the extent and form of cultural, political, and economic identity which the country should seek to preserve as essential to the widely expressed desire for national identity.

The Spectrum of Attitudes

Of prime importance in the evolution of Canadian policy on foreign investment is this wide diversity of opinions. To get a feel for the spectrum of viewpoints the population will be sliced along three dimensions: opinion groups, socio-economic classes, and political parties.

Opinion Groups

In Canada one can find all manner of shadings of opinions on foreign investment. While the hazards of oversimplification in this process are real, there is a substantial clustering of people around several patterns of thinking.

At one extreme of this spectrum are the *radical nationalists* who advocate a socialist reversal of the foreign investment process. The organizational center for this approach is the Waffle Group, and the most conspicuous leader is Professor Melville Watkins of the University of Toronto. The Wafflers are determined that Canadians should have full control over their own economic affairs and that any significant control of industry by foreign firms is inconsistent with this goal. They do not believe that private enterprise is capable of reasserting control over industry or that there is sufficient private capital to purchase back control of foreign-owned subsidiaries. Thus, the only practical solution they see is nationalization of the foreign firms.

Numerically, the Waffle Group is a very small factor. It has a mailing list of only 2,500–3,000 people, according to Professor Watkins.[17] Geographically it is limited in large part to Ontario, particularly Toronto. The membership is drawn largely from the intellectuals in academic and, to a much lesser degree, labor circles. Its strength lies in the aggressive, articulate qualities of its leadership whose ideas are constant prods to the main body of national thinking. Undoubtedly their efforts have been a factor in moving Canadian thinking as a whole toward stronger nationalistic attitudes on foreign investment even though their particular solutions have only a very small following.

Moving back from the extreme end of the spectrum, we find a substantially larger group who may be labeled the *strong nationalists*. Their organizational center is the Committee for an Independent Canada (CIC) formed in 1970. The CIC shares with the Waffle Group a determination to reassert Canadian control over the economy and a willingness to make sacrifices in the interest of Canadian independence. They differ from the Wafflers, however, in their intent to achieve their goals essentially within the established system of private enterprise and related governmental institutions.

In late 1972 the CIC appeared to be in the process of a major change in character and role. For its first two years it was guided by a general philosophy with little attempt at agreement on specific policy proposals. The membership covered a very wide range of views running all the way from some who were close to the Waffle approach to others with a mild concept of how the foreign investment question should be handled. The breadth of CIC influence at this stage may be measured by the fact that the group obtained 170,000 signatures on a petition to Prime Minister Pierre Trudeau in 1971.

In September 1972 the CIC held a policy conference in Edmonton, the outcome of which changes its image and will probably alter its membership. The delegates voted on some 202 specific policy proposals concerning foreign ownership, Canadian capital, trade unions, energy and the north, land, education, cinema and television, and the arts. Instead of the former vague philosophical image, the CIC now has a concrete program.

The program has a central character which can be concisely defined. The goal of reasserting Canadian control over the society is to be pursued by a wide range of specific measures — tax changes, investment controls, subsidies, land ownership regulations, and the like. In toto these measures add up to a substantial increase of social direction of national affairs, largely by the government. For example, rationalization is to take place by cooperative direction of government and industry councils; all foreign investments will be screened with the review covering all significant activities; the government should ask and, if necessary, require the chartered banks to devote more of their resources to higher risk enterprises, and unions will be detached from U.S. affiliation by several steps such as requiring small sections of internationals to merge with larger units.

The CIC continues to differ from the Wafflers in rejecting outright socialism. But their program has moved closer to the Wafflers in philosophically accepting the assumption that the goals desired cannot be achieved without assertion of social intent through government intervention in the economy. In effect, the CIC brand of nationalism requires of its adherents acceptance of a cost in social freedom along with whatever economic costs may be involved in establishing the degree of economic independence sought. This clarified and tougher policy position will probably result in a smaller but more well directed membership. Some evidence of this was a report from the CIC in late 1972 that its membership drive having reached 8,000 was far below expectations.

The third group may be called the *moderate nationalists*. There is no organization representing them but they appear to comprise the majority of Canadians. The moderate nationalists do not generally speak in terms of a set of positive actions to reverse the foreign investment process nor of national sacrifices to achieve this goal. Rather, they advocate efforts to move toward more independence of Canadian industry by encouragement to Canadian firms, and making foreign firms serve the national interest better while protecting the Canadian standard of living.

They conceive of this approach as a form of "positive nationalism" which builds the national sector without significantly obstructing the foreign-owned portion. In reality, the appearance that this approach does not involve sacrifice by Canadians is not valid. The measures (such as subsidies and differential tax advantages) advocated by the moderate nationalists to support Canadian firms add a cost to the standard of living, but it is more hidden and smaller than the policies of the stronger nationalists which could result in direct reduction of new foreign investment.

The next three groups should be discussed together because, while their underlying attitudes are different, their positions on foreign investment are similar. The three may be labelled as the *internationalists*, the *non-nationalists*, and the *unconcerned*. They all tend to agree on a laissez-faire foreign investment policy. They are distinguished from the moderate nationalists in that they will not support the cost and complications of the special efforts to subsidize, push, or favor Canadian firms to build them up vis-à-vis foreign-owned ones. That is, they believe in a truly open, nondiscriminatory economy in which the role of foreign firms evolves according to market forces without special nationalistically-oriented influences.

At the other end of the spectrum we find the *continentalists*, a term long established in the Canadian vocabulary to describe those who essentially believe in union of Canada and the United States. While in the early days, continentalism was often associated with political union, the advocates of full integration are very rare today. The majority of those described as continentalists essentially are advocates of a high degree of economic integration. Specifically, they favor a common market with a free flow of trade and investment between Canada and the United States and integrated handling of such matters as energy. Explicit advocates of continentalism are not organized like the CIC so they are harder to identify and count. Nonetheless, they would appear to be as numerous and influential as the CIC.

As one indication of this, we may note that in recent months the concept of the common market with the United States has been advocated by the Economic Council of the Maritime Provinces and the president of the Canadian Chamber of Commerce.

A true continentalist is by definition an antinationalist and that is a position of which society in general does not approve. To many Canadians continentalism is treason. Thus, in the visible give-and-take of political processes their influence is less than that of the nationalists of varying colors who are able to appeal to more popular emotional responses. The continentalists' influence accordingly is exerted rather in the less visible processes of government decision making reinforced by basic economic arguments. The future of their influence lies essentially in the strength of these economic considerations.

Socio-Economic Classes

Looking at the Canadian population along socioeconomic dimensions, we find some distinct differences in attitudes. A basic statistical framework for comparisons here is provided by my surveys, to which illustrative evidence is added from a variety of published sources.

The data given in Table 1 indicate that there is some differentiation according to social groups within the general public; those with an academic orientation and people lower on the income scale tend to have more negative views while those higher up on the economic scale give more favorable responses.

Among the key elite decision-making groups, the businessmen are most favorable. While some individual businessmen have a CIC-nationalist orientation, the business community as a whole tends to be relatively favorable to foreign investment. Businessmen are pragmatic by nature and, by-and-large, their experience with the economy dominated by foreign enterprise has been satisfactory. The adverse experiences seem to be most often directly related to competitive situations in which foreign firms are hurting the interests of Canadian companies. A good example of this apparently was provided in the debate in 1971 over the control of investment firms in Ontario. A case was made to the effect that Canadian development would be best protected if ownership of investment firms was limited to Canadians. However, a number of Canadian observers claimed that the main impetus for the efforts to resist foreign ownership came

TABLE 1

CANADIAN ATTITUDES ON EFFECTS OF ACTIVITIES OF FOREIGN COMPANIES

		1 *Favorable*	2	3	4 *Neutral*	5	6	7 *Unfavorable*
1. Overall	Elite			B G	L U			
	General			B H	M P C W A T	S		
2. Culture	Elite			B	L U G			
	General			H	C M A B T P	W	S	
3. Economic overall	Elite				B G	L U		
	General				B	P H C T A M	W S	
4. Payments to parent	Elite					B L G	U	
	General					B S P H T W	C M A	
5. Control	Elite					B	G L U	
	General						B P H C W A M T	S

Symbols

ELITE:
L — Members of Parliament; G — Permanent government officials; B — Heads of business firms; U — Labor union officers

GENERAL:
B — Businessmen; P — Professionals (lawyers, doctors, etc.); M — Merchants; C — White collar workers and supervisors; W — Blue collar workers; T — Teachers; S — Students; A — Agriculturalists; H — Housewives

Questions asked in survey:

1. In your opinion what is the overall effect on Canada of the activities of foreign companies in Canada? Good = 1, Bad = 7.
2. Are the changes in way of life referred to in Question 13 good or bad? (Q. 13 referred to influence of foreign firms on Canadian way of life.)
3. What do you believe is the net economic result of the operations of foreign companies in Canada? Give more than take — Take more than give.
4. In relation to their economic contributions, the dividends, royalties, and other payments which foreign companies receive from their operations in Canada are: Too small — Too large.
5. What will be the result for Canada if foreign companies have greater control over policy decisions in Canadian industry? Good — Bad.

from Toronto investment houses seeking to protect their personal interests against strong competition from more aggressive and better financed foreign firms.

Opinions toward foreign companies of the two government groups are a little more adverse than those of the business leaders. The data in Table 1 conform to a logical expectation that the government leaders would be more concerned than businessmen with the difficulties of exercising control over the affairs of the country because of foreign ownership of business. Nonetheless, the government leaders are generally favorable in their appraisal.

Labor leaders in the elite group survey expressed a distinctly more adverse view of foreign companies than that of the other three groups. This difference was also noted in surveys in Britain and France and it seems quite likely that it is due in substantial part to ideological views about big business in general rather than any particular bias against foreign firms.[18]

In my interviews, I found that Canadians generally concurred that despite negative public statements about foreign investment, labor leaders took a rather pragmatic, essentially favorable view of foreign firms. Their overriding concern was for (1) more jobs, and (2) improved working conditions, both matters on which the foreign-controlled firms were favorably viewed. Their negative opinions were related more to specific actions (plant shutdowns, for example) than a general desire to check foreign investment.

Political Parties

The positions of the leading political parties on foreign investment can be discussed at two levels. Superficially, and for many practical purposes, the story is very simple. The Conservatives and Liberals have similar moderate nationalist views and the New Democratic Party (NDP) is strongly nationalistic. But the Conservatives and Liberals do have somewhat different positions and these differences will be significant for the future, especially in light of the uncertain political prospects coming out of the 1972 election.

As background for this discussion it is well to present a brief picture of the character of the main parties, synthesizing the analyses of several experts.[19] Both are essentially coalitions of mixed social, economic, ethnic, and geographic dimensions. They share basically similar conservative values, taking progressive positions on an opportunistic basis as circumstances direct them. The Conservatives have slightly more following among lower income groups and people with traditionalist, conservative leanings, especially in certain regions. But these socio-economic differences are small and may shift from election to election. Historically, the Liberals have been associated more with conciliatory relations with the United States, while the Conservatives have come to power three times (1911, 1930, and 1957) in periods of anti-American emotion.

With this background in mind we may look at the specific issues on which the Conservatives and Liberals have visibly differed. The proposed Foreign Takeovers Review Bill provided the only recent direct confrontation on a general foreign investment policy issue.

The official Liberal position was manifest in the decision to present the bill. That there was substantial disagreement within the party was also readily observed. Thirteen Liberal M.P.s endorsed the stand of the Committee for Independent Canada which declared that the bill was entirely inadequate.

The Conservative views were also divided. M.P. Gordon Fairweather presented the official opposition statement in Commons after the opening Liberal speech.[20] His statement was notably vague. The most specific indication of a position was, "I feel Bill C-201 in no way goes to the root of the problems created by direct foreign investment in Canada. This is not to say it is not a partial solution." Beyond this he dealt in very general terms with the constitutionality of the bill, the need for a general industrial strategy and guidelines for review, and the merits of other approaches to foreign investment like key sector expansion and international control. The consensus among people I interviewed in Ottawa seemed to be that the speech was indicative of the wide division of views within the party. The assumption was that the party caucus had failed to agree on a clear policy on the bill, so Mr. Fairweather had been instructed to say as little as he respectably could. Overall the indications are that the Conservatives accepted the takeovers bill but that because the moderating influences in their ranks were stronger than those among the Liberals, a somewhat milder approach was advocated.

Two other issues may best be discussed together. The Conservatives in their recent declarations have stressed Canadianization of boards of directors and greater financial disclosure. The Liberals have played down the former and indicated no interest in pushing the latter beyond the moderate requirements they enacted in recent years. The board of directors and disclosure proposals are apparently rather minor in that they would neither have much effect on performance of foreign firms nor cause them much operating complication.

There are two lines of reasoning which might explain the Conservative emphasis on these points. One is that they represent directions in which one can move at least a little to improve the performance of foreign-owned firms while still not interfering with the basic freedom of management decision making, as compared, for example, to the direct intervention in the screening process. The other rationale is that the position is strictly opportunistic. The Conservatives are under pressure to offer something different to counter the initiative gained by the Liberals in the public eye by pressing the screening approach. The board of directors and disclosure measures have some distinguishing features which are appealing. They apply to all foreign firms, not just the marginal group affected by take over screening. They appear to influence a much broader range of operational matters on a continuing basis. The Conservatives can make a fair case that these steps are, in fact, a stronger effort to deal with foreign investment than takeover screening.

Out of all this, what can we discern about the differences between the parties? Philosophically it would appear that the Conservatives have somewhat less inclination than the Liberals to favor government intervening in the economy and industrial management and, historically, at least, somewhat more protective nationalistic orientation. The opportunism of both parties seeking competitive advantage will lead them to some effort to differentiate their positions, although their essential conservatism (along with the specific aspects of the issues) will hold their positions within moderate limits. With this pattern of differentiation, one would expect the Liberals to give more emphasis to the direct influence on the operations of foreign firms and the Conservatives to stress more the general, indirect influences — but with both moving essentially in the same moderate nationalistic range.

Future Attitude Trends

The reflections at the beginning of this article on the difficulty of explaining the recent rise in nationalistic reaction to foreign investment are relevant to any consideration of the future. The overall trend of attitudes is hard to predict. It is useful, however, to note the outlook for three factors which may influence the attitudes: the character of foreign investment, Canada-U.S. relations, and basic nationalism.

The percentage of control of Canadian industry by foreign firms is not likely to increase much more because of deterrents within Canada and discouragement of foreign investment by U.S. policies. In addition, the performance of the firms is likely to be more satisfactory both because of increasing sensitivity of their managements to Canadian interests and measures taken by Canadians. Therefore, the concrete facts of foreign investment are likely to provide less basis for adverse attitudes.

It is apparent that there is a major change underway in Canada's relations with the United States. The days of the "special relationship" between Canada and the United States are past. Rather than treating Canada on a favored basis in trade and other matters, the U.S. government apparently is going to deal with Canada pretty much as it does with other friendly countries. External Affairs Minister Mitchell Sharp anticipates that the United States will be "an even tougher bargaining partner than in the past."[21] The Canadian American Committee, a responsible group of business, labor, and agricultural leaders from both countries, predicts that differences between the nations will grow deeper in the 1970s.[22] If disputes do intensify, the multinational firms would often be involved in economic issues between the nations and feelings toward them would suffer as a consequence.

Another source of possible adverse feelings is the course of basic Canadian nationalistic attitudes. There may well be a growing consciousness of the distinct possibility that George Grant's assessment is correct; if Canada has not already disappeared as a nation, it is close to doing so. If nationalism really has the emotional force approaching that of religious fervor, which scholars in the field believe, it would not be surprising to find the attitudes supporting it aroused to perhaps their greatest vigor when the substantive base for the survival of the realities of nationhood was actually or apparently in the process of being broken down.

The Future Tenor of Policy

What are the prospects for future Canadian national policy on foreign investment in light of these attitudes and other influences? At the risk of oversimplification, I believe that the answer to this question will be determined by just a few key factors.

A major factor will be the mood of the country. The progression toward stronger policies in handling foreign-owned business has up to now been largely motivated by growing public pressure. The continued growth of nationalistic pressure is uncertain but it is a reasonable possibility. On the other hand, the ranking of the foreign investment issue distinctly below other issues in public opinion priorities, may fall yet farther. One of the major results of the 1972 election was to elevate in importance the issue of national unity because it demonstrated that the Trudeau approach had not only failed but perhaps aggravated the English-French division among the populace. Employment and related economic issues are also in the forefront. These domestic unity and economic issues are far more pressing and immediate in the eyes of most Canadians than foreign investment, especially as the latter is for the most part considered a positive economic contributor.

There is a question here about the results of political instability on Canadian government action. In less developed countries, anti-foreign investment action is a common ploy of insecure governmental leaders. That possibility exists in Canada. Specifically, in an attempt to win over voters from the NDP, the minority government might adopt the CIC program. Lester Pearson pursued this strategy to a degree in backing Walter Gordon's foreign investment views when he had a minority government in the mid-1960s. It is doubtful if any substantial shift of policy (as distinguished from political verbiage) is likely with this rationale. The Liberals lost more ground to the Conservatives than to the NDP and, in the long run, the recovery of Liberal strength lies in maintaining a firm center position — not swinging to the left.

Significant confirming evidence on this point is found in the first post-election statements of the three party leaders. All stressed that highest priority should be given to general economic problems. Mr. Trudeau and Mr. Lewis did not even mention foreign investment. Mr. Stanfield included Canadianization of boards of directors but it was low on his list.

The outlook was further clarified in the government speech at the opening of the 29th Parliament in January 1973. Primary attention was given to general economic measures. Foreign investment was treated briefly. The proposals made were: (1) takeover screening, (2) Canadianization of boards of directors, (3) improved access to foreign technology, (4) increased Canadian ownership for resource projects, and (5) consultation with provinces on measures affecting new direct investment. The second proposal will win Conservative support; the third proposal pleases Canadian businessmen; the fourth fits CIC-NDP goals, and the fifth will ease provincial relations. Most significant is the handling of the major issue of new investment — the prospect of new measures is held out to satisfy the NDP but the required consultation puts the onus for action on provincial governments with a strong probability of mild or quite gradual implementation.

The second factor is the growing conviction among a broad band of responsible Canadians that despite its generally beneficial character, foreign investment could be made to serve the national interests better. This is the maximizing-benefits psychology which pervades the Gray Report and current government thinking. It will provide a persisting momentum within the bureaucracy for continued movement to improve performance of foreign firms in such matters as exports and research.

The next three factors bear on the influence the bureaucracy and businessmen will exert. First, the great complexity of implementing general policies affecting foreign investment is increasingly clear to responsible people. The debate on the Foreign Takeovers Review Bill provided a vivid demontration of this fact. A large portion of the Commons Committee examination of the bill was devoted to a multitude of side effects of the review system ranging from major points like fostering creation of new firms by foreign investors who were frustrated in takeover bids to minor problems like the status of mortgages of insurance companies. The obvious point is that in a country in which 60 percent of manufacturing is foreign-controlled, even measures of apparently simple and limited scope can have diverse effects and risks.

The second element is the lack of thorough knowledge of the economic effects of foreign investment. On the basis of the most penetrating study of the multinational firm yet undertaken, Raymond Vernon was able to conclude only that his findings

> suggest . . . that the impact of international investment is not necessarily measured by such figures as yield on investment, payments to labor, and tax payments. The effects recorded by these measures could be swamped by those outside the recording net, especially if the effects run over a number of years.[23]

The Gray Report accepts the general conclusion of prior studies that foreign investment is economically beneficial but in emphasizing that the studies "involve numerous qualifications," it highlights their incompleteness.[24] Carl Beigie, observes:

> The Gray Report is a disappointment for what it failed to include . . . the report has added little to our knowledge concerning such basic and still unresolved questions as the overall impact of foreign direct investment on Canadian growth, employment, prices, product diversity, and the balance of payments.[25]

The implications of this lack of full knowledge are clear. Responsible Canadian leaders are not likely to support substantial changes in policy affecting 60 percent of their manufacturing with such limited understanding of the consequences.

The third, and perhaps most significant, element politically is the unabated quest of government leaders for new foreign investment. Just one item suffices to affirm this point: after running up an impressive record of actions relating to foreign investment in the spring of 1972, Premier William Davis of Ontario spent much of August in Europe encouraging investors to come to his province.

Finally, there are three elements of the national decision-making process described in my full report which militate against strong action by the federal government.[26] One is the traditionally limited role of government in business affairs. Another is a reasonably close rapport between government and business at top levels which runs counter to decisions which are substantially at odds with business thinking. The third is the economic policy strength of the provincial governments which deters the federal government from taking strong steps which might be injurious to the interests of specific provinces. This latter point is especially significant in consideration of any policy which would give the Ottawa officials power to limit or direct new investment by foreign firms. That would place power over jobs and other economic benefits in federal, rather than provincial hands, something the provinces will resist strongly. The net effect of these elements is a fairly slow pace of decision making and evolution of rather mild policies.

Putting these elements together one can make some reasonably logical assumptions about the tenor of overall policy for the next few years. It seems inevitable that, as a political necessity, the federal and provincial governments must demonstrate that they are doing something about the foreign investment question. On the other hand, responsible behavior will restrain them from strong action. The outcome under these circumstances will probably be very much a continuation of the recent pattern, that is, a gradual pace of new actions which provide visible evidence to the public that foreign investment is receiving attention but which are cautious enough so that costs and risks are minimized and there is a fair assurance of some tangible benefit, either economically or for perceived national values such as cultural identity fitting the prevailing philosophy among officials.

While numerous uncertainties have been observed in this discussion of the immediate prospects for

Canadian foreign investment policy, the longer term prospects involve conflicting trends of basic elements whose resolution scarcely can be discerned.

Longer Term Prospects

On the one hand, there has been a steady build-up of nationalistic reaction to foreign-controlled business which has created growing pressure for action by the government. So far the actions have been of fairly limited nature. Some people have observed that they are so minor in nature that they simply postpone briefly the day when major actions must be taken; and, indeed, in permitting the main body of foreign investment to grow in strength they contribute to magnifying the corrective steps which ultimately would have to be taken if the strongest nationalistic feelings seen today were to become widespread. Thus, if one were to project the current rate of growth of adverse reaction to foreign business, one would have to anticipate a substantially more restrictive government policy within a decade. Because of the uncertainties discussed earlier one cannot project this trend with any certainty, but continuation of adverse reaction is a possibility one must consider.

On the other hand, there are certain solid indicators of basic trends toward international integration and especially toward closer integration with the United States ranging from George Grant's type of philosophical conclusions that Canada as a nation has already lost its identity through the functionalist concepts of non-nationalists to practical manifestations such as the continental rationalization of production and research in particular industries.

In a pragmatic free society, an evolutionary compromise between these two apparently opposing trends undoubtedly will be worked out in a reasonably satisfactory manner, though certainly with substantial tension and conflict. The exact form of the compromise, however, is hard to predict. My reading of past history and current influences leads me to expect that the main economic and government policy decisions will be governed by the second basic trend, the evolution toward integration. The attitudinal pressures for national identity would be satisfied to a large degree as they are being today by measures which protect cultural and national identity along with limited economic measures by which Canadian identity can be preserved with minimum sacrifice to the standard of living. This expectation is based more on intuition than logic, however, and, as in the past, it is likely that the actual course of events in the future will be governed by forces not readily assessed today.

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2. Toronto *Daily Star*, 12 February 1972.
3. J. Alex Murray and Mary C. Gerace, "Canadian Attitudes toward the U.S. Presence," *Public Opinion Quarterly*, Fall 1972, p. 390.
4. John Fayerweather, "Elite Attitudes toward Foreign Firms," *International Studies Quarterly*, December 1972, pp. 472-490.
5. Murray and Gerace, "Canadian Attitudes," p. 392.
6. *Foreign Direct Investment in Canada* (Ottawa: Government of Canada, 1972), p. 416.
7. Toronto *Daily Star*, 4 December 1971.
8. Ibid., 29 December 1971.
9. Ibid., 12 April 1972.
10. George Grant, *Lament for a Nation* (Toronto: McClelland & Stewart, 1965).
11. Ibid., p. 90.
12. Ibid., p. 63.
13. Ibid., pp. 86-7.
14. *Foreign Direct Investment*, p. 403.
15. Carl E. Beigie, "Foreign Investment in Canada: The Shade Is Gray," *Columbia Journal of World Business*, November-December, 1972, p. 24.
16. Mitchell Sharp, "Canada-U.S. Relations: Options for the Future," *International Perspectives*, Autumn 1972.
17. Toronto *Globe & Mail*, 21 August 1972.
18. John Fayerweather, "Attitudes of British and French Elite Groups toward Foreign Companies," *MSU Business Topics*, Winter 1972, p. 19.
19. John Porter, *The Vertical Mosaic* (Toronto: University of Toronto Press, 1970), p. 373; "Some Bases of Party Support in the 1968 Election," in Hugh G. Thorburn, ed., *Party Politics in Canada* (Scarborough, Ontario: Prentice-Hall, 1972), pp. 36-37; "Prairie Revolt, Federalism and the Party System," in Thorburn, *Party Politics*, p. 206.

20. House of Commons *Debates*, 9 December 1971, p. 10322.
21. *International Perspectives*, Autumn 1972, p. 22.
22. *The New Environment for Canadian-American Relations* (Montreal: Canadian-American Committee, 1972), pp. 39-44.
23. *Sovereignty at Bay* (New York: Basic Books, 1971), p. 187.
24. *Foreign Direct Investment*, p. 416.
25. Beigie, "Foreign Investment in Canada," p. 24.
26. Fayerweather, *Canadian Policy*.

Representative LONG. As I stated at the beginning, I have been more appreciative of having had this opportunity to have this dialog with you than I can state. I think it has been very helpful to us. We will spread it in the record, and we will send you copies of it. We will make any statements we've got a part of the record. We will make the full text of the statements presented by you two gentlemen a part of the record as well as the transcript of the conversation that occurred here.

I thank you again for coming.

[Whereupon, at 11:30 a.m., the subcommittee recessed, to reconvene at 10 a.m., Tuesday, January 27, 1976.]

CANADIAN FOREIGN INVESTMENT SCREENING PROCEDURES AND THE ROLE OF FOREIGN INVESTMENT IN THE CANADIAN ECONOMY

TUESDAY, JANUARY 27, 1976

CONGRESS OF THE UNITED STATES, SUBCOMMITTEE ON
INTER-AMERICAN ECONOMIC RELATIONSHIPS
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:05 a.m., in room 2222, Rayburn House Office Building, Hon. Gillis W. Long (acting chairman of the subcommittee) presiding.

Present: Representative Long.

Also present: Sarah Jackson, professional staff member; and George D. Krumbhaar, Jr., minority counsel.

OPENING STATEMENT OF REPRESENTATIVE LONG, ACTING CHAIRMAN

Representative LONG. The hearing will come to order.

This morning the Subcommittee on Inter-American Economic Relationships continues its hearings on the Canadian foreign investment screening procedures and the role of foreign investment in the Canadian economy and how it affects the relationship between the United States and Canada.

Because we share a common border of some 5,000 miles, the interdependence between Canada and the United States is particularly significant in a number of respects. For a number of years, for example, the United States has depended on Canada for oil and other raw material imports to a substantial degree and Canada on the other hand, has relied extensively on the United States for needed capital requirements.

Particularly because of the heavy reliance on capital from the United States as well as other countries, Canada established the Foreign Investment Review Agency to consider all takeovers by foreign companies in order to determine if such investments were in the Canadian national interest. In December of last year this subcommittee began an examination of the role of foreign investment in the Canadian economy and the subsequent efforts to limit it, or at least to analyze it.

We learned that the special free trade and investment area that existed under the bilateral automotive agreement would probably only work in a few specific instances and a few specific economic sectors. We learned that, from the American business point of view, the review process has not been particularly restrictive, although the legal costs have been somewhat burdensome for small businesses interested in Canadian investment. Yesterday, as we discussed the costs and benefits of foreign investment in the Canadian economy—and the role that foreign investment screening has played—we found that there seemed little justification if any for any expending or stretching out of these or making more comprehensive these controls.

Underlying our discussion of foreign investment control has been a concern with the impact of growing economic nationalism in Canada on our overall United States-Canadian relations. Today we will look at the foreign policy of the United States as it relates to the Canadian screening procedures with an eye toward determining what effect the procedures have had on our economy, American business, and American international interests.

We are very fortunate to have a representative of the State Department with us today who, I am sure, will be able to discuss this aspect of our foreign policy in some detail. Because the State Department includes Canada in its European section, we have the Deputy Assistant Secretary of State for European Affairs, Mr. Richard D. Vine.

Mr. Vine, we are happy to have you with us and we appreciate you taking the time to come down and visit with us.

Why don't you proceed in your own way.

STATEMENT OF HON. RICHARD D. VINE, DEPUTY ASSISTANT SECRETARY OF STATE FOR EUROPEAN AFFAIRS, DEPARTMENT OF STATE, ACCOMPANIED BY JOHN H. ROUSE, JR., DIRECTOR, OFFICE OF CANADIAN AFFAIRS

Mr. VINE. Thank you very much.

May I first introduce my colleague, Mr. John Rouse, who is the Director of the Office of Canadian Affairs in the Department of State.

I appreciate the invitation to appear before you today, Mr. Chairman, and the opportunity it gives me to enunciate the views of the State Department on the foreign investment climate in Canada and its bearing on the overall United States-Canada economic relationship. I will make a brief statement, and then I will be happy to try to answer any questions you may have.

I am sure that previous witnesses have provided you with a plethora of facts and figures, so I will limit myself to a recitation of a few basic numbers. At the end of 1974 the estimated book value of United States direct investment in Canada was $28.4 billion, or about 24 percent of total U.S. foreign direct investment of $119 billion. U.S. direct investment in Canada accounts for roughly 80 percent of total foreign investment in that country. Conversely, it should be noted that Canadian direct investment in the United States is also sizable. At the end of 1974 total foreign direct investment in the United States was estimated at $21.7 billion, of which $4.8 billion or 22 percent came from Canada.

From the foregoing it is not difficult to see why "foreign investment" has become an issue in United States-Canadian relations. Given the smaller size of the Canadian economy—its GNP is rougly one-tenth of that of the United States—and the preponderance of the brand names of United States-controlled multinational firms in the

Canadian marketplace, it was probably inevitable that the Canadian Government would be moved to examine the role of foreign investment in Canada, and to assess the pros and cons of the impact of foreign investment on the Canadian economy and society. The particularly rapid growth of foreign, mainly American, investment in Canada after World War II led to the resurgence of some basic concerns over foreign control of key economic sectors.

These concerns coalesced in a government initiated study of foreign direct investment in Canada—the so-called Gray report—which was made public in 1972. Until the publication of the Gray report, Canada had not exerted comprehensive controls over foreign investment, although certain key sectors of the economy, including banking and broadcasting, were reserved to Canadians. However, the Gray report quickly gave rise to legislative proposals to assert comprehensive controls, and in early 1974 the Foreign Investment Review Act was enacted. Phase I of the act, which applies to proposed takeovers of Canadian firms with assets in excess of $250,000 Canadian dollars, went into effect on April 9, 1974.

It is important to note that the shift in policy in Canada which found expression in the Foreign Investment Review Act was neither abrupt nor ill considered. It is not anti-American or anti-investment in its intent, nor to date in its administration. Put in proper perspective the Foreign Investment Review Act is a key element of the so-called third option which has been a basic goal of Canadian policy since first enunciated in 1972. In essence the third option is intended to reduce Canadian dependence and vulnerability on the United States by strengthening Canada's own economy and its ties with other countries rather than by reducing ties with the United States. As Secretary of State for External Affairs MacEachen stated in a speech in Winnipeg last year, the third option is aimed at "strengthening of the economy and other aspects of national life in order to secure our independence."

The stated purpose of FIRA, according to the then Minister of Industry, Trade and Commerce, Alistair Gillespie, is to arrest and reverse the increasing trend toward foreign control of the Canadian economy. In order to accomplish this objective, the Foreign Investment Review Agency was established to screen foreign investment proposals, and to approve only those which promise "significant benefit to Canada." Significant benefit is defined for this purpose by five criteria:

—increased economic activity; including employment, domestic process and export promotion;

—greater management participation by Canadians;

—increased productivity, improved technology;

—effect on competition; and

—other national and provincial economic policy objectives.

Since the Review Agency has been in existence for less than 2 years, its role and purpose are still evolving. One thing seems clear, however, from the data provided by FIRA in its first annual report: The Canadian Government recognizes that foreign investment still has a role to play in Canada. Of the 92 takeover cases processed in its first year of operation (April 1974–March 1975) the Agency approved 63, or 68 percent. The second phase of the act, covering investment proposals of new foreign investors in Canada and investments in unrelated fields by existing investors, went into effect on October 15, 1975. No phase II applications have been processed to decision as yet.

I have noted that through actions of the Canadian Federal Government certain sectors are prohibited to foreign investors, and that most new foreign investment is subject to FIRA review. The Provincial governments have also become involved in the regulation of foreign investment, particularly as it affects land ownership and natural resource development. Reacting to increasing foreign ownership of recreational land, the government of Prince Edward Island has already banned land ownership by non-residents, and similar action is being seriously considered by other Provinces. Ontario, which has experienced strong foreign interest in urban as well as recreational real estate, has enacted a land transfer tax which discourages the purchase of land by non-Canadians. In the natural resources sector, the British Columbia government has become a participant in the natural gas distribution system, and the government of Saskatchewan has introduced legislation which would authorize it to purchase or expropriate the assets of some or all of the potash mining firms in the Province.

The respective powers of the Federal and Provincial governments in Canada to regulate foreign investment remain untested, but clearly governments at both levels intend to be actively involved.

The reaction of the U.S. Government to the Canadian Government's steps to exercise greater control over foreign investment has been twofold. On the one hand, we believe that a free flow of investment funds, internationally as well as domestically, will promote the most efficient use of scarce capital resources. On the other hand, we recognize that screening of foreign investment proposals is well within the sovereign prerogatives of the Canadian Government. We have made it clear, however, that when a foreign government exercises its right to screen or otherwise control foreign investment we expect that it will do so in an equitable and non-discriminatory way.

For this reason we have been very interested in the day-to-day administration of the Foreign Investment Review Act. I am pleased to be able to say that in the nearly 2 years that phase I of FIRA has been in operation we have found no evidence that the act is being used to discriminate among foreign investors to the detriment of U.S. firms. In fact, going back to data contained in FIRA's first annual report, a slightly higher proportion of applications from U.S. firms—71 percent—were approved than the 68 percent overall approval rate. We hope and believe that this evenhandedness in the administration of FIRA will continue.

What are the implications of Canada's new policy toward foreign investment?

For the individual investor the implications are significant. It seems certain that in the post-FIRA era, potential U.S. investors will be looking at Canada differently, and probably in a way more parallel to the way they view other developed countries. I suspect that the tendency to view investment opportunities in Canada as somehow less foreign, and therefore safer, will disappear. In the future, Canadian opportunities will be compared by a more objective standard with opportunities elsewhere. I think in the long run this change in investor attitudes may be a healthy development. However, the new Canadian policy represents a significant change, and as such it will inevitably give rise to some investor resentment and uncertainty.

From the point of view of the U.S. Government, we will continue to view Canada's rising economic nationalism, of which investment controls are a manifestation, in perspective, as an evolutionary force in our relationship which is inherently neither positive nor negative. We view with concern economic nationalism wherever it may occur, in Canada as elsewhere. Canada has asserted a right to regulate foreign investment; whether this fact will harm or benefit our economic relationship with Canada will be a function of how the regulations are applied. We accept that the new controls are here to stay, but we also believe that Canada will continue to need—and welcome on its own terms—foreign capital. Canadian Finance Minister MacDonald made this point very clearly just last month, and I quote " . . . Canada at present requires a heavy inflow of funds from abroad in order to offset its heavy current account deficit. . . . Even after our current account moves into better balance we will continue to need both debt and equity capital from abroad to help finance the huge capital investment program—some $500 billion Canadian dollars over the next 10 years—to which I referred earlier."

We will expect that any taking in Canada of the property of the U.S. nationals will conform with international law. We will defend U.S. interests against discriminatory or arbitrary actions, and as appropriate we will be pointing out to the Canadian Government what we see as the larger consequences, in terms of both risks and opportunities, inherent in its treatment of U.S. firms.

I will be happy to answer any questions you may have, Mr. Chairman.

Representative LONG. Thank you very much, Mr. Vine. I think it is a comprehensive statement.

Two or three questions I would like to ask in that regard. While I agree with most of your conclusions in the paragraph, "for the individual investor the implications are significant," looking at the policy implications of this and the long-range implications of it, you conclude that "in the future, Canadian opportunities will be compared by a more objective standard with opportunities elsewhere," which is a little different from what they have looked at in the past, and I agree with that.

Then you make the statement "I think in the long run this change in investor attitude may be a healthy development."

I really don't see that particularly as a healthy development and I wondered why you saw it as a healthy one. It seems to me if we could maintain it as it has been over the years rather than moving in that direction particularly with the problems of capital accumulation that are staring at all of us in the United States, the industrialized world, and the nondeveloped world, for that matter, that this might be a development to Canada's detriment.

Mr. VINE. Thank you, Mr. Chairman.

I think the sense of that observation is not simply to say that we feel that individual investors in the United States should look at opportunities in Canada with more reticence or reserve than they have in the past, but rather to look at Canada in an objective way, to take account of the problems of rate of return, to take account of the fact that it has a fluctuating currency, to take account of the fact that there are differences in the Canadian way of doing business than the United States way of doing business, and that investors should look at these factors carefully before making an investment. I think if nothing else, the changes that have taken place will produce that kind of result and in many respects lead to a more careful and prudent type of investment by Americans. I think that was the sense of our comments.

Representative LONG. I would agree it is going to result in that, that it will result in a more prudent look. But I am saying that the effect of a more prudent look and the consideration of it as separate and different from, say, an investment in the United States, might in the long run, particularly in the light of the capital accumulation problems, result to a minor degree in the reduction of the amounts of capital that would be available out of the United States to Canada.

Mr. VINE. That may well be true, Mr. Chairman. That, of course, is exactly the sense of recent comments by Canadian Cabinet Ministers, Mr. Gillespie and Mr. MacDonald, I think, has made similar comments in recent months, that Canada, of course, will have substantial needs in the years to come. There is implicit in the entire concept of the Foreign Investment Review Act a requirement that capital accumulation in Canada rise to replace any displacements of capital coming from abroad.

Representative LONG. Under the Saskatchewan Province action do you know of any examples of where they have actually expropriated the assets or purchased the potash mining firms in Saskatchewan of American owned firms?

Mr. VINE. No, sir, the Premier of the Province of Saskatchewan has sought from the Provincial assembly legislation which would authorize purchase or expropriation of "some or all" of the industry assets; that phrase is taken from the Premier of Saskatchewan's charge to the Parliament as to what he had in mind.

That legislature has not yet passed the Provincial legislature. We expect that it will pass sometime this month.

Only thereafter will there be any move in this direction. The Premier and his colleagues have had conversations with a number of potash mining ventures, including but by no means confined to American firms, and it may well be that in the near term, steps in that direction will be taken but as of right now no such steps have been taken.

Representative LONG. That would certainly result in an exasperation of the attitude we were previously discussing on the part of the American investor, would it not?

Mr. VINE. I think there is no question about that.

Representative LONG. I think the thing that we have all got to be careful of if we are going to continue our relationship over a long period of time is taking precipitous actions that would get blown out of context and out of proportion as to what it is. That could result in a breakdown of what has really been a very friendly, fruitful relationship. I guess about as good as any relationship that ever existed between two major countries.

At the time of our hearing in December, the one I referred to before, we came just to the edge of being drawn into a flap on Ambassador Porter's farewell address up in Canada at the time that he left there. What did Ambassador Porter actually say in this situation?

Mr. VINE. We may never know.

Representative LONG. Why was he so critical of Canadian policy? I have got to believe this was cleared by the State Department in Washington.

Mr. VINE. Well, there is no question that Ambassador Porter was in close touch with the Department on this as he is on other issues. Unfortunately we have a number of quotations to which there were reactions and there are a great many doubts as to what was actually said.

So far as I can make out, Mr. Chairman, Ambassador Porter was simply trying to make exactly the point that you have just made, that steps like that involving expropriation of major industries in the Province of Saskatchewan, illustratively, will certainly produce a reaction in the business and investment community in this country and that one must take this into account. I don't think he was saying anything more or anything less.

I know that references were made in the Canadian press to a deterioration of the relationship. I am absolutely certain the Ambassador didn't say that. I think it is quite fair to say in fact that our official relationship with Canada this last year has improved. We are all very much aware of that and are grateful that relations with one of our closest neighbors have improved somewhat. But the Ambassador simply was trying in a low key way to make this limited point and I am afraid much of the commentary was made out of context and we regret that because it did not reflect the attitude that the Ambassador was trying to impart.

Representative LONG. I guess it is true that a statement coming from an Ambassador in Canada—and in Ambassadorial language—as distinguished from a Member of the U.S. Congress who doesn't have to run in Canada, is coming from two different mouths and would be taken in two different contexts, wouldn't it?

Mr. VINE. I think it would, sir.

Representative LONG. Prime Minister Trudeau has been quoted rather extensively recently as questioning the efficacy of the free market system in its entirety. A number of people have interpreted this as merely an intellectual musing on his part while others have taken the remarks to portend further economic policy changes, perhaps more wage controls and those things that are attendant to that. What has been your interpretation of Mr. Trudeau's remarks in that regard?

Mr. VINE. I wouldn't attempt to interpret the Prime Minister's remarks, Mr. Chairman.

Representative LONG. Let me ask you another question in that regard. Do you have any reaction or do you have any views on the press conference that the President of Mexico and Mr. Trudeau had here recently in Mexico City where they were saying that perhaps they ought to look at their relationships with the United States?

Mr. VINE. I have not seen the entire text of that press conference.

Representative LONG. I haven't seen the entire text either but it has only been reported and it was reported in very, very small print in the press. I will read you a little of it and this is one of the analyses, which is all I could find of it.

It said:

Canada and Mexico are diversifying their foreign policies to offset the influence of the United States, Canadian Prime Minister Pierre Trudeau said yesterday at a joint news conference in Mexico City with Mexican President Echeverria. Trudeau said the two countries, while maintaining strong ties to Washington, plan to pursue***

and now I am quoting—

a third option to diversify our foreign relations.

The two leaders explained that they were strengthening their nations' relations with Europe, China and Latin America.

Now I am quoting again,

These are counterweights, Trudeau said, to the presence of that friendly but very enormous giant who exists next to us. Trudeau and Echeverria issued a joint communique in which they urge the United States and the Soviet Union to reduce their stockpiles of nuclear weapons.

Do you have any views on this matter?

Mr. VINE. Well, only with regard to the substance of the point of diversification of the economic and foreign relations of Canada, which I think is the subject of this discussion today. We have said publically before and I will say again here that we welcome these efforts by the Government of Canada to diversify their economic and foreign policy relationships. We think that this will over time tend to produce a much more healthy, stable relationship. Our only caveat in that regard is that we hope that this would not be done at the expense of U.S. interests. And I have seen no evidence to date that this is being done at the expense of the U.S. interests.

Representative LONG. Certainly the effort is to the contrary.

Mr. VINE. Certainly.

Representative LONG. The automotive agreement has come in for a good bit of discussion and periodically comes up for discussion depending upon the economic circumstances that exist in both the countries involved in it. Has this posed any particularly difficult problem for you, the State Department, the United States, from a foreign policy aspect at all?

Mr. VINE. No; from a foreign policy aspect, no, Mr. Chairman. I think you have said it very well. In an agreement so vast and so complex, at any point in time there will always be one interest or another in the United States or Canada that feels itself adversely affected. At the same time, I believe both governments are of the view that the operation of the agreement since its inception has been a major benefit to both our economies. And recognizing the particular problems caused by the rather long recession and the special impact that this recession has had on the automobile industry, both our governments have undertaken a joint study of the longer term implications of developments in the automobile industry which necessarily includes the extent to which these will impact on our agreement. These studies are being conducted at the moment.

Representative LONG. My impression is that it has withstood these economic trials of the last 2 years in pretty good order.

Mr. VINE. In reasonably good order, no question about that, sir. On the other hand, there is a significant deficit on the Canadian side, now for the second year in a row. The deficit has run on the order of $1.3 to $1.4 billion per annum. That has been quite obviously troublesome to the Canadians but, as I say, we hope as the market in the automobile industry improves these figures will tend to improve as well.

Representative LONG. The president of the Ford Motor Co. of Canada visited with us in our hearings recently and we were discussing whether there was any likelihood of achieving a free trade area, using the term loosely, such as that in other sectors of the economy. Has the United States ever sought further agreements in other sectors of the economy such as the one we have in the automotive industry?

Mr. VINE. To my knowledge, no.

Representative LONG. Do you get——

Mr. VINE. There is, of course, considerable discussion of this point from time to time. I believe that an economic advisory council in Canada some several months ago issued a report arguing in favor of freer trade between the United States and Canada as being the remedy for a number of Canada's economic problems. On the other hand it is fair to say that the general feeling in Canada today is that the continental or free trade approach, that is, the single market approach, is probably not a good way to approach these problems, and I don't think the U.S. Government would make any proposals in the present climate to that effect.

Representative LONG. Each one of them really constitutes to some degree a potential problem in itself and therefore enhances the likelihood of a bigger problem growing out of it. Is that not correct?

Mr. VINE. That would surely be one set of comments. I think it would also be fair to say that as one creates an integrated market of continental size, it does make it rather more difficult to meet the needs of any specific area and that is an important consideration in Canadian thinking these days.

Representative LONG. In your statement today you noted the modest amount of Canadian investment in the United States which is really not very substantial compared to that of the United States that is invested in Canada. I have forgotten the figure you used but it probably is one-tenth if I remember the figure correctly. What is——

Mr. VINE. Let me note, Mr. Chairman, on a per capita basis it is significantly greater on the Canadian side.

Representative LONG. Right. That is a good addition. It is. I had not thought of that.

What is the investment that the Canadians have in the United States? What does it primarily consist of, do you know?

Mr. VINE. We do know much of what they own—they are in the railroad business, insurance business—but I would prefer to get that data for you in more detail. If you would like me to submit it for the record I could probably do it.

Representative LONG. I don't think it is worth a great deal of research but I think if you do have it readily available we would like to have it.

Mr. VINE. I will see what we can put in the record for you, sir.

Representative LONG. As we look at natural resources, those areas where there are critical materials, and where Canada has a very substantial amount of them and maybe we have a small amount of them—if you couple the two together it ends up where one particular Canadian company would end up with a very, very dominant position in that particular field of something that might be considered as a strategic material or strategic raw material, and this could pose some problems. The question as to whether or not that is, and to what degree subject to the antitrust laws of the United States has become an interesting question.

Mr. VINE. I think there would be no question that a foreign investor would be as subject to antitrust laws as domestic investors, Mr. Chairman.

Representative LONG. But the difficulty is that we have to look at the overall world supply and then it starts bringing in some foreign elements into the analysis of the legal aspects of it.

Also in yesterday's discussion it was suggested that American business are now repatriating capital from Canadian investment more rapidly than they have in prior years. Do you have any figures in that regard?

Mr. VINE. No sir. One of the difficulties in this discussion is that the detailed data are really so out of date. I think the last authoritative data that we have oninvestment flows back and forth runs to 1973 and 1974. There is some evidence certainly that the flow of United States direct investment to Canada has slackened off from 1974 on but I really could not base this on firm data. The total, the gross data collected by the Department of Commerce certainly seem to reflect that, but as to the extent of repatriation I am afraid we will not have data on that for some considerable period of time.

Now, part of that, of course, may be due to the problems that crop up in the oil exploration field as a result of the unsettled tax royalty question, particularly in the Province of Alberta last year. There were a substantial number of drilling rigs that were withdrawn and taken out of action during the early part of the year and these would have represented a considerable capital sum. I understand that these rigs, now that the tax matter has been reasonably settled, are returning to the Province of Alberta.

Representative LONG. In your statement you note that you expect the expropriation, should it occur, of any property today to conform to international law. Several years ago there was a much noted incident in Nova Scotia, if I recall correctly, where the government there took coastlands belonging to a lady from Cleveland, Ohio. In an instance such as that, and I merely use that one as an illustration, what international standards apply to such action? It was compensation paid or are you familiar with that particular incident?

Mr. VINE. I am not familiar with the case, Mr. Chairman. Of course, as in this country the exercise of the right of eminent domain would inevitably involve compensation by the local authorities and there would be—particularly for the expropriation of real estate—remedies within the Canadian legal system to assure the amounts paid were adequate and fair by existing standards within the area or the community.

This comment was more designed, of course, with regard to the expropriation by national governments or provincial governments of industrial properties where the accounting gets to be somewhat more difficult, and here, of course, our general test is that in the event of expropriation or nationalization of investment firms that the compensation be speedy and that it be adequate by international standards so that no local test of the worth of the assets or the plants or equipment may be applied to the detriment of a foreign investor.

Representative LONG. Being a political being as I am, one of the things that concerns me a bit is that the rivalry that seems to exist between the Federal and Provincial governments in Canada for leadership initiative. Particularly when you talk of anything as potentially explosive as this nationalism question is, it could likely lead to stronger measures to control foreign investment by one seeing if they can't outdo the others. Do you have any views on that?

Mr. VINE. I referred glancingly in my statement, Mr. Chairman, to the roles particularly of the Provinces in the field of natural resources. This is as much a constitutional question in Canada as it is an issue of attitudes toward investment or foreign investment, and there will always be pressures between the Provinces and Ottawa in terms of efforts to find a stable balance between these various interpretations of the Constitution.

The British North America Act of 1967, which established Canadian independence, granted to the Provinces considerable authority over natural resources within the Province. Most of the pulling and tugging that we see between Ottawa and the Provinces involves indeed a definition or interpretation of those clauses of the Constitution.

Representative LONG. And as you say, since it involves the natural resources, the potash question is a good case in point.

Mr. VINE. Right. This is not just a question of economic policy. There is very definitely a constitutional issue involved.

Representative LONG. The whole legal question of the application of U.S. law to subsidiaries of the U.S. companies that are operating in Canada has been one of the major problems for Canadians in foreign investments, and this is a difficult problem. I recently participated in a study with the Banking and Currency Committee on the treatment of banks operating in other countries, and we looked at about five Western European countries in that regard. How do they treat branch banks and how do they treat subsidiaries? This is a very complex field as you well know. But what is the implication of the amendments to the Canadian Combines Investigation Act now being considered, which will block the application of the U.S. antitrust judgment? It seems to me that it could potentially be a major stumbling block, particularly in the natural resource field and the fact that more scarcity is beginning to exist in natural resources. When you move into the critical materials, if there is any limitation on this, it seems to me as though it could pose a problem.

Mr. VINE. Well, there is no question, Mr. Chairman, that the question of extraterritorial application of laws, or let me put it another way, a conflict of jurisdictions, poses some of the knottiest problems in either domestic law or international law, and I am simply prepared to agree to your conclusion, that that kind of conflict of jurisdiction as represented in a case like this is pregnant with implications.

Representative LONG. I think that answers all the questions I have, Mr. Vine. Miss Jackson has given me one additional one that I touched upon but really had not gone into any detail on it. It seems to me there is an enormous number of bilateral issues that relate to the whole thing between the United States and Canada. I touched upon the oil exports, and there are others that follow, such as pollution of water supplies, the current question that has been so much in the news lately of the blocking out of cable TV advertising, in addition to the foreign investment relations.

Have you all determined which of these are the most important and which are the least important?

Mr. VINE. We give a great deal of thought to this, Mr. Chairman. To put that in perspective, I think it is plain between two countries as interdependent as the United States and Canada, we are always going to have a range of problems, some more or less serious. We have developed over the years with Canada, ways and means of solving most of these problems in a most equitable fashion.

Secretary Kissinger and the Secretary of State for External Affiars, Allen MacEachen, when they met in Ottawa last October, discussed exactly this point and came to the conclusion that advance consultation by one country with the others of measures that they propose to take that might affect the others would be the ideal way to cope with these problems. We have tried particularly hard, both we and the Canadian Government, over the past year to carry out a system of consultation with respect to some of these knotty issues, some of them more or less local, some of them more or less national, and I am happy to be able to say that in most cases this process of consultation has helped enormously in finding satisfactory solutions.

The priorities, the question of priorities, is always very difficult because to the person whose ox is gored, whether it be a Canadian or American, that problem for him is always the most important. We have been pleased in our relationship throughout history with the Canadians to see that they pay as much attention as we do to big issues as well as to little issues.

I think the question of priorities does not come up very often. Most of the knotty problems that have come up systematically resolved in the way that generally meets our common and mutual interests.

Have I answered your question?

Representative LONG. You have and you have been most helpful and we appreciate you and your colleagues coming and being with us today. Thank you very kindly.

The hearing is adjourned.

[Whereupon, at 10:50 a.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

HEARINGS ON CANADIAN FOREIGN INVESTMENT CLIMATE BEFORE THE INTER-AMERICAN ECONOMIC RELATIONSHIPS SUBCOMMITTEE OF THE JOINT ECONOMIC COMMITTEE, CONGRESS OF THE UNITED STATES

January 26, 1976

Written statement of Thomas M. Franck,
Professor of Law, New York University Law School, and Director, International Law Program, the Carnegie Endowment for International Peace

My purpose here, today, is very briefly to examine the Canadian practice on foreign investment which I have more precisely and extensively set out elsewhere and to do so with two issues in mind: (1) How should the U.S. react--if at all--to the Canadian controls, particularly the newer controls aimed at retarding the flow of U.S. investment into that country? (2)What--if anything--can the U.S. learn from the Canadian experience that might be useful in determining future U.S. policy towards foreign investment in this country?

The shift toward government control over foreign investment in Canada is a response to two related but distinct issues: Canadian independence and Canadian unity. In 1970, the Canadian Government published its long-promised wall-to-wall reevaluation of the hundred-year-old nation's role in the world. This study[1] emphasized that Canada's challenge was both to "liv[e] distinct from but in harmony with the world's most powerful and dynamic nation, the United States"[2] and, at the same time, to maintain "national unity."[3]

Independence and unity in the Canadian context are mutually dependent variables. The extent to which Canada can hope to overcome the alienation of its Francophones depends, to a considerable degree, on whether a separate Canadian identity can be reared in the nation as a whole. Since the culture, economy and ethos of Canada's Anglophones continues to be dominated by the United States (and, to a lesser extent, Britain), the isolation of French Canada and its drift towards separatism is otherwise inevitable. Instability and even civil war cannot be ruled out.

To understand the dilemma, one must appreciate that Canada's relations with the United States have become, since World War II, not only "a unique phenomenon," but one which, in the words of former Foreign Minister Mitchell Sharp, "impinges on virtually every aspect of the Canadian national interest."[4] "Because of the vast disparity in power and population," Sharp wrote, "it is also inevitably a relationship of profoundly unequal dependence; the impact of the United States on Canada is far greater than

Canada's impact on the United States."[5] The search for Canadian unity and identity are thus necessarily merged into a dynamic effort to create a nation free of an over-dependence which pulls part of the country in a direction which the other will not follow.

Nor is the French-Anglo division the only Canadian separation. Although Ottawa's approach to its immigrants is that of encouraging coalition and coexistence rather than synthesis, its comparative tolerance towards "hyphenated Canadianism" makes it all the more important that the "Canadian" part of each newcomer's dual identity be sufficiently real to balance the ancestral part. To this end, Canada has in recent years adopted a distinctive national flag,[6] enacted "Canadian content" rules for its radio and television programs,[7] discouraged use by advertisers of American (instead of Canadian) magazines circulating in Canada,[8] and compelled the selective deletion of American advertising from cable telecasts of programs carried from the United States into Canada.[9] Ontario has precluded the takeover of a key book publisher by an American company.[10] Each of these initiatives has been designed to encourage Canadian readers, listeners, writers and advertisers to constitute a total Canadian cultural market: from production to consumption.

This effort has not been without its opponents--on both sides of the border--and it has undoubtedly put strains on the traditional friendships between the two nations. The strain has been augmented by a Canadian surcharge on oil exports to the United States[11] and the recent upward revision of natural gas export prices.[12] Troubling to Washington, too, has been Canada's unilateral enactment and proclamation of a broad Arctic Waters Pollution Prevention Zone[13] and the threat of a similarly broad zone closed to free passage by American vessels along the Pacific Coast.

To Americans, with their relatively rooted sense of national identity, the Canadian efforts seem petulant and rudely attention-getting. This leads to the conclusion that the Canadian initiatives are really psychologically motivated and should be dealt with accordingly: by more supportive attention, reassurances of love and understanding, and, if absolutely necessary, by punishment. In this instance, however, Canada is not trying to overcome the American tendency to take it for granted. Rather, it is engaged in a far more serious endeavor--to define its national interest and establish its national identity in order to mold a nation.

Rightly or wrongly, a majority of Canadians now believe that the overwhelming American fact in the life of their society involves more than merely cultural penetration: it is, at root, essentially an economic question.

The extent of their economic domination of Canada would surprise most Americans. Those who are aware of it tend to agree that it is ultimately incompatible with nationhood. Thus, George Ball has noted:

> Canada, I have long believed, is fighting a rear-guard action against the inevitable....Canadians recognize their need for United States capital; but at the same time they are determined to maintain their economic and political independence. Their position is understandable....But...I do not believe they will succeed in reconciling the intrinsic contradiction of their position....Sooner or later, commercial imperatives will bring about free movement of all goods back and forth across our long border; and when that occurs, or even before it does, it will become unmistakably clear that countries with economies so inextricably intertwined must also have free movement of the other vital factors of production--capital, services and labor. The result will inevitably be substantial economic integration, which will require for its full realization a progressively expanding area of common political decision.[14]

Canadian commentators have taken up this theme, but to reach a different conclusion: that economic interdependence is bound to bring about undesirable political interdependence which must be avoided by reducing economic interdependence.[15] This Canadian reaction can be understood only in historical context.

Before World War I, external capital played a key role in developing Canada to and past the economic "take-off" point.[16] This capital was predominantly British, and, as was the pattern in the United States and South America, it took the form of portfolio investment concentrated in the development of communications and transportation networks. Such investment, coming in the form of debt securities (e.g., bonds, debentures), rather than equity, left no permanent stamp of foreign control on the developing economy.

Figures before the second decade of this century are imprecise, but it appears that less than a third of all foreign investment was direct, that is, in the form of equity, conferring ownership rights on the investor. Reconstructed estimates for 1900 indicate that of C$205 million invested in Canada by Americans, C$175 million was in the form of direct investment. British direct investment, however, represented only C$65 million of their total investments of over C$1 billion.[17]

Encouraged to leap the protective tariff structure of Canada's "National Policy," and attracted by the related incentive of Commonwealth preferences and, above all, the proximity of the Canadian market (and, later, by the demand for raw materials), American investment began to arrive in earnest after the outbreak of the First World War.[18] In 1900, it represented but 13.6% of all foreign capital invested in Canada (British investment comprising 85.2% of the total).[19] By 1926, however, the United States accounted for 53% of all foreign investment, as the relative British share declined--a process that continued from the First World War through World War II.[20]

The most current figures, from 1967, put the United States level at 80.7% of all foreign investment. British investment now accounts for only 10.3%, and all other foreign countries for only 8.9%.[21] Put another way, as of 1967, about 25% of all Canadian corporate assets were owned by foreign controlled corporations, of which four-fifths were American-controlled.[22] This foreign ownership is of importance beyond its numerical size because it is concentrated in two crucial sectors of the economy--manufacturing and resource industries--where approximately 60% of corporate assets are foreign owned.[23] The degree of foreign ownership in certain vital industries, such as metal smelting and refining (85%), petroleum refining (99.9%), automobiles (95%), rubber (90%), chemical (83%), computer (90%) and electrical apparatus (65%), is even higher than the average for manufacturing and resources.[24] Most remarkable is the fact that, as of 1964, 96% of all patents issued in Canada went to nonresidents.[25]

American capital has shown a decided preference for direct investment, especially since World War II.[26] In 1967, this investment form constituted 60.6% of the United States total (down about 2% from 1960).[27] British capital has made a sharp turnaround in the years 1960-1967, and, for the first time in the history of British investment in Canada, it is now also predominantly (60%) in direct form.[28] Other foreign investors, who have preferred portfolio investment throughout most of this century, are now evenly dividing their capital participation between direct and portfolio forms.[29]

This increasing preference for direct ownership on the part of all foreign investors is the principal focus of Canada's economic concern. In particular, it is feared that the concentration of United States ownership in the extractive and large manufacturing industries creates a dependence which is evident in the annoyance expressed by Americans that Canadian oil, discovered and produced by American-owned companies, should now have to be sold to the United States at world market prices rather than at the lower domestic prices decreed for Canadian home consumption. Canadians know it is difficult for Americans to accept that resources discovered, developed and owned by American subsidiaries and located only a few "hinterland" miles across the border could be as "foreign" as Saudi oil for purposes of pricing and marketing.[30]

There is no shortage of particulars in the bill against foreign MNE control of their economy presented by Canadian writers, economists, politicians and members of various commissions which have repeatedly studied the subject. It is argued that Canadian branch operations are too often tailored to the parent's global requirements, resulting in restrictions on the branch's freedom to export, purchase locally and engage in research and development (R & D) projects.[31] It is charged that Canadian affiliates usually perform only secondary or assembly functions while all investment planning, market strategy, R & D decisions and sophisticated production processes occur elsewhere. This brake on the branch plants' local entrepreneurship has been described as "truncation."[32]

It is also argued that the international competition of the multinationals is reproduced in the Canadian market, with domestic affiliates tending to be small-scale manufacturers of the entire product line of the parent. This result has been described as the Miniature Replica Effect.[33] Thus, the development of one good, cheap Canadian line of soap products with an R & D as well as export potential is made difficult by the presence, in the Canadian market, of uselessly competitive and duplicative branches of various U.S. conglomerates. In the words of one commentator:

> A degree of product differentiation appropriate for the sizable U.S. market, but inappropriate for the Canadian market, is brought about by U.S. investment in Canada. For example, nine plants--seven foreign controlled--currently produce nine brands of slightly different refrigerators when half that many variations would suffice to serve the Canadian market. As a result, Canadian producers may be prevented from capturing larger shares of the market, and resources are allocated inefficiently within the Canadian economy.[34]

Affiliates of foreign corporations are frequently analogized to a "transmission belt" conveying foreign laws and values into Canada. Specifically, these corporations are affected by legislation of the parent company's state of nationality which purports to have extraterritorial effect. There have been, at various times, problems with American affiliates operating in Canada under policies mandated by the United States Trading with the Enemy Act[35] concerning restrictions on trading with

Cuba, North Vietnam and the People's Republic of China.[36] Similarly, United States antitrust legislation may be given an extraterritorial effect, thus enforcing competition when, from the perspective of the Canadian economy, consolidation would be preferable.[37]

While there is widespread appreciation of the role which foreign capital and technology have played in the opening up of the Canadian "frontier," the expansion of American control of Canadian industry is now primarily conducted with Canadian funds. The growth of foreign investment in Canada is financed not so much by the import of new foreign capital, as by the retained earnings of Canadian affiliates, borrowings on the Canadian market, depreciation and depletion tax benefits, and incentives received from federal and provincial development programs. Thus, even if new capital importation were to stop altogether, the share of foreign ownership of Canadian industry would continue to grow.On the other hand, dividend and royalty payments to parent firms constitute a drain on Canada's balance of payments.[38] A current account surplus produced by rising exports has been both a recent and occasional phenomenon.[39]

Critics also argue that Canada is being pushed into the position of being an exporter of depletable raw materials, largely to satisfy United States demands. While the case for husbanding resources may be criticized on economic grounds, there is clearly something to the critics' argument against the export of primary products in their unprocessed state. For most Western industrialized countries, end-products constitute approximately 60% of exports, but for Canada the ratio is only 19%.[40] Although in the past decade there has been an increase in the proportion of processed manufactured goods in Canada's exports, the increase for other small industrialized countries has been three times as great.[41] What increase there has been has in large part been due to inter-governmental agreement, as in the 1965 Automotive Pact.[42] Moreover, in the 1960's Canada was continuing to experience increases in imports of consumer goods and other end-products.[43]

Canadian attempts to balance or modify foreign penetration of the Canadian economy are essentially based on three distinct tactics (1) State (i.e., federal or, more often, provincial) nationalization, (2) the "key sectors" approach, and (3) the Foreign Investment Review process.

Nationalization, in Canada, is more widely accepted an instrument of social policy than it has been in the U.S., even though in many respects Canadians are more conservative and committed to laissez-faire than their American counterparts.

This may be little more than a matter of ideological semantics. The Tory-radical tradition of Britain is still very much alive, especially in the industrial heartland of Ontario, and that tradition has never feared the instrument known as the "Crown Corporation." It may just be that Americans preferred to go the route of federal and state regulation by agencies and subsidies. But Canada has long had "publicly-owned" power, radio and television, rail and air transport under essentially free-enterprise governments closely resembling the Republican and Democratic administrations of the United States. It may well be that the public has been willing to accept the government as investor of last resort for a reason not so far impinging on the U.S. public consciousness: i.e., the need to keep certain key national industries out of the hands of foreign investors. Most recently, the federal government has decided to set up a national oil producing and marketing corporation, the first Canadian entry into this key sector, and an entry which may be made in partnership with--but could not be achieved solely by--Canadian private capital.

Closely related but different to nationalization, and of equally long standing, is the key-sector approach.

Despite an awareness on the part of Canadians that control may be achieved without regulation of ownership,[44] there is a long history of Canadian efforts to preclude foreign control of key sectors of the national economy by precluding foreign ownership. As early as the 1880's this was evident in the discouragement of American investment in the Canadian Pacific Railway.[45] The Railway Act Amendment of 1904 provided that a majority of the directors of any company receiving government aid for rail construction must be British subjects.[46] The high tariff structure instituted in 1878 under Conservative Prime Minister Sir John A. Macdonald's "National Policy" was intended to stimulate indigenous enterprise.[47]

As American capital rushed to Canada after the outbreak of World War I, Canada acted to reserve a number of public utilities and service industries from alienation. Canadian Airways, predecessor to Trans-Canada Air Lines and Air Canada, was formed in 1929, with capital contributions by both the Canadian Pacific Railway (CPR) and the government-owned Canadian National Railways. Its president stated that such participation was a warning to American airline interests that Canadian Airways "was financially in an impregnable position."[48] In consequence. "[d]omestic air, rail, and water transport are, for all practical purposes, 100 per cent Canadian controlled."[49] Parliament keeps a close watch on the level of foreign stock holdings in publicly-held corporations like CPR to ensure that control remains in Canadian hands.[50] Thus, the National Transportation Act provides for regulation by the Canadian Transport Commission of any direct or indirect proposed acquisition of an interest in rail, water or motor carriers[51] within federal jurisdiction.[52] The Commission may allow or disallow any such proposed acquisition by applying its statutory "public interest" test, which is broad enough to include considerations of foreignness.[53]

Similarly, under the Aeronautics Act, the Commission exercises wide discretionary power regarding proposed changes of control over commercial air carriers.[54] "Certainly the regulatory jurisdiction as conferred by the statute and regulations is broad enough," even without consideration of FIRA, "to enable the Canadian Transport Commission to consider any factor in a proposed acquisition which it thinks relevant."[55] Moreover, under the Air Regulations, two-thirds of the directors of a corporation owning a Canadian aircraft must be of Canadian nationality.[56]

In 1951, a provision was added to the Canadian Broadcasting Act authorizing the Canadian Broadcasting Corporation to make regulations to promote and ensure the greater use of Canadian talent.[57] The Broadcasting Act was further revised in 1968 to provide that "the Canadian broadcasting system should be effectively owned and controlled by Canadians."[58] Pursuant thereto, the Canadian Radio-Television Commission has issued regulations which limit licenses to Canadian citizens or to Canadian-incorporated companies whose directors are Canadians and whose equity is at least 80% owned by Canadians or other eligible companies.[59] More recently, percentile Canadian cultural content requirements have been imposed on programming.[60]

As a response to foreign takeovers in the insurance field,[61] certain amendments to the Canadian and British Insurance Companies Act were made in 1957, requiring that a majority of the directors of Canadian insurance companies be resident Canadian citizens.[62] Moreover, the boards of insurance companies were empowered to refuse to transfer on the company's books stock sold by a resident Canadian citizen to a non-resident,[63] this on the assumption that the directors themselves would resist further foreign takeovers. The more stringent revisions of 1965[64] recognized that this assumption was unfounded.

In 1965, a number of new key sectors were identified and reserved for Canadian control. The revised rules adopted for the insurance industry were also applied to loan[65] and trust[66] companies. These measures, which apply to federally incorporated companies,[67] require a majority of ordinarily resident Canadians on boards of directors. While permitting the directors to act on their own initiative to refuse to give effect to transfers of shares to nonresident Canadians, the measures ordain that any such transfer be disallowed if it would reduce resident Canadian ownership below 75%, or would permit one nonresident, or a controlling group associated with him, to hold more than 10% of the total number of shares of the company's capital stock.

Similarly, since 1913, the law has required that a majority of bank directors be subjects of Her Majesty resident in Canada,[68] a rule which, in 1967, was stiffened to require that 75% be Canadian citizens, and that a similar proportion of shareholdings be Canadian.[69] The 1967 Bank Act was passed as a response to First National City Bank's acquisition of the Mercantile Bank from Dutch interests.[70] Tolerance of what had been Canada's only instance of foreign ownership of a bank ended when "foreign" threatened to become "American." The 1967 Act operated retroactively to reduce Citibank's acquisition.[71]

A series of measures instituted in the 1960's restricts mining[72] and oil and gas[73] leases in respect of Crown lands, and mineral exploration assistance grants,[74] to companies incorporated in Canada which are at least 50% Canadian-owned or have their shares listed on a Canadian stock exchange. Thus, participation of Canadian capital in financing and ownership is encouraged. In the case of the major Canadian-owned mines, foreign takeover has de facto become impossible.

The Mercantile Bank episode illustrates not only the emergence of a policy to protect all banks from American control, but the emergence of a new key sector, that is, virtually all highly visible Canadian businesses. The Government has moved on an ad hoc basis to introduce regulations and take other measures, as required, to block proposed takeovers of several of the larger or better-established Canadian companies. Such moves have prevented the proposed American acquisitions of the Traders Group, a sales finance corporation, in 1969, Denison Mines (uranium) in 1970, and Home Oil in 1971. These Canadian responses, coupled with aroused public sentiment concerning alienation of such visible Canadian businesses, have made any such acquisitions virtually untenable.

Some large takeovers have occurred despite the presumption against success: for example, the 1969 acquisition of Royal Securities by Merrill Lynch, Pierce, Fenner & Smith, Inc., and the 1970 purchase of the Ryerson Press by McGraw-Hill. But the former prompted a study of the securities industry and the imposition of restrictions by the Ontario provincial government on foreign ownership of securities firms,[75] and the latter helped set the scene for the intervention of Ontario to prevent the U.S. purchase of the publishing company of McClelland Stewart Ltd.[76]

Before the 1960's, actual government activity to restrict foreign control had been limited largely to the key sectors discussed above. In the late 1950's and '60's the country took the first steps toward a broader policy based on tax incentives and disincentives. The first of these originated in key-sector related efforts by the Liberal Government, in 1957, to impose a magazine tax on advertising revenues of Canadian editions of foreign magazines (e.g., Time, Reader's Digest). This was undone by a new Conservative Government the next year.

A number of tax incentives were adopted in the budgets of 1960-1962, to increase Canadian savings and investment, and to encourage research and development expenditures. The most notable was a 1961 requirement that pension plan trustees derive at least 90% of their investment income from Canadian sources to qualify for a tax exemption.[77]

Under the leadership of Finance Minister Gordon, the Liberal Government in 1963 began a more aggressive campaign to change the form and extent of United States investment. To increase investment and promote mineral exploration, a dual rate of withholding tax was introduced in 1963, when the longstanding 15% tax applicable to nonresidents was raised to 20%, except in cases of companies with 25% or more Canadian ownership or listed on a Canadian stock exchange, in which case the withholding rate was to be 10%.[78] This was amended almost at once to lower the top rate to 15%.[79] The dual rate has been continued to the present, although in 1976 the rate will go to 25% for residents of countries with which Canada has no reciprocal tax agreement.[80] A takeover tax of 30% was proposed on large sales of shares in Canadian companies to nonresidents,[81] but, under pressure from his own party, Gordon was forced to retract this proposal.[82] Nevertheless, at present, Canadian-controlled private corporations pay a reduced rate of corporate tax on the first C$50,000 a year of their income.[83] This reduced rate is unavailable to foreign-controlled firms.

A further attempt was made to use tax mechanisms to discourage advertising by Canadian businesses in foreign periodicals. Again, the effort was aimed especially at the Canadian editions of Time and Reader's Digest and again it failed in the face of strong American government pressure. Although the 1965 tax legislation disallowed deductions for advertising expenses incurred in utilizing non-Canadian periodicals, it excluded the "partially

Canadian" Time and Digest from its scope.[84] This exception has now been withdrawn.

Finally, and most recently, we have FIRA.

FIRA is a law enacted to become effective in two stages, each announced by proclamation. The first stage, which applies to acquisition of Canadian enterprises by foreign interests, began on April 9, 1974.[85] After October 15, 1975, the Act has come to apply to the establishment of new businesses unrelated to business previously carried on by the foreign investor in Canada.[86] Very significantly, the existing operations and expansions of foreign-controlled firms remain totally exempt so long as they do not enter new and unrelated fields. The scope of this "grandfather" clause is very substantial. Reinvestment of earnings from existing operations, coupled with their borrowings from Canadian investors, account for roughly three-quarters of the increasing annual growth of foreign-held business assets.[87] Prime Minister Trudeau, on October 18, 1974, reiterated in the House of Commons that the imposition of controls on the expansion into related industries by foreign-controlled businesses already in Canada, while contemplated, was still only a long-term prospect.[88] Neither does FIRA prohibit foreign equity participation in Canadian business, and there is no general requirement of Canadian majority participation or of a fixed minimum percentage of Canadian ownership.[89]

It is important to recognize that FIRA, as merely one part of the response to the problem of foreign economic domination, does not supersede past "key sector" legislation.[90] Investors whose intended transaction is covered by specific key-sector legislation must meet the requirements of this legislation independently of FIRA. The ad hoc protection extended to certain "sensitive areas," such as the cultural field and indigenous technological development,[91] remains in the background to discourage foreign investment in these areas. The energy and non-renewable resource sectors in particular are now virtually immune to takeovers--even by foreign companies already in Canada--whether such expansion would be deemed "related" to their present activities or not.[92]

FIRA's regulatory scheme is less complex than its dense drafting would at first suggest. At its base is the distinction between investors who are, and those who are not, permitted to make investments in Canada free of scrutiny. Those who are not, are designated "non-eligible persons" (NEP) and it is to them that the regulatory scheme of the Act applies.[93] Such "persons," however, are not ineligible to invest; they are merely ineligible to invest without scrutiny.

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Even then, not all NEP investments are necessarily subject to review. In the case of proposed takeovers, the Act defines the degree of acquired "control" which makes a proposed investment reviewable.[94] Lesser "buying in" by an NEP escapes the process; the takeover of sufficient interest to "control" does not. When the proposed investment takes the form of launching a new venture, the NEP investor's project is subject to review only if the undertaking constitutes a "new business" which the applicant has not "previously carried on in Canada,"[95] or which is "unrelated" to the business the applicant is currently carrying on in Canada.[96]

While a proposed investment by an NEP that would achieve "control" over an existing Canadian enterprise or would establish a "new business" in Canada will thus be subject to review, such scrutiny is far from tantamount to exclusion. Of the takeovers examined by the Agency and Cabinet up to June 30, 1975, only 22 were rejected while 95 were approved.[97] In each case, the application is to be rejected only when the investor fails to satisfy the test that his new investment or takeover be of "significant benefit" to Canada.[98]

This criterion is the <u>sole</u> test of whether a foreign investment subject to review should be allowed or rejected. Deliberately, it is a test to be applied with flexible managerial and economic considerations, rather than strictly legalistic ones, in mind. Five factors will be taken into account in the evaluation:

(a) the effect of the acquisition or establishment on the level and nature of economic activity in Canada, including, without limiting the generality of the foregoing, the effect on employment, on resource processing, on the utilization of parts, components and services produced in Canada, and on exports from Canada;

(b) the degree and significance of participation by Canadians in the business enterprise or new business and in any industry or industries in Canada of which the business enterprise or new business forms or would form a part;

(c) the effect of the acquisition or establishment on productivity, industrial efficiency, technological development, product innovation and product variety in Canada;

(d) the effect of the acquisition or establishment on competition within any industry or industries in Canada; and

(e) the compatibility of the acquisition or establishment with national industrial and economic policies, taking into consideration industrial and economic policy

> objectives enunciated by the government or legislature of any province likely to be significantly affected by the acquisition or establishment.[99]

The principal objective of the broad, single standard was not, however, to discourage investors but to permit pragmatic flexibility in dealing with them on a case-by-case basis. It may seem at first that this flexibility allows so much discretion that firms in similar factual situations will not be able to tell if they will be treated similarly.[100] This may, however, be an excessively pessimistic view of the incidents of flexibility. As investments are reviewed and allowed, the grounds for approval have begun to be published,[101] perhaps eventually creating the basis for a case-by-case empirical jurisprudence to round out the inevitably broad categories of the statute and the guidelines. Meanwhile, the "significant benefit" standard, together with the procedures for pursuing an application, will lead to a bargaining relationship in which the investor and Canada negotiate with each other at arm's length and relatively free of fixed legal restraints.

Thus, it is believed that, in at least one instance, a major reason for the rejection of an application was that the investor unwisely indicated that he intended to finance his proposed takeover with borrowings from a Canadian bank. This would not, on its face, appear to be a business decision covered by the formal criteria for assessing "significant benefit." But any experienced Ottawa watcher knows that there is particular sensitivity to U.S. takeover of Canadian industry with Canadian funds--criteria or no criteria.

Since the review process is one of bargaining, the principles of negotiation familiar in labor and international negotiations apply. If the Agency has a bias, it tends to be against legal and in favor of business and economic expertise. The applicant, while well advised to have legal counsel in the preparation of his "case," must be prepared to negotiate not primarily on the basis of whether his application is or is not within such criteria as may exist, but rather on the basis of whether his proposal offers the best deal Canada is likely to get. He should be able to demonstrate the advantages he offers, his capacity to give effect to his undertakings, and the absence of comparable advantage obtainable from purely Canadian sources.

In one respect, FIRA seems to raise special problems of neighborliness. The Act subjects to review, and thus, potentially, to veto even purchases of a foreign-controlled corporation in Canada by another foreign-controlled corporation. Thus a merger or divestiture involving purely American business can be halted in its tracks if there happens to be a Canadian subsidiary, however small. There have already been instances of giant U.S. corporations taking the position that they would rather violate Canadian law than have a delicate merger founder while the Agency in Ottawa did its thing, perhaps over a period of as many as 3 to 6 months.

All this raises some questions of international comity and fairness, the more so in view of Canada's own sensibilities about similar unfairness by the United States. A private foreign shareholder or even a foreign business involved in a Canadian takeover, expansion, or the launching of a new business can no doubt reasonably be required to adjust to the Canadian public policy against further unregulated transactions of this sort. The equities of the situation are not quite so clear when Canada seeks to regulate the merger of two American corporations some of whose business operations happen to be in Canada. A still more troublesome case arises when such a merger is required by the home country of the merging corporations as a condition of continuing to do business (as, for example, when a government subsidy is preconditioned on "rationalization"). Even more difficult is the hypothetical situation in which a foreign corporation with a Canadian subsidiary is nationalized. The Act includes in its definition of NEP's "the government of a country other than Canada...or an agency of such a government,"[102] so that Ottawa has reserved for itself a veto over a foreign government's power to nationalize those of the assets of its corporations as are located in Canada. This right, however delicate its complications, is widely accepted in international law.[103] Although it is usually put in terms of the right of national courts not to give effect to a foreign expropriation of property outside its jurisdiction, the same discretion applies to the administrative process.

There is certainly room for improvement in the operation of FIRA which could be quickly gleaned from a methodical analysis of the complaints and suggestions of U.S. businessmen seriously trying to comply with the system. The preceding discussion of extraterritorial reach suggests that Canada needs to temper its legislation with a *de minimis* rule where the effect of a change in ownership is to leave a foreign-controlled industry--as distinguished from a Canadian one--in foreign hands and where that Canadian-located enterprise is small, either absolutely or in relation to the parent. There is also a problem about the speed with which applications are processed. A 60-day rule provides that an application shall be deemed approved if not disallowed within this time. But it contains a giant loophole for the government in that the process of bargaining is easily undertaken with the clock stopped. Perhaps the 60-day rule could be made absolute if Agency and Cabinet procedures could be streamlined. Faster decisions might be negative decisions, but business on the whole would prefer to take that chance. Finally, the Agency ought soon to be given power to proceed by rule making so that each instance does not appear as a case de novo and so that there would be more chance for self-appraisal of their prospects by potential applicants.

These are proposals that could be considered by Congress, the Commerce and State Departments and quiet representations could properly be made in Ottawa. There are many Canadian specialists in the field who agree with the need for these or comparable reforms.

The proposals, if any, should however be made in a context of understanding, if not support, for the Canadian objectives.

Unless one is wholly committed to the free play of market forces, there can be little quarrel with Canada's stated purpose of gaining a larger measure of control over the 34.2% of its corporate assets currently owned by foreign-controlled firms.[104] Even rabid advocates of laissez-faire are likely to conclude that the outcome of a policy of non-interference by the Government is fore-ordained: most Canadian industry of scale would in due course end up controlled by Americans.

If Canadians believe--and not all of them do--that shareholding and management are the indices of industrial control, then they must see to it that a substantial part of Canadian industry and business is owned by Canadian shareholders and controlled by Canadian directors. Oddly, this too is a comparatively laissez-faire approach, incorporating the challengeable proposition that shareholders' or directors' control is the key to industrial decisionmaking. Those who disagree would prefer to invoke the government's mandatory power directly in industry's decisionmaking process,[105] or would prefer outright government ownership as the device for gaining control over industrial policy.[106] The Canada Development Corporation (CDC) has already established direct government share-participation in businesses as the alternative option.[107] But even such stirringly flag-showing CDC undertakings as the "takeover" of Texasgulf, Inc., are vigorously sniped at by the Canadian business community, which is as reluctant as the American to welcome "government" into its boardrooms.[108]

FIRA represents an effort to gain a measure of control over the extent of foreign investment without intervening directly in the vast preponderance of foreign business which is not subject to review. In answer to a parliamentary question on October 18, 1974, the Prime Minister again reiterated that review would not soon be extended to investments in related industries by NEP's already in Canada, although these were ultimately contemplated.[109] Even when business is subject to review, FIRA seeks an accommodation through ground rules within which the business, if admitted, can operate day-to-day without further government intervention.

Indeed, FIRA is vulnerable to criticism exactly because of its minimalist, laissez-faire approach. It did not help, of course, that newspapers were able to report that the first eight applications under FIRA were all approved.[110] Even after the first four disapprovals had helped demonstrate that the Act could be a deterrent,[111] however, it could still be vehemently argued that FIRA is the wrong kind of control because it does nothing fundamental about creating a viable Canadian industrial establishment. Such viability, it is argued, requires the nationally planned reorganization of Canada's branch-plant economy, a consolidation of the small competing units of industry that now flourish in Canada into aggregations large enough to be able to afford their own research and development and compete on a global scale.[112] This kind of reorganization is deemed by some a more important step towards "gaining control of the national economy" than are steps to substitute Canadian for American shareholders and directors in the affairs of these suboptimal enterprises.[113]

FIRA has no such grand strategy and therefore represents a relatively gradualist approach. Nevertheless, it has become an important factor in American business planning. It is also an experiment worth watching for other reasons. If the world monetary imbalance leads to large-scale Arab investment in American business,[114] it is conceivable that some similar legislation might in the future be necessary to prevent excessive foreign ownership of American industry and to stem the influx of unwanted, inflationary oil dollars into the American economy and away from shakier European economies which need them. Some steps are already being taken. The Foreign Investment Study Act of 1974[115] directs the Secretary of Commerce and the Secretary of the Treasury to conduct "a comprehensive, overall study of foreign direct and portfolio investments in the United States."[116] At the hearing preceding the passage of this legislation, an official of the Department of Commerce noted that during 1973 foreign takeover bids in the U.S., both public tenders and private acquisitions, amounted to more than $1.5 billion, with an additional $566 million in foreign capital being put into new investments.[117] He observed, as did others who testified, that "takeovers and acquisitions of U.S. companies by foreign interests have aroused considerable attention and concern."[118] A dramatic manifestation of this concern was the recent reluctance of the Department of Defense to have Iran provide a loan in the form of accelerated progress payments to the Grumman Aircraft Corporation.[119] A loan package in which Iran's role was diluted later proved acceptable.[120]

FIRA, then, is Canada's experiment in dealing with a problem that could become endemic throughout the industrialized world as Petro-, bauxite and sugar dollars accumulate in the treasuries of resource-rich states with tiny populations and cause them to become major investors. This prospect should make Americans not only understanding of Canada's efforts toward economic self-determination, but interested parties in the success of her efforts.

Should the U.S. follow Canada's lead in processing all foreign investment and the expansion of foreign investment already here?

A recent analysis presented most of the relevant economic data on foreign investment in the U.S. and summarized the principal arguments for and against additional restrictions on foreign investment here.[121] The study was inspired by legislation introduced in 1973, by Representatives John Dent and Joseph Gaydos, "to amend the Securities and Exchange Act of 1934 to restrict persons who are not citizens of the United States from acquiring...more than 5 percentum of the voting securities of any issuer whose securities are registered under such Act..." The bill, which was not passed, is similar in purpose and wording to legislation now being debated in the Congress. The writers concluded that additional restrictions on foreign investment: (1) were unnecessary; (2) would provoke harmful retaliation by other nations; (3) would breach U.S. commitments embodied in treaties of friendship, commerce and navigation; and (4) would undermine U.S. commitment to the OECD Code of Liberalization of Capital Movements.

An argument could be made, however, challenging the conclusions drawn from this data. First, I believe it is doubtful that other nations would retaliate specifically against U.S. restrictions by raising their own barriers to foreign investment. Many nations already do restrict foreign investment. Moreover, Germany and Australia are considering further restrictions even without U.S. action. In the case of Australia, the legislation reflects a desire to exert more national control over the economy and over the development and exploitation of natural resources. In Germany, a principal motivation appears to be fear of further takeovers of major enterprises by the Middle East Oil States.

Second, I believe a sound argument could be made that restrictions are needed from a sociopolitical point of view, if not from an economic point of view. The presence of an enormous surplus of petrodollars clearly makes possible a type of investment in this country which it has not experienced before. In the past, most investment here by foreigners was provided by private interests. In addition, these funds were primarily drawn from nations with whom we enjoyed amicable political relations and shared cultural backgrounds. In contrast, the Middle East Oil States (or individuals who are virtually indistinguishable from the state) may, as governments, become large scale investors abroad. As the recent furor over "boycotting" has indicated, the policies of these states may not always be ones which we as a nation would condone.

The independence of the foreign investor has been said to be inimical to the stability of the U.S. economy, and to the preservation of national security. The following charges are frequently made: Foreign investors are more likely to close down a U.S. operation without concern for U.S. employees.[122] Foreign investors may let subsidiaries go bankrupt and refuse to satisfy excess debt, thereby damaging U.S. creditors.[123] Minority shareholders in a corporation acquired by foreign interests may be harmed if the foreign investor is a government entity which gives national interests priority over corporate profitability.[124] Suppliers of goods and services may also suffer from the foreigner's policy of buying from its nation of origin.[125] Finally, a foreign investor--especially if owned or controlled by a foreign government--might seek control of critical industries, or of an important sector of the economy, in order to be able to disrupt the U.S. economy or to use the threat of disruption to gain political leverage.[126]

But there are also balancing factors.

Actually most foreign direct investors are seeking profits, and their decision-making processes will consequently parallel those of U.S. investors with comparable goals.[127] Moreover, its activities within the United States bring the foreign investor within the reach of U.S. law. Regulatory enactments such as the National Labor Relations Act, the Sherman and Clayton Acts, and the Internal Revenue Code, as well as the common law of contracts, torts, and corporations, require foreign investors' U.S. companies to conform to the same standards of conduct imposed on U.S.-owned enterprises.[128] Jurisdiction over and service of process over a foreign-owned subsidiary rarely presents problems. And the foreign-owned corporation which does business within the U.S. is likely to have assets within this country which can be attached to satisfy adverse money judgments.[129]

At the national level, foreign investors generally enjoy the same freedom as domestic investors. However, certain federal restrictions are applied to specific sectors of the economy because of national defense, national resources or special trust considerations. The restricted sectors are communications, coastal and fresh water shipping, ownership of public land, mining on public lands, hydroelectric power, atomic energy, banking and government contracting.

In any event, even the possibility of very much more foreign investment here certainly suggests that more efficient methods of monitoring foreign investment in this country are a minimal requirement, whether or not monitoring generates data that suggests the need for restrictions and control beyond those already applicable. The dearth of reliable official data on the existing extent of foreign direct investment[130] in the U.S. suggests that legislation establishing a more efficient system of accurately monitoring foreign investment is a minimal requirement.[131] Such procedures are needed to provide the foundation for wise policymaking, as well as to measure the impact of any policy which may be adopted. The U.S. Department of Commerce currently does provide information on the book value of U.S. direct investment abroad and for foreign direct investments in the United States. The statistics are sufficient only to suggest the approximate levels of assets owned by foreigners. The statistics are prone to error because they are derived from old data bases: the last benchmark survey to determine the book value of foreign direct investment in the United States was conducted in 1959.[132] The statistics published annually by the Department of Commerce are merely extrapolations based on changes in the ownership positions of a small sample of the larger investors included in the original benchmark survey.[133]

The official U.S. statistics also omit some important sources of investment and change in value. For example, although 70% of foreign investment in this country is said to be portfolio investment, the most recent official study of the value of foreign portfolio investment was conducted in 1949.[134] Nor do the official statistics include assets purchased by a foreign investor with funds borrowed in this country if the loan is made in the name of the U.S. subsidiary rather than in the name of the foreign parent. Yet local borrowing is frequently used by multinational corporations to finance foreign investments.[135]

Finally, the figures for dollar values of assets held by foreign investors fail to measure accurately the value of assets controlled by foreign investors because they are "Book Value" figures only. Changes in facilities' value due to appreciation will not be reflected in the data.[136]

The Departments of Commerce and Treasury are now in the process of conducting a comprehensive study of foreign direct and portfolio investment in the U.S., as authorized by the Foreign Investment Study Act of 1974. The Act calls for an interim report to Congress in October, 1975. The final report, accompanied by appropriate recommendations, is scheduled for April, 1976. It is not unlikely that the data gathered in this study will portray a vastly different picture of foreign investment in the U.S. than that reflected in the Commerce Department data now available, which is marred by the distortions discussed above.

If the economic data, together with the sociopolitical factors outlined above, warrant some form of further government action, it ought certainly not to take the form of the Canadian FIRA legislation in toto because our legislation ought to be directed at quite different purposes and would operate under quite different circumstances. The United States is not now, nor is it even remotely likely to be mortgaged to foreign powers the way Canada is at present. What may be wanted, therefore, is not a nationalist solution designed to protect the right of U.S. investors to acquire control of a substantial part of U.S. industry--they have that now and probably always will have it. Rather, the objective ought to be to regulate the conduct of foreign investment by making the foreign investor accessible and amenable to U.S. control in all areas affecting legitimate U.S. interests. That means, initially, that we ought to know exactly who owns what. Beyond that, the normal laws which give jurisdiction to the U.S. in personam over U.S. investors ought to give criminal jurisdiction over the foreign owner, even if twice or thrice removed, by enforcement against his property. The Canadian FIRA precedent is quite useful both in defining "control" and in establishing jurisdiction and a procedure for divestiture. The legislation might also adopt aspects of the older Canadian "key-sector" approach to the extent that existing law does not already provide adequate protection.

S.425, introduced by Senator Harrison Williams, Jr. (D.,N.J.) seemed to me, subject to some amendments, to provide a viable draft for allaying valid concerns if the data confirms a sharp recent increase in direct foreign investment.

S.425 proposes the amendment of the Securities Exchange Act of 1934: (1) to require notification by foreign investors of proposed acquisitions of equity securities of U.S. companies; (2) to authorize the President to prohibit any such acquisition as appropriate for the national security, to further foreign policy or to protect the domestic economy of the U.S.; (3) to require an issuer of registered securities to maintain and file with the Securities and Exchange Commission a list of the names and nationalities of the beneficial owners of its equity securities.

S.425 defines the term "foreign investor" as:

(1) a natural person resident outside the United States;

(2) a company other than a U.S. company;

(3) a government of a country other than the United States, or a subdivision, agency or instrumentality of such a government;

(4) a U.S. company controlled by a person described in (1), (2) or (3) above;

(5) two or more persons acting in concert for the purpose of acquiring, holding, voting or disposing of securities, at least one of which is described in (1), (2), (3) or (4) above.[137]

The bill would require any "person"[138] acquiring the beneficial ownership of more than 5 percent of a class of registered securities to file the following prescribed information with the issuer of the security, the exchange where the security is traded and the Securities and Exchange Commission:

(1) the background, identity, residence and nationality of such person;[139]

(2) financial statements (which must be certified if required by the Commission) of such person;[140]

(3) the source and amount of the funds or other consideration used or to be used in making the purchase. In the case of funds borrowed, or otherwise obtained, for the purpose of acquiring the security, a description of the transaction and the parties thereto;[141]

(4) if the purpose of the purchases is to acquire control of the business of the issuer, any plans which the purchasers may have to liquidate the issuer, to sell its assets to or merge it with any other persons, or to make any other major change in its business or corporate structure;[142]

(5) the number of shares of such security which are beneficially owned, and the number of shares which are optioned, by such person

and by each associate of the person. Each associate's background, identity residence, and nationality must be stated;[143]

(6) the number of shares of the security with respect to which any person, other than the beneficial owner, possesses sole or shared voting rights. The background, identity, residence, and nationality of these persons must be stated;[144]

(7) information regarding any contracts or understandings with any person with respect to the securities of the issuer.[145]

The proposed amendments outlined above make only minor additions to the Securities and Exchange Act as it presently stands. First, the statute as presently enacted does not require financial statements to be included with the statement which must be final upon the acquisition of more than 5 percent beneficial ownership in any class of registered securities. Second, the current law requests only the "background and identity" of all persons by whom or on whose behalf the purchases have been made. S.425 additionally requests identification by residence and nationality.

However, the portions of S.425 which are summarized below do represent significant innovations.

The bill would require that the S.E.C. and the President be notified before any foreign investor could acquire 5 percent or more of any U.S. company which had total assets exceeding $1,000,000 on the last day of its most recent fiscal year.[146] At least 30 days prior to such acquisition, the foreign investor must file a statement with the S.E.C. containing the name of the U.S. company, the address of its principal officers, and such information required in the preceding disclosure provisions as the Commission may deem necessary or appropriate in the public interest.[147] This statement shall immediately be forwarded to the President. [The statement shall not, however, be publicly disclosed.] Within 30 days of the statement's filing, the President may prohibit the acquisition if he claims such action appropriate for the National Security, the further U.S. foreign policy, or to protect the domestic economy.[148] The President is authorized to prescribe the procedures applicable to the exercise of this authority, limited only by the requirements that "prompt notice shall be given of any exercise of such authority" and that such notice be accompanied by written reasons.[149] Violations of these provisions shall be penalized by the suspension of voting rights and forced sale of the securities.[150]

Finally, S.425 would require all holders of record of specified classes of securities to file reports with the issuer of such securities identifying by name, residence and nationality, the beneficial owner of those securities and any other person sharing the voting rights represented by such securities.[151] Issuers are required to file with the S.E.C. a "reasonably current" list of the identity, residence and nationality of the beneficial owners of the securities and the persons "possessing sole or shared authority" to exercise voting rights.[152]

Subsequent to the introduction of S.425, Sen. Williams, in amendment #24, added provisions to penalize foreign investors which have participated in economic boycotts against U.S. citizens. The amendment directs the President to prohibit acquisitions by any foreign investor which, within the year before filing its pre-acquisition statement, has "caused, or attempted, or conspired to cause" any person "not to do business with, to subject to economic loss or injury, or otherwise to discriminate against any U.S. company" because it (or an officer, director, employee, stockholder, or creditor thereof) is or has been supporting or dealing with any foreign government with which the United States has diplomatic relations, or any person resident, operating in, or dealing with, any country with whose government the United States has diplomatic relations.[153]

The President may also prohibit acquisitions by foreign investors which have "caused, or attempted, or conspired to cause any U.S. company with respect to its business in any country" to boycott any person because that person has dealt with any foreign government with which the United States has diplomatic relations or any person resident of or operating in such a country.

The Presidential mandate to prohibit proposed acquisitions does not extend to economic boycotts by "persons" resident or organized in a country where the "foreign investor" is the government or an agency, subdivision or instrumentality of the government.[154] The proposed act also would not apply to foreign investors "causing or attempting to cause" a U.S. company to discriminate with respect to its business in any country if the "foreign investor" is a foreign government and the "country" is one with which such government does not have diplomatic relations.[155]

The above exception was apparently included to avoid a Congressional challenge of the President's Constitutional mandate to conduct diplomatic relations. However, the exceptions create a significant loophole if the bulk of the petrodollars is in fact dispersed through government agencies and instrumentalities. The loophole would go unplugged so long as the Arab boycott of Jews and Jewish firms is couched in terms of sanctions against firms dealing with Israel, its avowed enemy.

Footnotes

[1]DEP'T OF EXTERNAL AFFAIRS, FOREIGN POLICY FOR CANADIANS (1970).

[2]*Id.* at 21.

[3]*Id.* at 20.

[4]Sharp, *Canada-U.S. Relations: Options for the Future*, INT'L PERSPECTIVES, Autumn 1972, at 1.

[5]*Id.*

[6]The new maple leaf flag, adopted by Parliament and proclaimed by Her Majesty the Queen, was inaugurated on February 15, 1965. Royal Proclamation of February 8, 1965, 99 Canada Gazette, pt. I, at 505 (1965). In the Throne Speech of September 30, 1974, HOUSE OF COMMONS DEBATES, 30th Parl., 1st Sess. 7 (1974), the Government promised legislation to provide Canada with an official national anthem.

[7]*See* note 60 *infra*.

[8]Canadians purchasing advertising space in foreign periodicals directed at the Canadian market may not claim the expense as a deduction for income tax purposes. An Act to amend the Income Tax Act, 19-20-21 Eliz. 2, c. 63, § 19(1)(1971).

[9]*See, e.g.*, CRTC Decision No. 73-396, 107 Canada Gazette, pt. I, at 2642 (1973); CRTC Decision No. 73-395, 107 Canada Gazette, pt. I, at 2637 (1973); CRTC Decision No. 72-364, 107 Canada Gazette, pt. I, at 73 (1972).

[10]*See* text accompanying note 76 *infra*.

[11]A Canadian export tax of $5.20 per barrel brought the Chicago price of Canadian oil (including transportation) in September 1974 to $12.50 per barrel--one of the highest oil prices in the world. N.Y. Times, Sept. 28, 1974, at 35, col. 7, 40, col. 4. The Petroleum Administration Act, Bill C-32, 30th Parl., 1st Sess. (1975), which empowers the Government to raise the levy to $8.00, *id.* § 7(1), recently was passed by the House of Commons. HOUSE OF COMMONS DEBATES, 30th Parl., 1st Sess. 5350-51 (1975).

[12]In September 1974, Canada raised the price of Canadian natural gas to American consumers from 60¢ per 1000 cubic feet to $1.00. N.Y. Times, Sept. 28, 1974, at 35, col. 7. By contrast, on October 25, 1974, the National Energy Board announced

that permission had been given to Trans-Canada Pipelines, Ltd. to double the Canadian price of western natural gas sold in eastern Canada to an average of 44.51 cents per 1000 cubic feet. Id., Oct. 26, 1974, at 48, col. 1.

[13]Arctic Waters Pollution Prevention Act, CAN. REV. STAT. c. 2 (Supp. 1, 1970); see Bilder, The Canadian Arctic Waters Pollution Prevention Act: New Stresses on the Law of the Sea, 69 MICH. L. REV. 1, 11-12 (1970).

[14]G. BALL, THE DISCIPLINE OF POWER 113 (1968).

[15]See Wahn, Toward Canadian Identity--The Significance of Foreign Investment, 11 OSGOODE HALL L.J. 517, 527 (1973).

[16]See W. POPE, THE ELEPHANT AND THE MOUSE: A HANDBOOK ON REGAINING CONTROL OF CANADA'S ECONOMY (1971) (including an extensive annotated bibliography), at 17.

[17]See K. LEVITT, SILENT SURRENDER: THE MULTI-NATIONAL CORPORATION IN CANADA (1970) at 66 (the figures are based on the book value of the assets).

[18]See POPE, supra note 16, at 15.

[19]The prime source for background on the nature and history of foreign investment in Canada is FOREIGN DIRECT INVESTMENT IN CANADA (1972) [hereinafter DIRECT INVESTMENT], at 15.

[20]LEVITT, supra note 17, at 68.

[21]DIRECT INVESTMENT, supra note 19, at 15.

[22]ELEVENTH REPORT OF THE STANDING COMM. ON EXTERNAL AFFAIRS AND NATIONAL DEFENCE RESPECTING CANADA-U.S. RELATIONS, 28th Parl., 2d Sess. §3.01 (1970) [hereinafter WAHN REPORT].

[23]Wahn, supra note 15, at 530.

[24]Id.

[25]WAHN REPORT, supra note 22, § 3.14; see LEVITT, supra note 17, at 135.

[26]This was also the case before the First World War; in the inter-war years, U.S. investment was nearly equally divided between portfolio and direct forms, with a slight preference for portfolio. See LEVITT, supra note 17, at 66.

[27]See DIRECT INVESTMENT, supra note 19, at 15.

[28]See id.

[29]*Id.*

[30]For a discussion of the "hinterland" analogy, see LEVITT, *supra* note 17, at 71-113.

[31]*See* DIRECT INVESTMENT, *supra* note 19, at 115-33, 153-211.

[32]*Id.* at 6.

[33]H. ENGLISH, INDUSTRIAL STRUCTURE IN CANADA'S INTERNATIONAL COMPETITIVE POSITION 40 (1964). The term "Miniature Replica Effect" is adopted in DIRECT INVESTMENT, *supra* note 19, at 219-21.

[34]Note, *The Canadian Foreign Investment Review Act: Red, White and Gray*, 5 LAW & POLICY IN INT'L BUS. 1018, 1023-24 (1973) [hereinafter Note, FIRA].

[35]50 U.S.C. APP. §§ 1-44 (1970).

[36]Shifts in U.S. trade policies, notably concerning China and the USSR, suggest that this will become a less visible issue. The problem, however has not been by any means eliminated. A proposed sale of 25 locomotives to Cuba by MLW-Worthington, Ltd. of Montreal generated renewed Canadian anxiety about the Trading with the Enemy Act. The only American director present for voting on the sale opposed it, although he was outvoted by MLW's nine Canadian directors. N.Y. Times, Mar. 9, 1974, at 35, col. 3, 38, col. 4. Further concern was generated by the initial refusal of Litton Industries to allow its Canadian subsidiary to proceed with a $500,000 sale of office furniture to Cuba. This incident was characterized by Minister Gillespie of the Department of Industry, Trade and Commerce as an "intolerable interference" by an American company into the affairs of its Canadian subsidiary. Montreal Star, Dec. 26, 1974, at A-1, col. 1. Litton, however, had not sought formal U.S. government approval for the sale, and it subsequently received an export license permitting the sale. *See* N.Y. Times, Feb. 15, 1975, at 11, col. 5. The U.S. government later granted a license to Acco International to permit a similar sale of office equipment to Cuba. *See also* Minutes of Proceedings and Evidence of the House of Commons Standing Committee on Finance, Trade and Economic Affairs [hereinafter House Finance Committee Minutes], 29th Parl., 1st Sess., Issue 29, at 33-34 (1973). Legislation has been proposed which would respond to these Canadian concerns by making it illegal for any Canadian company, whether or not foreign owned, to follow foreign laws if Canadian foreign trade might be affected. Montreal Star, Dec. 26, 1974, at A-2, col. 1.

[37]It is not clear, however, that the effects of U.S. antitrust rulings are in fact onerous. *See* I. LITVAK, C. MAULE & R. ROBINSON, DUAL LOYALTY: CANADIAN-U.S. BUSINESS ARRANGEMENTS (1971), at 26-28.

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[38]See HOUSE OF COMMONS DEBATES, 29th Parl., 1st Sess. 7525 (1973) (remarks of Lorne Nystrom); id. at 7978 (remarks of Paul E. McRae); Globe and Mail (Toronto), Oct. 17, 1973, at B4, col. 1.

[39]There was a substantial decline from 1973 levels in the overall trade surplus for the first seven months of 1974 (C$416,000,000 for 1974 vs. C$1,183,300,000 for 1973). Statistics Canada (daily), Aug. 23, 1974, at 3. A trade deficit with the U.S. of C$99,000,000 through July 1974 reflects the high level of Canadian imports; exports to the U.S., rising at a slower rate currently, remain predominantly resource materials, outside of automobile and parts deliveries.

[40]LEVITT, supra note 17, at 127.

[41]Id.

[42]Agreement Concerning Automotive Products Between the Government of the United States of America and the Government of Canada, Jan. 16, 1965, [1966] 1 U.S.T. 1372, T.I.A.S. No. 6093.

[43]LEVITT, supra note 17, at 127-28.

[44]See Wahn, supra note 15, at 531.

[45]See LITVAK, MAULE & ROBINSON, supra note 37, at 8; POPE, supra note 16, at 117.

[46]4 Edw. 7, c. 32, § 5 (1904). By 1919, the requirement had been amended to its present form: "A majority of the directors shall be British subjects, unless the Governor in Council otherwise permits." Railway Act of 1919, 9-10 Geo. 5, c. 68, § 113(3) (now CAN. REV. STAT. c. R-2, § 53(3) (1970)).

[47]See Watkins, Preface to LEVITT, supra note 17, at x. This tariff structure, however, is now blamed for encouraging American branch plants. Watkins charges Macdonald and his backers with being "all too conscious of what was happening." Id.

[48]POPE, supra note 16, at 118.

[49]Feltham & Rauenbusch, Economic Nationalism, in CANADIAN PERSPECTIVES ON INTERNATIONAL LAW AND ORGANIZATION 903 (R. MacDonald, G. Morris & D. Johnston eds. 1974).

[50]On December 31, 1969, 63.89% of the voting rights of CPR's ordinary and preferred shares were held in Canada, 16.03% were held in the United States and 13.52% were held in the United Kingdom and other Commonwealth countries. 1969 CANADIAN PACIFIC ANNUAL REPORT 13.

[51]The regulation of motor carriers is currently delegated to provincial governments. Motor Vehicle Transport Act, CAN. REV. STAT. c. M-14, § 3 (1970). Provincial regulations vary.

[52]National Transportation Act, CAN. REV. STAT. c. N-17, § 27 (1970).

[53]See Feltham & Rauenbusch, supra note 49, at 903-04. But see Kenosha Auto Transport Corp., Canadian Transport Comm'n Decision MV-20-15 (Mar. 23, 1971).

[54]Aeronautics Act, CAN. REV. STAT. c. A-3, § 14(e), (f), (1) (1970); see Air Carrier Regulations, SOR/72-145, §§ 19-20, 106 Canada Gazette, pt. II, at 720 (1972).

[55]Feltham & Rauenbusch, supra note 49, at 904.

[56]Id.

[57]15-16 Geo. 6, c. 6, § 7(1) (1951).

[58]Broadcasting Act of 1967-68, 16-17 Eliz. 2, c. 25, § 2(b) (codified at CAN. REV. STAT. c. B-11, § 3(b) (1970)).

[59]SOR/69-590, 103 Canada Gazette, pt. II, at 1695 (1969), as amended by SOR/71-33, 105 Canada Gazette, pt. II, at 86 (1971).

[60]One regulation requires that at least 60% of television programming between the hours of 6 a.m. and midnight be Canadian. SOR/71-558, 105 Canada Gazette, pt. II, at 1858 (1971). An amendment to this regulation allows holders of private licenses to show 50% non-Canadian programming between 6 p.m. and midnight. SOR/72-242, 106 Canada Gazette, pt. II, at 992 (1972).

[61]Concern was first prompted by a non-American acquisition, the Swiss takeover of the Continental Insurance Company in 1955. See Arnold, Restrictions on Foreign Investment in Canadian Financial Institutions, 20 U. TORONTO L.J. 196, 198-99 (1970).

[62]6 Eliz. 2, c. 11, § 2 (1957) (codified at CAN. REV. STAT. c. I-15, § 6(4) (1970)).

[63]6 Eliz. 2, c. 11, § 3 (1957) (codified at CAN. REV. STAT. c. I-15, § 17 (1970)).

[64]13-14 Eliz. 2, c. 40, § 3 (1965) (codified at CAN. REV. STAT. c. I-15, §§ 18-22 (1970)).

[65]13-14 Eliz. 2, c. 40, §38 (1965) (codified at CAN. REV. STAT. c. L-12, §§ 44-48 (1970)).

[66]13-14 Eliz. 2, c. 40, §30 (1965) (codified at CAN. REV. STAT. c. T-16, §§ 37-41 (1970)).

[67]While the initiative at the federal level to screen foreign direct investment remains to be constitutionally reconciled with the powers of the provinces over companies incorporated or

domiciled in their jurisdictions, there seems little doubt concerning the status of such federal legislation with respect to companies which are federally incorporated. For the affirmation of the implied federal power of incorporation of companies with other than purely "provincial objectives," British North America Act of 1867, 30 & 31 Vict. c. 3, §92(11), see Great West Saddlery Co. v. The King, [1921] 2 A.C. 91, 58 D.L.R. 1 (P.C.); John Deere Plow Co. v. Wharton, [1915] A.C. 330, 18 D.O.R. 353 (P.C. 1914). See also MacNab, Constitutionality of Federal Control of Foreign Investment, 23 U. TORONTO FAC. L. REV. 95 (1965).

[68]Bank Act, 3-4 Geo. 5, c. 9, § 20(3) (1913).

[69]Bank Act, 14-15-16 Eliz. 2, c. 87, §§ 18(3), 53(1) (1967) (codified at CAN. REV. STAT. c. B-1, §§ 18(3), 53(1) (1970)).

[70]See Arnold, supra note 61, at 205.

[71]See id. at 209.

[72]Canada Mining Regulations, SOR/61-86, § 45(2), 95 Canada Gazette, pt. II, at 321 (1961), as amended by SOR/62-249, §20, 96 Canada Gazette, pt. II, at 741 (1962), and by SOR/66-80, 100 Canada Gazette, pt. II, at 223 (1966).

[73]Canada Oil and Gas Regulations, SOR/60-182, § 32(3), 94 Canada Gazette, pt. II, at 498 (1960).

[74]Northern Mineral Exploration Assistance Regulations, SOR/66-404, § 3(2)(b), 100 Canada Gazette, pt. II, at 1243 (1966), as amended by SOR/67-584, § 2(2), 101 Canada Gazette, pt. II, at 1817 (1967).

[75]Feltham & Rauenbusch, supra note 49, at 901-02.

[76]See id. at 893, 897.

[77]An Act to amend the Income Tax Act, 9-10 Eliz. 2, c. 17, § 6 (1961).

[78]An Act to amend the Income Tax Act, 12 Eliz. 2, c. 21, §§ 23(3), 28(1) (1963).

[79]An Act to amend the Income Tax Act, 13 Eliz. 2, c. 13, § 20(1) (1964).

[80]See 3 CCH CANADIAN TAX REP. ¶ 26,035 (1974). The United States and Canada have a reciprocal tax agreement which limits taxes on nonresidents to 15%. Convention and Protocol Between the United States of America and Canada Respecting Double Taxation, Mar. 4, 1942, art. xi(1), 56 Stat. 1399, T.S. No. 983.

[81]HOUSE OF COMMONS DEBATES, 26th Parl., 1st Sess. 1006 (1963).

[82]Id. at 1321, 1497. See also POPE, supra note 16, at 124.

[83]An Act to amend the Income Tax Act, 19-20-21 Eliz. 2, c. 63, § 125 (1971).

[84]An Act to amend the Income Tax Act, 14 Eliz. 2, c. 18, § 4 (1965).

[85]108 Canada Gazette, pt. II, at 1533 (1974).

[86]On July 18, 1975, Minister Gillespie announced in Parliament that the second phase of the Act will come into force on October 15, 1975. N.Y. Times, July 19, 1975, at 33, col. 1; HOUSE OF COMMONS DEBATES, 30th Parl., 1st Sess. 7712 (1975). Gillespie stated that the three-month lead time is intended "to avoid disruption in investment plans which are now being developed." Id. He further noted that investments which are "under way" on October 15th are not reviewable "to the extent that they are established businesses," even if they are not "fully operational" by that date. Id.

[87]Preliminary figures put the increase in book value of U.S. assets in Canada at the end of 1972 at 7% over the 1971 level. Reinvested earnings accounted for nearly $1.4 billion of the $1.7 billion increase; the remainder is accounted for by net capital outflows from the U.S. to Canada. The manufacturing sector, which now represents 45% of the book value of U.S. investment, and is financed to the extent of 75% by reinvested earnings, was responsible for most of this increase. The petroleum industry saw a $2 million net deficit in U.S. capital outflows, but the book value of U.S. petroleum investment grew by $200 million, due to reinvested earnings. Globe and Mail (Toronto), Oct. 17, 1973, at B4, col. 1.

[88]HOUSE OF COMMONS DEBATES, 30th Parl., 1st Sess. 515 (1974).

[89]In its flexibility, the screening procedure is not unlike the ad hoc screening of foreign investments in several European countries. See W. DIEBOLD, THE UNITED STATES AND THE INDUSTRIAL WORLD: AMERICAN FOREIGN ECONOMIC POLICY IN THE 1970s (1972), at 194-96. Similarly, recent proposals before the Japanese Diet would open up new opportunities for foreign investment; in all but a few key industries, foreign ownership, up to 100%, would be permitted, and government review would occur in only a handful of cases. TIME, May 7, 1973, at 79.

By contrast, the 1973 Mexican screening legislation, the Law to Promote Mexican Investment and to Regulate Foreign Investment, DIARIO OFICIAL, Mar. 9, 1973, 12 INT'L LEGAL MATERIALS 643 (1973), which was framed after a careful study of the Gray Report and the 1972 Canadian Takeovers Bill, does impose fixed minimum percentages of ownership. Id. art. 5. The National Commission on Foreign Investment can, however, alter the general Mexican majority ownership requirement in specific cases. Id. While the economic histories of Canada and Mexico are sharply divergent, in some respects both countries have faced similar foreign investment problems, and, most particularly, have set about solving similar drafting and conceptual problems in working towards a regime to regulate foreign direct investment. This similarity in the laws suggests profitable comparative study.

It was a puckish twist of fate which scheduled the opening of debate on the motion for the second reading of the FIRA on the same date that Parliament was addressed by President Luis Echeverria of Mexico. See HOUSE OF COMMONS DEBATES, 29th Parl., 1st Sess. 2797 (1973). Echeverria described the Mexican legislation as having been aimed at the "restriction, orientation or, if necessary, encouragement of capital flow to adjust it to our own objectives of development." Id. at 2802. He also discussed the law screening licensing, patent and trademark agreements. Id. at 2804-05. These remarks fell on unusually receptive ears.

[90] See FIRA § 5(3).

[91] See HOUSE OF COMMONS DEBATES, 29th Parl., 1st Sess. 8926 (1973) (remarks of Alastair Gillespie).

[92] See pp. 96-97 & DIRECT INVESTMENT, supra note 19, at 503-17.

[93] See FIRA §8.

[94] Id. § 3(3)(a)-(d).

[95] Id. §§ 3(1), 8(2)(a).

[96] Id. § 8(2)(b).

[97] Foreign Investment Review Agency News Release, July 18, 1975, at 2.

[98] FIRA § 2(2).

[99] Id.

[100] See Western, Stiffening the Takeover Mix, Vancouver Sun, Jan. 26, 1973, at 6, col. 3.

[101] See, e.g., Department of Industry, Trade and Commerce, News Release No. 62/74, Significant Benefits Negotiated: Brunswick Acquires Ozite (Aug. 9, 1974) [hereinafter Release No. 62/74].

[102] FIRA § 3(1).

[103] See L. OPPENHEIM, INTERNATIONAL LAW 269-70 n. 1 (8th ed. 1955).

[104]DIRECT INVESTMENT, *supra* note 19, at 17-18.

[105]*See* Feltham & Rauenbusch, *supra* note 49, at 895-96.

[106]*See* McMillan, *After the Gray Report: The Tortuous Evolution of Foreign Investment Policy*, 20 McGILL L.J. 213, 214 (1974).

[107]*See* Couzin, *The Canada Development Corporation: A Comparative Appraisal*, 17 McGILL L.J. 405 (1971).

[108]*See* Meyer, *The CDC Bid for Texasgulf: Bold, Yes: Inept, Too*, 15 EXECUTIVE, Sept. 1973, at 15. CDC intends eventually to offer shares on the open market, thereby somewhat diluting its "government image."

[109]HOUSE OF COMMON DEBATES, 30th Parl., 1st Sess. 515 (1974).

[110]The first eight applications, which were approved, were: Acquisition of Control of National Grain Ltd., National Feeds and Livestock Ltd., Mighty Peace Grain Ltd. and Bosco and Bower Ltd. by Cargill Grain Co. Ltd., 108 Canada Gazette, pt. I, at 2405 (1974); Investment in Financial Life Assurance Co. by American General Insurance Co., 108 Canada Gazette, pt. I, at 2747 (1974); Acquisition of Control of Dunlop Canada Ltd. by Firestone Tire and Rubber Co. of Canada Ltd., 108 Canada Gazette, pt. I, at 2780 (1974); Acquisition of Control of Holmes Insulations Ltd. by Babcock & Wilson Refractories Ltd., 108 Canada Gazette, pt. I, at 2780 (1974); Investment in Curb Enterprises Ltd. by Memrad Holdings Ltd., 108 Canada Gazette, pt. I, at 3076 (1974); Acquisition of Control of Pacer Trailer Manufacturing Ltd. by Royal Industries Inc., 108 Canada Gazette, pt. I, at 3158 (1974); Acquisition of Control of Ozite Corp. of Canada Ltd. by Delaware Brunswick Corp., 108 Canada Gazette, pt. I, at 3158 (1974); Acquisition of Control of Mulder (Canada) Ltd. by Suntract Manufacturing Ltd., 108 Canada Gazette, pt. I, at 3551 (1974).

[111]The first four proposals disallowed by the Foreign Investment Review Agency were: Sale of Canada Forgings Ltd. to Taylor Forge Ltd., a subsidiary of Gulf and Western Industries, Inc., Toronto Star, Nov. 1, 1974, at 1, col. 8; Sale of Canadian Porcelain Ltd. to Canadian Ohio Brass Ltd., a subsidiary of Ohio Brass, Inc., Toronto Star, Nov. 1, 1974, at 1, col. 8; Acquisition of Control of the Trailer Division of GSW Ltd. by Brydon Brass Manufacturing Co., a subsidiary of International Telephone and Telegraph Corp., Wall St. J., Nov. 12, 1974, at 38, col. 4; Acquisition of Control of Fraser Art Supplies Ltd. by Loomis & Toles Co., a subsidiary of Letraset International Ltd., Wall St. J., Nov. 12, 1974, at 38, col. 4.

[112]*See* McMillan, *supra* note 106, at 253-54. A suggested model is Britain's Industrial Expansion Act 1968, c. 32, *as amended* by Industry Act 1971, c. 17.

[113]*See*, *e.g.*, McMillan, *supra* note 106, at 258-60.

[114]Cf. Arabs Buy Into Canada by the Billions, Toronto Star, Oct. 19, 1974, at 1.

[115]Pub. L. No. 93-479, 88 Stat. 1450 (1974).

[116]Id. § 2.

[117]Hearing on Foreign Investments in the United States Before the Subcomm. on Foreign Commerce and Tourism of the Senate Comm. on Commerce, 93d Cong., 2d Sess. 32-33 (1974).

[118]Id. at 32.

[119]Grumman, having lost its commercial credit, made a deal with the Navy whereby the Defense Department would make progress payments to the company on an accelerated schedule. These progress payments were for planes which Grumman was making under contract with the Navy to satisfy a contract which the Defense Department had made with Iran. (Thus Grumman was really the subcontractor and the Defense Department the primary contractor with Iran. This is the standard method by which military equipment is sold to foreign nations). Iran offered to Grumman--and Grumman proposed to the Defense Department--accelerated progress payments by Iran to the Defense Department which the Department could then pass on to Grumman. The Department rejected this idea and said it would continue making its own advance payments instead. However, at about the same time (mid-August 1974) the Senate prohibited the granting of the advance credit line to Grumman. Thus, Grumman was forced into the commercial credit market again. See Wall St. J., Aug. 19, 1974, at 8, col. 1; id. Oct. 4, 1974, at 19, col. 3.

[120]Several weeks after having again to resort to commercial credit, Grumman made a deal for a $200 million credit of which $75 million was a subordinated term loan from Bank Melli Iran and the other $125 million was an unsecured line of credit from a U.S. consortium. Id., Oct. 4, 1974, at 19, col. 3.

[121]"The Rising Tide of Reverse Flow: Would a Legislative Breakwater Violate U.S. Treaty Commitments?", 72 Mich. L. Rev. 551 (1974.

[122]Id. at 554.

[123]Id. at 555.

[124]Id.

[125]Id.

[126]Id. at 556.

[127]*Id.*

[128]*Id.* at 557.

[129]Hearings on S.2840 before the Subcommittee on Foreign Commerce and Tourism of the Senate Comm. on Commerce, 93d Cong., 2d Sess., at 190 (1974).

[130]The conceptual distinction between direct and portfolio investment is based on control. "Direct investment," denotes the ownership of sufficient equity to constitute control of an enterprise. "Portfolio investment" is ownership which is not accompanied by control. The percentage of ownership required to accomplish "control" of a company will vary according to the financial structure of the concern. If a business has only a handful of shareholders, perhaps as much as 25% to 40% of the stock must be acquired before control is assured. In contrast, as little as 5% of the outstanding shares of a widely held public corporation may confer control. Therefore, when distinguishing "direct investment" from passive "portfolio investment," legislation necessarily draws an arbitrary line. The U.S. Department of Commerce statistics use 25 percent foreign ownership of the voting stock as the cut-off line between direct and portfolio investment, in the case of foreign investment in the U.S. In the case of U.S. investment abroad, 10 percent is the line drawn.

[131]Hearings on Foreign Investment in the United States before the Subcommittee of Foreign Economic Policy of the House Committee on Foreign Affairs, 93d Cong., 2d Sess., Appendix 5, at 397 (Jan. 28, Feb. 5 & 21, 1974).

[132]*Id.* at 398.

[133]*Id.* at 399.

[134]*Id.* at 400.

[135]*Id.*

[136]*Id.*

[137]S.425, 94th Cong., 1st Sess., § 2(c) (1975).

[138]In the proposed Act the term "person" means a natural person, company, government, or political subdivision, agency, or instrumentality of a government. *Id.*

[139]*Id.* § 3(a).

[140]*Id.*

[141]*Id.*

[142]Id.

[143]Id.

[144]Id.

[145]Id.

[146]Id. § 3(b).

[147]Id.

[148]Id.

[149]Id.

[150]Id. § 5.

[151]Id. § 4.

[152]Id.

[153]Amendment 24, S.425, 94th Cong., 1st Sess. (March 3, 1975).

[154]Id.

[155]Id.

DEPARTMENT OF STATE

Washington, D.C. 20520

FEB 6 1976

Honorable Gillis W. Long
Chairman, Subcommittee on Inter-American
Economic Relationships
Joint Economic Committee
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

During the hearings on January 27 before the Subcommittee on Inter-American Economic Relationships concerning Canadian policy with regard to foreign investment, you asked that I provide the Committee with information on Canadian investment in the United States. The information that follows is in response to that request.

As you undoubtedly know, no complete inventory of foreign investment in the United States is available, and this applies to Canadian investment as well as that from other countries. However, in October, 1975, interim reports were prepared by the Department of Treasury and Commerce on foreign portfolio and direct investment, respectively. These reports contain substantial information concerning Canadian investment.

In connection with its report to the Congress, the Treasury Department completed a bench mark survey of foreign portfolio investment in the United States as of the end of 1974. The survey revealed approximately $72.7 billion in foreign holdings of portfolio investment on the basis of which Treasury estimated that total foreign holdings likely amounted to $80-$85 billion. Thus, the figures included in the survey pertaining to Canadian investment which I set out below probably represent 80-90 percent of total Canadian portfolio investment.

The Treasury survey shows Canadian portfolio investment at the end of 1974 to be $11.8 billion in the aggregate or 15.4 percent of all such foreign investment reported. Only Germany ($14.0 billion) and Switzerland ($11.7 billion) account for higher investment totals. Of the Canadian total, $8.29 billion is in the hands of private holders and $2.89

billion is in the hands of official holders (e.g. central banks). Canadian portfolio investment in the United States is comprised of $4.072 billion in equity securities, all but $10 million of which is in the hands of private holders; and $7.117 billion in bonds and long-term debt, of which $4.228 billion is privately held and $2.889 billion by official holders.

With regard to direct Canadian investment in the United States, as in the case of foreign portfolio investment, only partial and preliminary data is available--in this case from a bench mark survey completed by the Department of Commerce. This survey is included in the interim report to Congress of October, 1974, and, does provide some measure of the aggregate and direction of Canadian direct investment. As I noted in my testimony before the Subcommittee, total foreign direct investment in the United States at the end of 1974 is estimated at $21.7 billion of which $4.8 billion or 22 percent comes from Canada. Only Great Britain, with 28 percent of the total, accounted for a larger share. From the perspective of U.S.-Canadian relations, in which foreign investment in both directions has an important influence, it is valuable to bear in mind that on a per capita basis Canadian direct investment in the United States is higher than U.S. direct investment in Canada. Moreover, I understand that the United States is the favored site for Canadian foreign investment with more than 50 percent of direct investment from Canada placed in our country.

Additional detail regarding Canadian direct investment in the United States is summarized and consolidated in an article published by the Department of Commerce in the October, 1975 Survey of Current Business. A copy of that article is enclosed. Of interest are the figures showing net capital inflows of direct investment from Canada for the period 1971-74, by sector. A summary breakdown is as follows:

Net Capital Inflows of Foreign Direct Investment From Canada 1971-74, by Industry (Millions of Dollars)

Petroleum	-	139
Manufacturing	-	518
Insurance and Other Finance	-	96
Other	-	453
TOTAL	-	1,206

Comprehensive data on Canadian ownership in specific industries and of individual companies has not been found. You may, however, be interested in the following report of significant foreign investment transactions which occurred in 1974 and the first nine months of 1975. The report is taken from the interim report to Congress of last October by Commerce.

"The acquisition of ESB Inc. by International Nickel was the single largest investment by a Canadian company and one of the three largest of those identified. Also the Canadian Development Corporation finalized a sizable interest in Texasgulf Inc. in early 1975. Subsidiaries of MacMillan Bloedel and Noranda Mines, two Canadian companies in resource-related industries, expanded. Steel Service Company was acquired by Azcon Company, a U.S. subsidiary of a Canadian firm which in turn is controlled by Consolidated Gold Fields Ltd. (British). Thomson Newspapers, which has controlling interests in a number of local U.S. newspapers, added another. Loblow's acquired National Tea, and Paul Masson Vineyards Inc., which has Canadian investment interest (Seagrams), expanded operations."

I hope that the above information will satisfy your needs. If I can be of any further assistance, please let me know.

Sincerely,

Richard D. Vine

Richard D. Vine
Deputy Assistant Secretary
for European Affairs

Enclosure:

As stated

By IDA MAY MANTEL

Foreign Direct Investment in the United States in 1974

MAJOR developments related to foreign direct investment in the United States in 1974 were:

(1) The foreign direct investment position in the United States rose $3.5 billion, to $21.7 billion.[1] The 19 percent increase was less than the 23 percent increase in 1973.

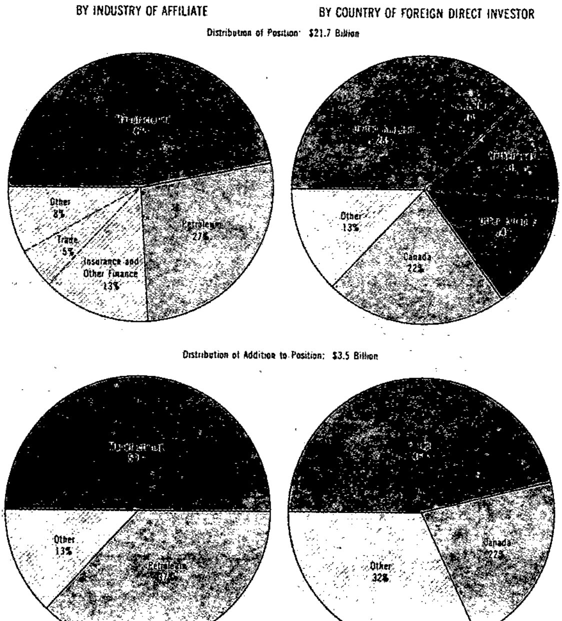
(2) Adjusted earnings—the return on the investment position—were $7.0 billion, compared with $2.0 billion in 1973.

(3) Income paid on direct investment, as measured for balance of payments purposes, was $5.4 billion, compared with $1.0 billion in 1973.

These developments were strongly influenced by the transactions of a large U.S.-incorporated petroleum company with a Middle East country that obtained participation in the company in 1973. The participation payment was treated, for balance of payments purposes, as a net capital inflow on foreign direct investment in the United States. In addition, for 1973 and 1974, BEA made imputations to income payments, to earnings, and to net capital inflows on intercompany account.[2] Excluding these unusual transactions, the increase in the direct investment position was approximately 16 percent in each year.

The earnings of the above-mentioned petroleum company in 1974 accounted for nearly 75 percent of the earnings of all affiliates, and for nearly all the extraordinary increases in reinvested earnings, adjusted earnings, and balance of payments income of all affiliates. In addition, the very high dividend payout ratio of the petroleum company dominates the ratio for all affiliates.

Foreign Direct Investment in the United States, 1974



U.S. Department of Commerce, Bureau of Economic Analysis

75-10-14

1. The position is the value of foreign parents' net equity in, and outstanding loans to, U.S. affiliates at yearend.

2. An explanation of BEA's imputations to balance of payments accounts was provided in "U.S. Balance of Payments Developments: First Quarter 1974," SURVEY OF CURRENT BUSINESS, June 1974, p. 28.

NOTE.—Gregory G. Fouch prepared the estimates and made a significant contribution to the analysis.

The direct investment position

The 1974 increase in the foreign direct investment position in the United States consisted of net capital inflows of $2.2 billion, reinvested earnings of $1.6 billion, and valuation adjustments of −$0.3 billion.[3] By area of location of investor, 22 percent of the addition to the position was accounted for by Canada, 46 percent by Europe, and 32 percent by all other areas combined (table 1 and chart 1).

The position of Canada rose 19 percent, to $4.8 billion; both net capital inflows from Canada and reinvested earnings of Canadian-owned U.S. affiliates showed large increases. The position of Europe increased 13 percent, to

3. The major valuation adjustments are capital gains and losses not carried through the affiliate's income account, and the difference between the market value and book value of transactions in the affiliate's equity shares by the foreign parent with persons other than the affiliate.

Table 1.—Foreign Direct Investment Position in the United States, 1972–74, Area by Industry

[Millions of dollars]

Area and industry	Position, yearend [1] 1972 r	Addition in 1973 r				Position, yearend [1] 1973 r	Addition in 1974 p				Position, yearend [1] 1974 p
		Total	Net capital inflows	Reinvested earnings	Valuation adjustments		Total	Net capital inflows	Reinvested earnings	Valuation adjustments	
All areas	14,868	3,417	2,656	1,025	−265	18,284	3,461	2,224	1,554	−316	21,746
Petroleum	3,272	1,377	1,120	257	0	4,649	1,279	649	562	67	5,928
Manufacturing	7,262	1,297	748	464	85	8,559	1,745	1,010	717	19	10,305
Other	4,333	743	788	304	−349	5,076	437	564	274	−402	5,513
Canada	3,466	578	386	203	−11	4,044	762	489	304	−31	4,806
Petroleum	243	53	19	34	0	296	171	93	11	67	467
Manufacturing	2,201	229	27	127	76	2,430	497	328	158	11	2,927
Other	1,022	296	340	42	−87	1,318	94	67	135	−108	1,412
Europe	11,087	1,417	1,133	531	−247	12,504	1,593	1,250	602	−258	14,098
Petroleum	3,011	427	319	108	0	3,438	382	280	102	0	3,820
Manufacturing	4,836	992	679	304	9	5,828	988	498	482	8	6,816
Other	3,240	−1	136	119	−256	3,238	223	472	17	−266	3,461
Other	314	1,421	1,137	292	−7	1,736	1,106	485	648	−27	2,842
Petroleum	18	897	782	115	0	916	725	276	449	0	1,641
Manufacturing	225	76	42	34	0	301	260	184	77	0	561
Other	71	448	312	143	−7	519	121	25	123	−27	640

r Revised. p Preliminary.
1. Same as "book value at yearend" used in previous SURVEY OF CURRENT BUSINESS articles on foreign direct investment in the United States.

NOTE.—Details may not add to totals because of rounding.

Table 2.—Net Capital Inflows for Foreign Direct Investment in the United States, 1971–74, Country and Industry

[Millions of dollars; outflows (−)]

Area and industry	1971 r			1972 r			1973 r			1974 p		
	Total	Equity investment, acquisitions [1]	Other [2]	Total	Equity investment, acquisitions [1]	Other [2]	Total	Equity investment, acquisitions [1]	Other [2]	Total	Equity investment, acquisitions [1]	Other [2]
Total	−175	258	−433	380	785	−405	2,656	1,581	1,075	2,224	1,477	747
By area:												
Canada	82	3	79	250	540	−290	386	256	130	489	390	99
Europe	221	220	1	133	125	9	1,133	708	425	1,250	805	445
United Kingdom	195	118	77	65	24	41	589	326	263	348	333	14
European Economic Community (6)	69	90	−22	32	87	−55	307	271	35	717	321	396
Belgium and Luxembourg	−17	(*)	−17	−51	(*)	−51	259	127	132	9	2	7
France	28	10	18	−2	8	−10	146	78	68	137	111	27
Germany	48	46	2	31	36	−5	−168	17	−185	267	80	187
Italy	13	(*)	13	10	13	−3	6	1	5	10	3	7
Netherlands	−4	34	−37	43	30	13	63	49	15	294	125	168
Other Western Europe	−43	12	−55	36	14	22	238	111	127	185	150	35
Sweden	18	2	16	23	11	12	26	6	20	57	68	−10
Switzerland	−62	9	−71	(*)	3	−3	222	105	117	121	73	48
Other	(*)	1	−1	12	(*)	12	−10	(*)	−10	6	9	−3
Japan	−556	21	−577	19	116	−97	287	104	184	130	277	−146
Latin American Republics and other Western Hemisphere	58	3	55	−22	2	−24	78	3	76	45	1	44
Other	20	11	9	(*)	3	−3	771	511	260	309	5	304
By industry:												
Petroleum	50	10	40	24	31	−7	1,120	693	427	649	306	343
Manufacturing	232	206	26	192	139	53	748	370	378	1,010	729	281
Trade	−565	33	−598	−83	127	−209	238	119	119	164	173	−9
Insurance	81	....	81	56	....	56	137	....	137	111	....	111
Other finance	−9	3	−12	−2	3	−5	74	66	8	114	126	−11
Other	36	7	30	192	484	−292	339	333	6	176	144	32
Addenda:												
European Economic Community (9) [3]	....	....	....	....	....	....	805	508	298	1,073	664	409

r Revised. p Preliminary. * Less than $500,000 (±).
1. Relates only to incorporated affiliates and consists of capital inflows to establish or to acquire a new company in the United States, the acquisition cost of additional shares of, and additional paid-in capital contributions to, existing U.S. affiliates, and the capitalization of intercompany accounts.
2. Consists of partial and total liquidations of equity holdings in incorporated U.S. affiliates by foreign parents, plus changes in intercompany accounts of incorporated and unincorporated U.S. affiliates with their foreign parents.
3. Consists of the "European Economic Community (6)," Denmark, Ireland, and the United Kingdom.

NOTE.—Details may not add to totals because of rounding.

$14.1 billion; most of the increase was from the United Kingdom, Germany, and the Netherlands. The position of the United Kingdom rose 8 percent, while the position of all other European countries combined rose 16 percent.

The position of other geographic areas combined increased 64 percent, less than the rate of increase in 1973. The slower rise resulted primarily from decreases in both net capital inflows and reinvested earnings from Japan, and in net capital inflows from the Middle East.

Net capital inflows

Net capital inflows were $2.2 billion, down 16 percent from 1973. The decline consisted of a $0.2 billion decrease in net equity investment and a $0.3 billion decrease in net intercompany account financing.

Net equity investment by foreign parents in their U.S. affiliates totaled $1.4 billion; acquisitions were $1.5 billion and liquidations $0.1 billion (tables 2 and 3). Acquisitions—purchases of shares and additional paid-in capital in new or existing affiliates—were 7 percent below 1973. By country of foreign investor, the largest acquisitions were by the United Kingdom, Canada, and Japan. By industry of the U.S. affiliate, nearly half the acquisitions were in manufacturing.

Acquisitions of equity were approximately one-third in newly established affiliates and two-thirds in existing affiliates. A substantial portion of the latter probably financed affiliates' purchases of other U.S. companies; there were significant takeovers of, and purchases of shares in, U.S. manufacturing companies by existing U.S. affiliates of Canadian, continental-European, and Japanese parents. Financing for these purchases obtained from foreign parents was a capital inflow to the purchasing affiliate, while the purchase itself was a domestic transaction not included in net capital inflows.[4]

Parents in the United Kingdom and the Netherlands significantly increased their equity in existing petroleum affiliates. There was also substantial equity investment by parents in other European countries in both new and

4. U.S. companies in which shares are purchased by existing affiliates become part of the universe of U.S. affiliates, even though transactions to acquire these companies are not included in net capital inflows.

Table 3.—Net Capital Inflows for Foreign Direct Investment in the United States, 1971–74, Country by Industry

[Millions of dollars; outflows (−)]

Area and year	All industries				Petroleum				Manufacturing				Insurance and other finance				Other			
	Total	Equity investment: Acquisitions [1]	Equity investment: Liquidations [2]	Intercompany accounts [3]	Total	Equity investment: Acquisitions [1]	Equity investment: Liquidations [2]	Intercompany accounts [3]	Total	Equity investment: Acquisitions [1]	Equity investment: Liquidations [2]	Intercompany accounts [3]	Total	Equity investment: Acquisitions [1]	Equity investment: Liquidations [2]	Intercompany accounts [3]	Total	Equity investment: Acquisitions [1]	Equity investment: Liquidations [2]	Intercompany accounts [3]
All areas:																				
1971 r	−175	258	−24	−409	50	10	−1	41	232	206	−4	29	72	3	−18	88	−529	39	−1	−567
1972 r	380	785	−83	−321	24	31	−14	7	192	139	−61	114	54	3	−2	53	109	611	−7	−496
1973 r	2,656	1,581	−50	1,125	1,120	693	(*)	427	748	369	−47	426	211	66	(*)	145	578	452	−3	128
1974 p	2,224	1,477	−102	849	649	306	−48	391	1,010	729	−9	290	224	125	(*)	100	340	317	−45	68
Canada:																				
1971 r	82	3	0	79	8	0	0	8	77	0	0	76	−21	0	0	−21	18	2	0	16
1972 r	250	540	−5	−284	19	31	0	−13	86	41	0	45	4	(*)	0	4	141	467	−5	−320
1973 r	386	256	0	130	19	0	0	19	27	(*)	0	27	50	3	0	47	290	253	0	37
1974 p	489	390	−57	156	93	81	−48	60	328	269	−9	68	63	15	0	48	4	24	0	−19
Europe:																				
United Kingdom:																				
1971 r	195	118	−2	79	30	4	−1	27	143	110	0	33	40	3	−1	38	−18	2	−1	−19
1972 r	65	24	−16	57	2	0	−14	17	20	20	0	(*)	22	0	0	22	21	4	−1	19
1973 r	589	326	−3	266	49	34	0	15	400	173	0	227	62	16	(*)	46	79	103	−3	−22
1974 p	348	333	−45	60	147	100	0	48	17	26	0	−9	66	73	0	−7	117	134	−45	28
Netherlands:																				
1971 r	−4	34	−18	−20	6	6	0	(*)	8	28	0	−21	−18	0	−18	−1	1	0	0	1
1972 r	43	30	0	13	(*)	0	0	(*)	39	30	0	9	5	0	0	5	(*)	0	0	(*)
1973 r	63	49	0	15	52	49	0	3	10	0	0	10	2	0	0	2	(*)	0	0	(*)
1974 p	294	125	0	168	126	125	0	1	167	0	0	167	3	0	0	3	−2	0	0	−1
Switzerland:																				
1971 r	−62	9	−4	−67	0	0	0	0	−92	6	−4	−94	23	0	0	23	7	3	0	4
1972 r	(*)	3	−2	(*)	0	0	0	0	−3	3	−2	−4	−2	0	0	−2	5	0	0	5
1973 r	222	105	0	117	0	0	0	0	202	100	0	102	18	5	0	13	3	0	−1	2
1974 p	121	73	0	48	0	0	0	0	72	66	0	6	17	5	0	12	31	2	0	29
Other:																				
1971 r	91	60	0	32	−5	0	0	−5	69	41	0	28	17	0	0	17	10	18	0	−8
1972 r	25	69	−59	15	23	0	0	23	85	46	−59	98	4	0	0	3	−86	23	0	−109
1973 r	259	228	−47	78	218	100	0	118	68	86	−47	29	37	30	0	7	−64	12	0	−76
1974 p	487	273	0	214	7	0	0	7	242	181	0	60	3	1	0	3	236	91	0	145
Japan:																				
1971 r	−556	21	0	−577	0	0	0	0	3	10	0	−7	1	0	0	1	−560	11	0	−571
1972 r	19	116	0	−97	0	0	0	0	−3	0	0	−3	−2	0	0	−2	23	116	0	−93
1973 r	287	104	0	184	0	0	0	0	38	8	0	31	15	12	0	3	234	83	0	150
1974 p	130	277	0	−146	0	0	0	0	184	185	0	−1	33	26	0	8	−87	66	0	−153
Other:																				
1971 r	78	14	(*)	64	11	0	0	11	25	11	0	14	30	0	0	30	13	3	(*)	10
1972 r	−22	4	−2	−25	−20	0	0	−20	−31	0	0	−31	24	3	−2	23	5	2	0	3
1973 r	849	513	0	336	782	511	0	271	4	3	0	1	27	0	0	27	36	(*)	0	36
1974 p	355	6	(*)	349	276	0	0	276	(*)	1	0	−1	39	5	(*)	34	40	(*)	0	40

r Revised. p Preliminary. *Less than $500,000 (±).

1. Relates only to incorporated affiliates and consists of capital inflows to establish or to acquire a new company in the United States, the acquisition cost of additional shares of, and additional paid-in capital contributions to, existing U.S. affiliates, and the capitalization of intercompany accounts.

2. Consists of partial and total liquidations of equity holdings in incorporated U.S. affiliates by foreign parents.

3. Consists of changes in intercompany accounts of incorporated and unincorporated U.S. affiliates with their foreign parents.

NOTE.—Details may not add to totals because of rounding.

existing manufacturing affiliates, particularly in the chemical industry. Canadian equity acquisitions were dominated by financing for a single existing manufacturing affiliate. About half the equity investment from Japan financed a new joint venture with a U.S. aluminum manufacturer; the remainder primarily provided financing for existing manufacturing and trade affiliates.

Net intercompany account financing of U.S. affiliates was $0.8 billion, down 25 percent from 1973. (Intercompany account financing consists of debt transactions between foreign parents and their U.S.-incorporated affiliates, and all transactions between foreign parents and their unincorporated U.S. affiliates.) A major factor was the increase in receivables (a capital outflow) of U.S. trade affiliates due from their Japanese parents.

Intercompany account financing by European parents increased slightly; there were offsetting flows from several countries. Financing from the United Kingdom and Switzerland decreased, following the large increase in intercompany loans in 1973 that probably financed U.S. affiliates' purchases of other U.S. companies. A shift to net inflows from Germany reflected repayments by a German parent of loans from its U.S. trade affiliate.

Reinvested earnings

Reinvested earnings of incorporated U.S. affiliates were $1.6 billion, up 52 percent from 1973. Most of the increase was accounted for by petroleum affiliates, particularly of investors in the Middle East and the United Kingdom, and by manufacturing affiliates, particularly of investors in Switzerland.

The dividend payout ratio increased from 0.41 in 1973 to 0.77 in 1974 (table 4). Therefore, the proportion of earnings reinvested declined; this decline was largely in nonmanufacturing affiliates. For petroleum, the decrease reflected a faster rise in dividends than in earnings. For the combined affiliates in other nonmanufacturing industries—such as mining and smelting, trade, finance, and insurance—dividends increased substantially although earnings decreased. Dividends from these affiliates provided financing for parents in Japan and Europe, where tight credit conditions prevailed.

The payout ratio for U.S. manufacturing affiliates was 0.27, compared with 0.37 in 1973. The decline, together with an increase in earnings, accounted for the 55 percent increase in reinvested earnings of these affiliates. Because of the high rate of inflation in 1974, a substantial part of reinvested earnings may have represented book profits on inventories, which were not available for payout as dividends.

Return on the position

The return on the investment position is measured by adjusted earnings, which consist of foreign parents' share in their U.S. affiliates' earnings, less U.S. withholding taxes on dividends paid to foreign parents, plus interest payments to foreign parents on intercompany accounts. In 1974, adjusted earnings were $7.0 billion, more than triple the 1973 total (tables 5 and 6).

The rate of return on the position is the percent ratio of adjusted earnings to the average of the beginning- and end-of-year direct investment positions. The rate of return increased markedly—from 11.9 percent in 1973 to 34.9 percent in 1974; this was largely the result of transactions of the petroleum company mentioned above (table 7). The rate of return for all other affiliates combined was 9.5 percent, a slight decrease from 1973. The decrease reflected lower rates of return for petroleum and other nonmanufacturing affiliates. The rate of return for manufacturing affiliates rose from 9.7 percent in 1973, to 11.1 percent in 1974; this primarily reflected the increased return on European investment in the United States.

Current-account balance of payments items

Two types of payments by U.S. affiliates to foreign parents are included in the current account of the U.S. balance of payments—income on direct investment, and fees and royalties. Income consists of dividends (after deduction of U.S. withholding taxes) and interest paid to foreign parents, and unincorporated affiliates' earnings; unlike adjusted earnings, it excludes

Table 4.—Dividend Payout Ratios of Incorporated Affiliates, 1973 and 1974, Area by Industry

[Millions of dollars or ratio]

Area and industry	1973		1974		Payout ratio (Gross dividends/earnings)	
	Earnings	Gross dividends	Earnings	Gross dividends	1973	1974
All areas	1,750	725	6,792	5,237	0.41	0.77
Petroleum	636	379	5,439	4,876	.60	.90
Manufacturing	734	270	984	266	.37	.27
Other	380	76	369	95	.20	.26
Canada	277	74	399	95	.27	.24
Petroleum	51	17	25	14	.34	.56
Manufacturing	166	39	210	52	.23	.25
Other	60	18	164	29	.30	.18
Europe	907	374	967	366	.41	.38
Petroleum	214	106	217	115	.50	.53
Manufacturing	528	224	688	206	.42	.30
Other	164	45	62	45	.28	.73
Other	566	275	5,425	4,777	.49	.88
Petroleum	371	256	5,196	4,747	.69	.91
Manufacturing	40	7	86	9	.17	.10
Other	155	12	143	21	.08	.14

NOTE.—Details may not add to totals because of rounding.

reinvested earnings of incorporated affiliates.

Income payments rose from $1.0 billion to $5.4 billion in 1974. This extraordinary rise was entirely in petroleum; income payments to foreign parents by nonpetroleum affiliates were $0.6 billion in both 1973 and 1974.

Fees and royalties consist of patent, production, and copyright royalties; license fees; professional, administrative, and management service fees; rentals; and similar payments to foreign parents. Fees and royalties in 1974 were $0.2 billion, virtually unchanged from 1973 (table 8). More than half of the payments went to parents in continental Western Europe.

Table 5.—Foreign Direct Investment in the United States, Selected Data Items, 1971–74, Country and Industry

[Millions of dollars]

Area and industry	Direct investment position [1]				Reinvested earnings				Balance of payments income [2]			
	1971 r	1972 r	1973 r	1974 p	1971 r	1972 r	1973 r	1974 p	1971	1972 r	1973 r	1974 p
Total	13,914	14,868	18,284	21,746	542	569	1,025	1,554	621	715	955	5,435
By area:												
Canada	3,335	3,466	4,044	4,806	111	137	203	304	88	91	96	98
Europe	10,336	11,087	12,504	14,098	330	367	531	602	465	534	546	531
United Kingdom	4,583	4,987	5,649	6,126	118	123	248	329	236	272	263	274
European Economic Community (6)	3,828	4,030	4,549	5,380	140	162	224	115	134	158	155	166
Belgium and Luxembourg	341	309	602	693	19	19	35	75	3	6	5	7
France	346	369	533	726	12	23	18	58	10	23	31	34
Germany	802	881	795	1,076	45	42	89	16	19	21	10	11
Italy	116	114	105	113	−11	−12	−13	−1	5	6	8	5
Netherlands	2,224	2,357	2,514	2,771	75	90	96	−34	97	102	101	109
Other Western Europe	1,925	2,070	2,306	2,591	72	81	59	158	96	104	128	90
Sweden	227	256	286	354	(*)	2	8	17	11	7	13	8
Switzerland	1,576	1,675	1,889	2,103	70	76	48	142	83	94	112	79
Other	122	138	131	134	2	3	4	−1	2	3	4	2
Japan	−227	−154	259	480	82	53	117	95	40	58	22	10
Latin American Republics and other Western Hemisphere	321	318	438	548	11	13	57	93	28	30	28	34
Other	150	150	1,039	1,814	8	(*)	118	461	(*)	1	263	4,763
By industry:												
Petroleum	3,139	3,272	4,649	5,928	78	109	257	563	116	114	385	4,874
Manufacturing	6,722	7,262	8,559	10,305	331	347	464	717	217	258	301	332
Trade	562	550	934	1,156	112	70	142	51	50	47	−7	10
Insurance	[4] 2,553	[4] 2,911	[4] 2,854	[4] 2,726	----------	----------	----------	----------	185	215	132	20
Other finance	(5)	(5)	(5)	(5)	28	31	93	57	39	64	126	168
Other	938	872	1,289	1,631	−7	13	69	166	14	17	17	31
Addenda:												
European Economic Community (9) [6]	----------	----------	10,236	11,547	----------	----------	473	440	----------	----------	420	442

	Adjusted earnings [3]				Earnings			
	1971 r	1972 r	1973 r	1974 p	1971 r	1972 r	1973 r	1974 p
Total	1,163	1,284	1,980	6,989	1,161	1,308	2,008	6,991
By area:								
Canada	199	228	299	402	197	230	302	402
Europe	796	901	1,077	1,132	796	909	1,067	1,083
United Kingdom	354	396	511	603	364	403	497	586
European Economic Community (6)	274	320	379	281	274	323	392	274
Belgium and Luxembourg	22	25	40	83	22	25	40	80
France	22	46	49	92	22	46	48	86
Germany	64	63	98	27	61	63	109	27
Italy	−6	−7	−5	4	−6	−6	−5	5
Netherlands	172	192	197	75	176	195	199	77
Other Western Europe	168	185	187	248	158	183	178	223
Sweden	11	9	20	25	10	8	19	23
Switzerland	153	170	159	221	143	169	151	197
Other	4	6	8	2	5	6	8	2
Japan	122	111	138	105	121	125	173	159
Latin American Republics and other Western Hemisphere	39	43	85	126	39	42	84	125
Other	8	2	382	5,224	8	2	382	5,222
By industry:								
Petroleum	194	224	642	5,437	204	233	639	5,443
Manufacturing	548	605	765	1,049	535	600	754	1,000
Trade	162	117	135	1	168	140	178	114
Insurance	185	215	132	20	185	215	132	20
Other finance	67	95	219	226	65	92	219	221
Other	7	29	87	197	4	27	86	194
Addenda:								
European Economic Community (9) [6]	----------	----------	893	882	----------	----------	892	858

r Revised. p Preliminary. * Less than $500,000 (±).

1. Same as "book value at yearend" used in previous SURVEY OF CURRENT BUSINESS articles on foreign direct investment in the United States.

2. Consists of interest, dividends, and earnings of unincorporated affiliates paid or credited to the account of foreign direct investors.

3. Consists of foreign direct investors' share in earnings of their U.S. affiliates less withholding taxes on dividends plus interest payments on intercompany accounts.

4. Include market revaluation of securities held by insurance companies.

5. Included in "insurance."

6. Consists of the "European Economic Community (6)," Denmark, Ireland, and the United Kingdom.

NOTE.—Details may not add to totals because of rounding.

Table 6.—Foreign Direct Investment in the United States, Selected Data Items, 1971–74, Country by Industry

[Millions of dollars]

Area and year	Direct investment position [1]: Total	Petroleum	Manufacturing	Insurance and other finance [4]	Other	Reinvested earnings: Total	Petroleum	Manufacturing	Insurance and other finance [4]	Other	Balance of payments income [2]: Total	Petroleum	Manufacturing	Insurance and other finance [4]	Other
All areas:															
1971 r	13,914	3,139	6,722	2,553	1,500	542	78	331	28	105	621	116	217	224	64
1972 r	14,868	3,272	7,262	2,911	1,422	569	109	347	31	83	715	114	258	279	64
1973 r	18,284	4,649	8,559	2,854	2,222	1,025	257	464	93	211	955	385	301	259	10
1974 p	21,746	5,928	10,305	2,726	2,787	1,554	563	717	57	217	5,435	4,874	332	188	41
Canada:															
1971 r	3,335	207	2,013	330	785	111	10	90	3	−1	88	10	37	24	17
1972 r	3,466	243	2,201	353	669	137	17	103	3	14	91	13	35	27	16
1973 r	4,044	296	2,430	320	998	203	34	127	4	39	96	15	40	24	17
1974 p	4,806	467	2,927	279	1,133	304	11	158	4	131	98	12	52	2	31
Europe:															
United Kingdom:															
1971 r	4,583	1,270	1,615	1,326	372	118	20	81	2	15	236	41	78	104	13
1972 r	4,987	1,297	1,719	1,567	405	123	24	84	4	11	272	43	76	141	13
1973 r	5,649	1,377	2,250	1,506	516	248	32	127	56	33	263	56	83	106	18
1974 p	6,126	1,649	2,402	1,383	693	329	124	135	11	59	274	43	136	72	17
Netherlands:															
1971 r	2,224	1,353	697	41	133	75	36	37	(*)	2	97	64	31	1	1
1972 r	2,357	1,407	769	46	136	90	93	84	(*)	3	102	59	40	3	1
1973 r	2,514	1,508	821	44	141	96	50	41	(*)	5	101	58	38	5	(*)
1974 p	2,771	1,548	1,038	43	141	−34	−86	50	(*)	2	109	65	38	5	(*)
Switzerland:															
1971 r	1,576	0	1,124	394	58	70	0	66	(*)	4	83	0	49	32	1
1972 r	1,675	0	1,194	416	66	76	0	73	1	2	94	0	59	33	2
1973 r	1,889	0	1,437	375	76	48	0	42	(*)	6	112	0	84	25	3
1974 p	2,103	0	1,648	345	109	142	0	138	(*)	3	79	0	52	9	18
Other:															
1971 r	1,953	270	1,019	287	378	66	12	34	9	11	50	(*)	17	17	16
1972 r	2,068	308	1,154	307	298	78	15	50	6	7	65	(*)	39	12	14
1973 r	2,453	553	1,320	336	245	139	27	95	11	7	71	(*)	46	24	(*)
1974 p	3,099	623	1,729	343	404	165	63	160	21	−79	69	(*)	41	15	13
Japan:															
1971 r	−227	0	76	50	−353	82	0	3	5	73	40	0	5	19	16
1972 r	−154	0	72	57	−283	53	0	−1	7	47	58	0	6	37	15
1973 r	259	0	129	81	48	117	0	19	9	89	22	0	7	45	−30
1974 p	480	0	358	118	4	95	0	45	8	42	10	0	7	47	−45
Other:															
1971 r	471	39	179	126	127	19	0	12	8	−1	28	0	(*)	28	1
1972 r	468	18	153	166	131	13	0	5	10	−2	31	0	3	26	3
1973 r	1,477	916	171	191	199	175	115	14	13	32	291	256	3	30	2
1974 p	2,362	1,641	203	215	303	553	449	32	13	60	4,796	4,747	5	37	7

Area and year	Adjusted earnings [3]: Total	Petroleum	Manufacturing	Insurance and other finance [4]	Other	Earnings: Total	Petroleum	Manufacturing	Insurance and other finance [4]	Other
All areas:										
1971 r	1,163	194	548	252	169	1,161	204	535	250	172
1972 r	1,284	224	605	310	146	1,308	233	600	307	167
1973 r	1,980	642	765	351	221	2,008	639	754	351	265
1974 p	6,989	5,437	1,049	245	258	6,991	5,443	1,000	241	308
Canada:										
1971 r	199	20	136	27	16	197	21	134	27	15
1972 r	228	29	138	30	30	230	31	137	30	31
1973 r	299	49	166	28	55	302	51	167	28	56
1974 p	402	24	210	6	162	402	26	211	6	159
Europe:										
United Kingdom:										
1971 r	354	61	159	106	28	364	67	164	106	26
1972 r	396	67	160	145	24	403	72	163	145	23
1973 r	511	88	210	162	51	497	79	209	165	45
1974 p	603	174	271	83	75	586	174	251	85	75
Netherlands:										
1971 r	172	100	68	1	3	176	104	68	2	3
1972 r	192	112	74	3	4	195	115	74	2	4
1973 r	197	108	79	5	6	199	111	78	4	6
1974 p	75	−20	88	5	2	77	−17	87	5	2
Switzerland:										
1971 r	153	0	115	32	5	143	0	105	33	5
1972 r	170	0	133	34	4	169	0	131	34	4
1973 r	159	0	126	24	9	151	0	119	25	8
1974 p	221	0	190	10	21	197	0	168	10	20
Other:										
1971 r	116	12	51	26	27	113	12	47	24	30
1972 r	143	15	89	18	21	142	15	85	18	24
1973 r	210	27	141	35	7	220	27	142	35	17
1974 p	234	63	201	36	−66	223	63	198	33	−71
Japan:										
1971 r	122	0	8	24	89	121	0	5	24	92
1972 r	111	0	5	44	63	125	0	2	43	81
1973 r	138	0	26	54	58	173	0	22	52	99
1974 p	105	0	52	56	−3	150	0	49	52	57
Other:										
1971 r	47	0	12	36	(*)	47	0	12	34	1
1972 r	44	0	7	36	1	44	0	7	35	1
1973 r	466	371	17	43	34	465	371	18	42	34
1974 p	5,350	5,196	37	50	67	5,347	5,196	37	49	66

r Revised. p Preliminary. *Less than $500,000 (±).

1. Same as "book value at yearend" in previous SURVEY OF CURRENT BUSINESS articles on foreign direct investment in the United States.

2. Consists of interest, dividends, and earnings of unincorporated affiliates paid or credited to the account of foreign direct investors.

3. Consists of foreign direct investors' share in earnings of their U.S. affiliates, less withholding taxes on dividends, plus interest payments on intercompany accounts.

4. Includes market revaluation of securities held by insurance companies.

NOTE.—Details may not add to totals because of rounding.

Table 7.—Adjusted Earnings Return on Foreign Direct Investment in the United States, 1973 and 1974, Area by Industry

Area and industry	Millions of dollars		Percent rate of return [1]	
	1973 r	1974 p	1973	1974
All areas	1,980	6,989	11.9	34.9
Petroleum	642	5,437	16.2	102.8
Manufacturing	765	1,049	9.7	11.1
Other	573	503	12.2	9.5
Canada	299	402	7.9	9.1
Petroleum	49	24	18.2	6.2
Manufacturing	166	210	7.2	7.8
Other	83	168	7.1	12.3
Europe	1,077	1,132	9.1	8.5
Petroleum	222	217	8.9	6.0
Manufacturing	556	750	10.4	11.9
Other	299	166	9.2	4.9
Other	605	5,456	59.0	238.3
Petroleum	371	5,196	79.4	406.6
Manufacturing	43	89	16.5	20.7
Other	191	170	64.5	29.3

r Revised. p Preliminary.

1. Adjusted earnings divided by average of beginning- and end-of-year direct investment position.

NOTE.—Details may not add to totals because of rounding.

Technical Note

Universe estimates

The estimates presented in this article were based on a sample of approximately 450 large U.S. affiliates of foreign parents. U.S. affiliates are companies in which 25 percent or more of the voting stock or an equivalent interest is held by a foreign owner. Estimates of the direct investment position, adjusted earnings, reinvested earnings, balance of payments income, earnings, and fee and royalty payments were prepared by matching data for the sample against data for the universe of foreign-owned affiliates in the United States, as reported in the 1959 benchmark survey. The data on net capital inflows, however, were those reported by the affiliates in the sample.

A new benchmark survey for 1974 is now being conducted, and will provide actual universe data for 1974. Estimates in this article are for 1971–74. Estimates for 1950–61 were published in *Foreign Business Investments in the United States, 1962*, and for 1962–70, in the February 1973 issue of the SURVEY OF CURRENT BUSINESS.

Revisions for 1971–73

Estimates of the direct investment position, earnings, and reinvested earnings for 1971–73 were revised to include investments not previously reported. Also, the direct investment position was revised to include market revaluation of securities held by insurance affiliates. The revision is included among valuation adjustments to the position. As a result of all revisions, estimates of the position were raised for 1971–73. The largest revisions by geographic area were in investment from Europe and, by industry, in investment in the U.S. insurance industry.

Earnings and reinvested earnings were also revised to make them conform more closely to a calendar- rather than a fiscal-year basis. Before 1971, earnings were reported annually, and some affiliates reported fiscal- instead of calendar-year data. Beginning in 1971, earnings were reported quarterly; this made possible the revision to a calendar-year basis. A very small increase in earnings resulted from a change in definition. For 1971–74, earnings are shown before dividends on both common and preferred stock; prior to 1971, earnings are shown before dividends on common stock but after dividends on preferred stock. All revisions combined raised estimates of earnings and reinvested earnings for 1971–73.

Table 8.—Direct Investment Fees and Royalties, 1971–74

[Millions of dollars]

	Total	Canada	Europe			Other
			Total	United Kingdom	Other	
1971	118	64	50	11	39	4
1972	155	60	93	15	78	2
1973 r	209	73	133	20	113	2
1974 p	219	82	135	16	119	1

r Revised. p Preliminary.

NOTE.—Details may not add to totals because of rounding.

Derivation of adjusted earnings

Table 9 shows the derivation of the adjusted earnings return on the foreign direct investment position. Adjusted earnings focuses on the shares in affiliates' earnings realized by foreign parents, rather than total earnings of the affiliates. Thus, U.S. withholding taxes on dividends are excluded. Interest payments are part of adjusted earnings because they represent the return on outstanding intercompany loans from foreign parents, which are included in the direct investment position.

Table 9.—Earnings and Related Items: Derivation and Relationship

[Millions of dollars]

	1974 amount and source	
1. Earnings of incorporated affiliates	6,792	Reported.
2. Earnings of unincorporated affiliates	200	Reported.
3. Earnings	6,991	=1+2.
4. Gross dividends (on common and preferred stock)	5,238	=5+6.
5. U.S. withholding tax on dividends	49	Derived.
6. Dividends (on common and preferred stock)	5,188	Reported.
7. Interest	47	Reported.
8. Reinvested earnings	1,554	=1−4 or 10−9.
9. Balance of payments income	5,435	=2+6+7 or 10−8.
10. Adjusted earnings	6,989	=3−5+7 or 8+9.

NOTE.—Figures are preliminary estimates derived from sample data. Details may not add to totals because of rounding.

CANADIAN–UNITED STATES CORPORATE INTERFACE AND TRANSNATIONAL RELATIONS

Isaiah A. Litvak and Christopher J. Maule

Transnational relations involving parent companies of United States multinational enterprises with subsidiaries in Canada have begun to interest not only the social scientist but also the politician and businessman. What is the effect of such transnational relations on the economic resources and performance of each country? What political means are used to influence corporate behaviour? What is the effect of the constitutional system on such transnational relations? What are the ways in which the countries reacted to resolve certain related interstate conflicts?

Each of these issues arises from the emergence of the multinational enterprise. Contemporary business transactions often have no single geopolitical base, and these interactions accentuate the costs and the benefits that flow across national borders in complex patterns involving concerns and interests of several nations. The complexity of these patterns is heightened by the form and behaviour of the multinational enterprise.

In the first part of the essay, the nature of the parent-subsidiary relationship is highlighted to show the organizational and decision-making attributes that allow the parent and subsidiary to act as a transnational organization promoting increased interaction between corporate and governmental systems. In the second part of the essay, the corporate decision-making framework is applied to those areas that give rise to transnational processes with implications drawn for Canadian–United States relations.

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CORPORATE DECISION MAKING

The design of corporate strategies and the organizational structures are among the key areas of decision making in business organizations.[1] In the case of firms that have established foreign affiliates, these areas are of prime concern to the senior corporate officers. The foreign subsidiaries are usually viewed as appendages of the national corporate headquarters organization, necessitating a degree of transnational planning, control, and direction to ensure that they perform and behave in accordance with the corporate goals of the (national) firm.

Complex problems of suboptimization arise and are always present in multinational enterprises. Suboptimization results from conflicting pressures emanating from parent company and host country. For example, cost considerations may suggest that inputs of a subsidiary company should be made through imports. However, this procedure may conflict with the host country's desire to promote local industry for which financial assistance may be available. The parent company is thus faced with deciding in what country to locate or expand its operations, which is tantamount to having to discriminate between its various foreign subsidiaries. It is for this reason that management of multinational enterprises argue that the functions of planning, coordination, and control must reside at the center to prevent management of the subsidiaries from pursuing strategies[2] and responding to governmental pressures in a way that would tend to suboptimize the corporate goals of the firm.

One method of obviating parent-subsidiary management conflicts is to divide the strategy function between the headquarters firm and its overseas subsidiaries along predetermined lines. The degree to which the headquarters organization of the multinational enterprise can control the commercial pursuits and behaviour of its overseas affiliates is partially determined by the structural (power) relationship between them.[3]

To comprehend the nature of corporate power and the manner in which it is exercised is fundamental to understanding the many concerns expressed by national governments about the transnational processes that involve the commercial behaviour and performance of multinational enterprises. One major concern arises from the fact

[1] E. Raymond Corey and Steven H. Star, "Organization Strategy" (Harvard School of Business Administration, Division of Research), p. vii.

[2] Strategy in this context may be viewed as "the determination of the basic goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources for carrying out these goals." See Alfred D. Chandler, *Strategy and Structure* (Cambridge, Mass.: M.I.T. Press, 1962), p. 13.

[3] Chandler, p. 13.

that the corporate strategy of the multinational enterprise may run counter to the economic, political, and sociocultural goals of particular nation states, and thus may constitute a threat to their sovereignty. Some national governments, including Canada's, see themselves behaving as observers of foreign-managed corporate activities in their own country over which their central policy organs exercise little control. In fact, there are times when host governments perceive themselves as being constituent parts of the multinational enterprise system as opposed to the enterprise being a constituent part of the nation state.

The ability of the subsidiary to develop its own strategy and structure is largely determined by the grants of authority delegated to it by its parent company. Grants of authority limit the ability of the subsidiary to make decisions, qualitative and quantitative, in such areas as market development, financing, determining the source of inputs, research and development, product design activities, promoting market research, exporting, appointing and promoting executive and professional personnel, pricing, advertising and sales promotion, and public relations. All Canadian subsidiaries operate under grants of authority whether spelled out in formal terms or effected through informal channels.[1]

The variables that affect grants of authority and control relationships between parent and subsidiary include the following: size, age, profitability, productivity, and product diversity of the subsidiary; size of the parent and ratio of size of parent to the subsidiary; nature of product and production process; and the degree to which the subsidiary is a part of the international network of operations of the parent company, including the extent to which the parent enjoys economies of scale from such operations. However, while the variables are many, there appear to be two critical elements that affect the scope for business activity on the part of the Canadian subsidiary, namely, the corporate strategy of the firm and the organization of production within the firm.[2]

ISSUE AREAS

In the US parent–Canadian subsidiary system, decisions are made with respect to four major types of activity that flow across the

[1] See Isaiah A. Litvak and Christopher J. Maule, "Branch Plant Entrepreneurship," *The Business Quarterly* 37 (Spring 1972): 45-53.

[2] For further discussion see Isaiah A. Litvak and Christopher J. Maule, "Marketing and Good Corporate Behavior: The Case of the U.S. Subsidiary," in D. N. Thompson and D. S. R. Leighton, eds., *Canadian Marketing: Problems and Prospects* (Toronto: Wiley Publishers, 1973), pp. 73-81.

border.[6] They are, first, the flow of funds, such as equity capital, loans, dividends, interest, royalties, fees, head office expenses, and the payment for intracompany exports and imports; second, the flow of goods, such as the export or import of raw materials, components, and final products in the case of the primary and secondary sectors of the economy; third, the flow of persons, both management and labour; and, fourth, the flow of information, such as information with respect to the managerial functions of research, production, finance, and marketing.

In terms of the exchange of goods and services, the pricing of the flows is an intracompany decision that permits the corporate management some discretion in establishing transfer prices.[7] It is this discretionary power of the corporate system that can come into conflict with the governmental systems, both Canadian and US. For example, pricing will affect the balance of payments and tax revenues of the two countries, the latter being a concern in a federal state not only to the central government but also to provincial or state and municipal governments.

These flows will reflect corporate decisions made about the location of research, production, and marketing facilities of the companies, about which part of the enterprise is going to serve which markets, and about where the entrepreneurial impetus for the enterprise will lie and thus what distribution of skills is required in different parts of the enterprise. All these characteristics of the decisions can affect national objectives in the two countries, for example, exports, regional economic policy, and the development of highly skilled manpower.

The flows also concern the activities of professional associations and the structure of trade unions. In the case of industrial relations, a company may be dealing with unrelated unions or related ones, as in the automobile industry, where United States parent and Canadian subsidiary must negotiate with different branches of the same union, the United Automobile Workers (UAW).[8] The union as well as the company thus becomes a vehicle for transmitting conditions in one

[6] These are similar to the four types of global interactions suggested by Joseph S. Nye and Robert O. Keohane, "Transnational Relations and World Politics: An Introduction," *International Organization* 25 (Summer 1971): 332.

[7] See J. S. Shulman, "Transfer Pricing in the Multinational Film," *European Business* 20 (January 1969): 46-54.

[8] See John Crispo, *International Unionism—A Study in Canadian-American Relations* (Toronto: McGraw-Hill, 1967); Isaiah A. Lityak and Christopher J. Maule, "U.S. Domination of Canadian Labour," *Columbia Journal of World Business* 7 (May-June 1972): 57-63; and *Globe and Mail* (Toronto), 18 September 1973, p. 1. See also Cox and Jamieson in this volume.

country to the other, as in the case of bargaining by Canadian workers for wage parity with the United States.

A basic model for analysing Canadian-United States conflicts identifies four actors—the United States and Canadian federal governments, the parent company in the United States, and its subsidiary company in Canada—and the relationships between them (see figure 1). This model can be made more complex in a number of ways, such as through the addition of provincial or state and local governments and of trade unions. Reference to these additional actors is made in the subsequent analysis.

Six components in the system of relationships can be identified, five of which involve transnational processes, in that at least one of the actors is not a government.[9] Relationships 1, 4, and 5 are clearly transnational. Numbers 2 and 3 refer to government-company relationships in their respective countries and have transnational implications in that they can be used to channel effects into the other country through the parent-subsidiary relationship. Number 6 is an interstate, government-to-government relationship and is of relevance in that it is used to handle some of the issues that arise due to the other five interactions. The content and significance of these interactions are now examined in terms of the conflicts that arise between corporate decisions and governmental decisions or policies.

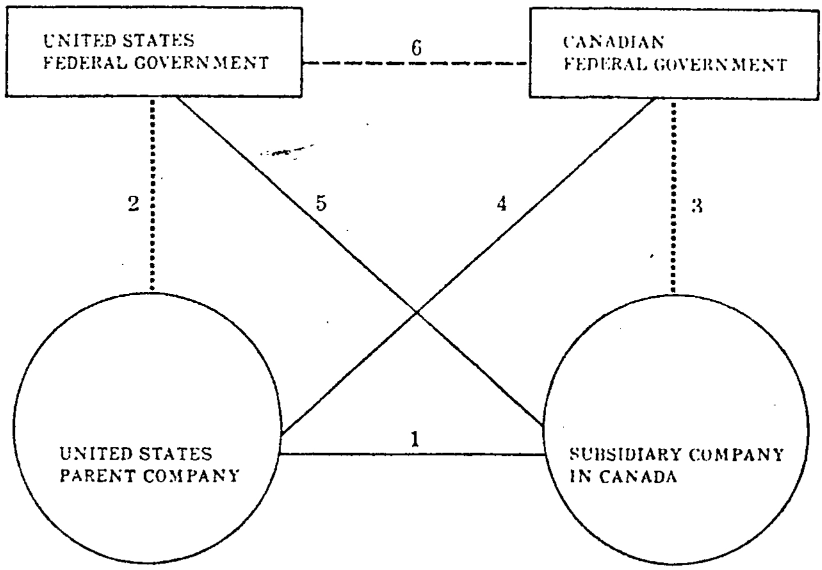
Four ways in which conflict originates are as follows: from essentially corporate-initiated policies, from US government-initiated policies that are transmitted through the parent to the subsidiary in Canada, from Canadian government initiatives and transmission through the subsidiary to the US, and from joint initiatives by the two governments that affect the relationship between parent and subsidiary. None of these conflicts are necessarily independent of each other. For example, in the case of corporate-initiated policies, they all take place within a legal framework estabilshed by government.

Corporate-Initiated Policies

The parent company makes decisions as to the organization of production within the corporate system, establishing where each item will be produced, where research will be undertaken, where financing will be done, where the subsidiary will be allowed to export, where the entrepreneurial drive will originate, what transfer prices and final product prices will be set, where cutbacks in production will occur in times of recession, and what information will be disclosed by the subsidiary. In sum, the whole range of functional areas within the cor-

[9] See Nye and Keohane, p. 334.

FIGURE 1. PRINCIPAL COMPONENTS OF THE TRANSNATIONAL SYSTEM INVOLVING GOVERNMENTS AND CORPORATIONS IN CANADA AND THE UNITED STATES



Numbers 1, 4, and 5 (indicated by a straight line) are transnational relations.

Number 6 (indicated by a broken line) is interstate relations.

Numbers 2 and 3 (indicated by a dotted line) are intrastate relations with transnational implications.

porate system are subject to numerous decisions emanating from the parent company. These decisions have to be made, and assuming that they are made in the best interests of the corporation, they will at times come into conflict with Canadian national objectives established by the federal government, and thus give rise to conflicts that are identified as being of United States origin. From an economic point of view, the decisions may reflect the approximate underlying conditions of comparative advantage, but this is no answer to the student of international relations. If interests in Canada perceive these conflicts to exist and to have a US dimension, then there exists a problem for relationships between the two countries.

Our earlier case studies provide examples of some of these issues.[10] The lack of research activity in the subsidiary operations[11] conflicts with the Canadian government's objective of promoting a research and development capability in Canada as espoused by the Canadian Department of Industry, Trade and Commerce. It has further important implications in the area of educational policy. The aims of postsecondary education include the production of a distribution of skills in the labour force with emphasis on highly skilled and qualified manpower. To the extent that these skills are not in demand because of the ownership characteristics of the manufacturing sector of the economy, then a problem exists or is perceived to exist. This problem might be inconsequential if it were not for the fact that a high proportion of Canadian industry is US owned and controlled, and this is particularly the case for growth and research-intensive industries such as automobiles, aircraft, chemicals, and electronics. Issues of research capability and educational opportunities have become politicized in Canada as a result of the investigations and reports of the Senate Special Committee on Science Policy, entitled *Science Policy For Canada*.[12]

Lack of research in the subsidiary is often reflected in a lack of entrepreneurship in the subsidiary. This tends to vary with the organization of production. In the case of the *miniature replica effect*, the output of the parent company is duplicated by the subsidiary, which at the extreme becomes a mere assembly operation for parts imported from the parent in the United States.[13] The opportunities for the

[10] Isaiah A. Litvak, Christopher J. Maule, and R. D. Robinson, *Dual Loyalty: Canadian-U.S. Business Arrangements* (Toronto: McGraw-Hill, 1971).

[11] Ibid., pp. 57, 69, 130; and P. L. Bourgault, *Innovation and the Structure of Canadian Industry* (Ottawa: Information Canada, 1972).

[12] Canada, Senate, Special Committee on Science Policy, *Science Policy for Canada*, vol. 1 (1970), vol. 2 (1972), vol. 3 (1973).

[13] See H. E. English, *Industrial Structure in Canada's International Competitive Position* (Montreal: Canadian-American Committee, 1964); and Litvak, Maule, and Robinson, *Dual Loyalty*, pp. 53-60.

exercise of entrepreneurial drive by the Canadian management of the subsidiary are minimal in this instance. Where the subsidiary is in a vertically integrated relationship with the parent company, buying components from the parent, making other components, and reselling the output to another subsidiary or elsewhere, then some exercise of entrepreneurship may be undertaken with respect to the manufacture of components. This occurs with Garrett Manufacturing, Limited (Canada), which builds aircraft components for sale to other parts of the Garrett Corporation in the United States and to third parties.[14] Finally, there is the specialization of production format, which is a variation of the foregoing, whereby the subsidiary is detailed to produce a particular item in the corporation's product range for sale worldwide, with responsibility for the product from research through to marketing resting with the subsidiary. Imperial Oil Limited experiences this with certain products and is notable for a degree of entrepreneurial autonomy in some areas.[15]

The specialization format may seem to apply to the automobile industry, since the Canadian-US automotive agreement has led to certain plants in Canada being allocated the production of certain types of cars. However, this does not lead to any entrepreneurial autonomy in the Canadian plants for two reasons. First, although the Canadian plants often specialize in the production of a certain model, the same model is usually produced in one or more plants in the United States; so the Canadian plant is not unique. Second, the technology of automobile production is such that it can be concentrated in one place, which is almost always near the parent company, and is then modified and transmitted to different plants that produce different models in the product range.

The way in which foreign investment has undermined the entrepreneurial drive of Canadians has been highlighted by Professor Kari Levitt, who points to past Canadian tariff policies leading to foreign investment in Canada. She suggests that the problem with the tariff was that it did not result in a Canadian bourgeoisie becoming entrepreneurs and stimulating growth of Canadian industries but created a bourgeoisie satisfied with managing a branch-plant economy.[16] It is now recognized that this deficiency, which is often attributed to past Canadian policies,[17] is one that needs to be overcome if Canadian-

[14] Litvak, Maule, and Robinson, *Dual Loyalty*, pp. 75-86.

[15] Ibid., pp. 112-24.

[16] See Kari Levitt, *Silent Surrender: The Multinational Corporation in Canada* (Toronto: Macmillan of Canada, 1970).

[17] This position was taken in: Canada, Task Force on the Structure of Canadian Industry, *Foreign Ownership and the Structure of Canadian Industry* (Ottawa: Queen's Printer, 1968); also referred to as the Watkins report because Melville H. Watkins headed the task force.

owned and controlled enterprises are to be born and are to flourish. This position is reflected in the objectives of the Canada Development Corporation, in the Program for the Advancement of Industrial Technology of the Department of Industry, Trade and Commerce, and in its policies to promote Canadian firms.[18]

These examples of the commercial behaviour of the parent giving rise to concern and response by the Canadian government have not led to major political incidents comparable to that involving the Mercantile Bank and the First National City Bank of New York,[19] but they are examples of forces described by Professor H. G. Johnson as the *new mercantilism*.[20] Governments are seeking ways to protect or promote their industrial capability, and in the absence of tariff barriers, they are resorting to programmes of special support and subsidy for their native industry at the expense of imports or in order to promote exports. An example of this in Canada, although not involving a United States company, was the US reaction to the subsidies given to the Michelin Tire Company to locate in Nova Scotia.[21] On 10 February 1973 the United States government applied a 6.6 percent surcharge on Michelin tire imports in reaction to a $50 million loan from the Province of Nova Scotia and a large grant from the federal Department of Regional Economic Expansion to Michelin to locate in Nova Scotia. (Most of its tires were to be exported to the American market.) The United States government claimed that the countervailing duty was to offset a "bounty or grant" to the exports which could be interpreted as unfair competition under General Agreement on Tariffs and Trade (GATT) rules. A further example of the new mercantilism is the continuing discussion by the Canadian government of an industrial strategy for Canada. The point is that corporate policies lead to government reaction which in turn leads to further corporate and government reaction in other countries. The era of the new mercantilism may only be in its infancy, but if allowed to flourish, its ramifications for international relations, including Canadian-United States, will be considerable.

Other types of corporate-initiated policies that have brought forth

[18] See *Annual Report of the Department of Industry, Trade and Commerce*, 1 April 1971 to 31 March 1972 (Ottawa, 1973).

[19] For further details, see David Leyton-Brown's essay in this volume; and John Fayerweather, "The Mercantile Bank Affair," *Columbia Journal of World Business* 6 (November-December 1971): 41-50.

[20] "Mercantilism: Past, Present and Future," paper presented at the Canterbury Annual Meeting of the British Association for the Advancement of Science, 20 August 1973.

[21] See *Journal of Commerce*, 1 March 1973; and John Holmes's essay in this volume. Also see the *New York Times*, 6 January 1973; *Wall Street Journal*, 8 January 1973; and *International Canada*, January 1973, pp. 10-12.

a Canadian response are the constraints imposed on many subsidiaries preventing them from exporting to third countries. This is especially true of companies that have a regional form of organization. The Canadian government response can be found in its establishment of a screening agency for foreign take-overs, one criterion for which would be the extent to which the subsidiary would promote exports from Canada.[22]

Considerable concern has been expressed in Canada over the way in which the parent company cuts back production in time of recession. The claim is often made that where an option exists, and this depends on the organization of production, the subsidiary's output is reduced and labour laid off first in the Canadian subsidiary and only later in related plants in the United States. This becomes an extremely sensitive domestic political issue concerning unemployment among Canadian workers which is traced to US corporate sources. An example of this behaviour can be found in the plant shutdowns in the automobile industry in the Windsor, Ontario, area in 1972.[23] Not only does this issue involve the two governments but also relations between the locals of the unions involved, which view themselves as playing a zero-sum game. Current discussions concerning the need for multinational collective bargaining are in part a response to this concern about employment.

The issue of transfer pricing usually results from the parent company's attempt to minimize its tax payments to the governmental authorities. In such instances, negotiations may take place between the Canadian Department of National Revenue and the US Internal Revenue Service, illustrating the role of lower-level central government bureaucracies, both of which are faced with transfer-pricing problems.[24]

Switching funds between parent and subsidiary is another corporate activity that creates problems for the functioning of Canadian monetary and exchange rate policy. Under a system of flexible exchange rates, the immediacy of the effects on exchange reserves is less important; but even with flexible exchange rates, the central government will intervene in the market to prevent violent fluctuations that

[22] Canada, House of Commons, *Bill C-132, Foreign Investment Review Act*, submitted by the Minister of Industry, Trade and Commerce, 1st reading 24 January 1973 (enacted December 1973).

[23] We would like to thank Professor A. Murray of the University of Windsor for bringing this point to our attention. For an interesting case study involving one company, Auto Specialties Ltd., see *Windsor Star*, 17 January, 28 April, 9 and 10 June 1972.

[24] Litvak, Maule, and Robinson, *Dual Loyalty*, p. 132.

may undermine trade, and thus corporate activity cannot be ignored. The foreign exchange crisis of January 1968, when Canada had a fixed exchange rate, involved the speculative activity of US companies with Canadian subsidiaries,[25] and was only ameliorated after negotiations had taken place between representatives of the United States and Canadian governments at both political and bureaucratic levels.[26] An interesting aspect of this crisis was that it resulted from the corporate system's response to US government policies which in turn led to a Canadian reaction at the governmental level.

Corporate pricing policies have given rise to charges of price discrimination by firms against Canadian purchasers of farm machinery. In 1967, it was noted that Ford tractors manufactured in the United Kingdom were being sold in Canada at substantially higher prices than in the UK.[27] The differential could not be explained away in terms of transportation and distribution costs but was due to higher profits earned on the tractors sold in Canada. The ability to sustain this differential was due to an artificial separation of the British and Canadian markets; the Ford Motor Company made its UK dealers sign an agreement not to sell their products for export from the UK.

This example is slightly more involved as it brings in Ford's British subsidiary as well. Ultimately, however, the situation is similar to those examined earlier. The parent company of Ford in the United States initiates a policy of price discrimination that is transmitted through its UK subsidiary to its dealerships in Canada. Canadian combines (antitrust) authorities attempted to deal with this situation but appear to have received little assistance from either US or UK authorities, who felt they experienced few ill effects from the incident. The United Kingdom has no legislation dealing with pricing behaviour that discriminates between domestic and export prices, although concern may be expressed about lost export earnings. US affiliates, even if they wanted to act, argue that the pricing behaviour originates in another national jurisdiction, and the Canadian government finds itself impotent to affect behaviour in the UK. It is probable that government cooperation on such issues is not likely to take place until a number of countries find themselves subjected to similar

[25] See Louis Rasminsky (then governor of the Bank of Canada), "Monetary Policy and the Defence of the Canadian Dollar," speech given to the Canadian Club of Victoria, 17 October 1968, p. 8.

[26] See Maureen Appel Molot, *The Role of Institutions in Canada-U.S. Relations: The Case of North American Financial Ties*, Carleton University School of International Affairs Occasional Papers, no. 24, November 1972.

[27] Royal Commission on Farm Machinery, *Special Report on Prices* (Ottawa: Queen's Printer, 1969) pp. 61-90.

problems concerning multinational enterprises on which general agreement can be reached or issues traded.[28]

US Government-Initiated Policies

Relationship number 2 in figure 1 refers to policies initiated by the US government that apply to the parent company, but with the intent of influencing its subsidiary's operations by getting the parent to implement certain commercial policies in the subsidiary. A number of actions fall into this category, including antitrust policy, balance-of-payments policy, freedom-to-export rules, and Domestic International Sales Corporation (DISC) legislation.

In the antitrust field, United States policies have led to cases where a US company was prevented from acquiring a Canadian company, e.g., the proposed take-over of Labatt Breweries by the Jos. Schlitz Brewing Company. In other US court decisions, the ownership composition of Canadian corporations has been altered, as in the case of Alcan Aluminum Limited and Canadian Industries Limited. This action led to joint Canadian-US ministerial statements and to notification agreements in the event of future extraterritorial application of United States laws to firms in Canada.[29] The introduction of amendments to the Canadian Combines Investigation Act in November 1973, which block the application of foreign court judgments to firms in Canada, indicates that the Canadian government feels that something stronger than a notification agreement is needed in this area.[30]

A more sensitive political issue has arisen where United States laws and policies have prevented the export of goods from subsidiary operations in Canada, because of the US Trading With The Enemy Act and related export control regulations that apply to United States companies. Similar sensitivity has been shown when US balance-of-payments policies have influenced the flow of funds between parent and subsidiary, either by restricting the outflow of funds to the subsidiary or by encouraging the repatriation of earnings or the repayment of loans from the subsidiary to the parent.[31]

[28] The conflict between the Swiss-based company, Hoffmann-LaRoche, and the UK government concerning the pricing of Librium and Valium is a further example of one government requiring the assistance of another. See UK Monopolies Commission, *A Report on the Supply of Chlordiazepoxide and Diazepam* (London: Her Majesty's Stationery Office, 11 April 1973).

[29] See Isaiah A. Litvak and Christopher J. Maule, "Extraterritoriality and Conflict Resolution," *Journal of Conflict Resolution* 13 (September 1969): 305-19.

[30] See Canada, House of Commons, *Bill C-227*, Amendments to the Canadian Combines Investigation Act, 1st reading 5 November 1973, sections 31.5, 31.6, and 32.1.

[31] Litvak, Maule, and Robinson, *Dual Loyalty*, p. 57.

In these three instances there is an obvious potential conflict with Canadian national objectives. Freedom-to-export and balance-of-payments policies may conflict with Canadian policies, and US antitrust policies may conflict with the structure of industry desired by the Canadian government. The actual effects of the antitrust and freedom-to-export policies have probably been minimal to date, although there may be an iceberg effect in that the parent and subsidiary may refrain from exporting because of the known attitude of US authorities. In these circumstances, it is not the known cases that count but rather the general restraint exercised because of the existence of the policies.

All these activities have become sensitive political issues in Canada because of the obvious linkage of subsidiary commercial behaviour with government policies in the United States. Official Canadian government reports, by commenting on them, have also served to focus attention on this issue of extraterritoriality.[33] The other side of the coin is seldom stressed, namely that certain extraterritorial US policies may redound to the benefit of Canada. For example, the United States has tended to provide leadership in the promotion of automobile safety standards, drug testing, and environmental protection. The standards that have been applied to US manufacturers have often been applied to their subsidiaries in Canada even when Canadian laws do not require them.

An evolving area of concern is that posed by US legislation on pollution. It may well be that its effect will be to encourage the location abroad of certain activities that present a high environmental hazard and a low labour content, such as oil refining. Refineries have already been located in the Canadian Atlantic provinces, attracted there, it is true, by provincial authorities.[34] As with many of the other issues mentioned above, the Canadian authorities are free to prevent this locational pattern. However, Canadian constitutional arrangements present certain difficulties. Provincial governments in the depressed regions of Canada are loath to turn away any industrial activity because of the economic stimulus it provides. The formulation of any federal policy toward foreign investment in Canada has been severely constrained by the attitudes, largely favourable to foreign

[33] See Watkins report, pp. 310-46; Canada, House of Commons, Standing Committee on External Affairs and National Defence, *Report No. 33*, 28th Parl., 2d sess., 1969-70; and Gray Task Force, *Foreign Direct Investment in Canada* (Ottawa: Information Canada, 1972), pp. 253-90. See also the essay by David Leyton-Brown in this volume.

[34] For example, refineries have been located by Shaheen Natural Resources of New York and Gulf Oil in Newfoundland and by Texaco and Imperial Oil in Nova Scotia.

investment, of the individual provinces, which have the right to attract industrial activity. In fact, competition between provinces for foreign investment often results in substantial benefits from the investment being lost to the country as the result of the provincial governments offering tax concessions to the foreign investors.

The new mercantilism of government support for industry has its strong supporters in the United States as well as in Canada and elsewhere. Manifestations of it can be found in the DISC policy of the US government, which offers tax incentives for export development located in the US.[31] The implementation of DISC may not substantially affect Canadian industry, but its existence serves to increase the tension between the two countries.

Canadian Government-Initiated Policies

Relationship number 3 in figure 1 refers to attempts by the Canadian government to influence the subsidiary operations in Canada. These attempts are positive as well as negative and include trying to induce existing US subsidiaries in Canada to expand their operations, to increase their technological and innovative capability, and to locate in certain areas of the country with the assistance of regional economic incentives. As noted above, provincial governments provide incentives as well through such measures as tax relief and subsidies.

The restraining influence of the Canadian government is exercised most obviously through its establishment of a foreign take-over screening agency, which can be viewed as a way of restricting or controlling the opportunities for United States and other foreign companies to acquire subsidiary operations, to establish new operations, or to expand existing operations into unrelated fields in Canada. The criteria for assessing a potential foreign take-over reflect some of the issues concerning US direct investment about which Canadians are sensitive. However, the Foreign Investment Review Act (Bill C-132) is only the most recent in a series of policies produced largely on an ad hoc basis over time.

Canadian foreign investment policies have been discussed in detail elsewhere and can only be summarized here.[32] Essentially, they identify certain sectors of the Canadian economy as key sectors that should remain Canadian by some means, such as a limitation of for-

[31] See John Holmes in this volume. See also *Journal of Commerce*, 3 August 1973, and 11 May 1973.

[32] See Department of Industry, Trade and Commerce, Foreign Investment Division, Office of Economics, *Selected Readings in Laws and Regulations Affecting Foreign Investment in Canada*, March 1972, plus amendments nos. 1, 2, 3. A discussion of these policies can be found in *Dual Loyalty*, pp. 36-47.

eign ownership, Canadian content requirements in the mass media, the assurance of some Canadian presence in certain industries, and special assistance to Canadian-owned firms. In addition, the Income Tax Act contains special provisions relating to Canadian-owned and foreign-owned firms; the new Canada Corporations Act [26] requires a majority of Canadians on the boards of directors of federally incorporated companies; the Department of Industry, Trade and Commerce issues voluntary guidelines for good corporate behaviour by Canadian subsidiaries of foreign companies; [27] and the Canada Development Corporation has been established with the objective of helping to "develop and maintain strong Canadian-controlled and Canadian-managed corporations in the private sector." [28]

The purpose of these policies initiated by the Canadian government is to influence the performance of foreign subsidiaries either by regulating performance directly or by establishing ownership conditions in order to influence performance. The provisions of the Income Tax Act and the Canada Development Corporation have less direct impact on subsidiary operations but are intended to be complementary policies by promoting the development of Canadian-owned industry.

Relationship number 3 (figure 1) aims at influencing the subsidiary in Canada but has transnational implications in that what happens to the subsidiary is likely to affect its relationship with the parent company in the United States. Outstanding examples of these policies that led to political issues between the two governments occurred in the Mercantile Bank affair and with respect to *Time* and *Reader's Digest*.[29] One reason these cases became highly politicized was the influence that certain American business interests could muster within the US government, combined with the willingness of that government to act on behalf of such firms. In addition, there was strong American objection to the introduction of retroactive legislation that would adversely affect the two periodicals. The United States government often appears to act resolutely in instances that if carried out by the Canadian government could provide examples for other countries to follow, i.e., may lead to a domino effect which would

[26] See Canada, House of Commons, *Bill C-213, An Act Respecting Canadian Business Corporations*, 1st reading 18 July 1973.

[27] See "Some Guiding Principles of Good Corporate Behavior for Subsidiaries in Canada of Foreign Companies," in Department of Industry, Trade and Commerce, *Foreign-Owned Subsidiaries in Canada* (Ottawa: Queen's Printer, 1967), pp. 40-41.

[28] Canada, House of Commons, *An Act to Establish the Canada Development Corporation*, 1st reading 25 January 1971 (passed 9 June 1971), section 2.

[29] See John Fayerweather, pp. 41-50; and Isaiah A. Litvak and Christopher J. Maule, *Canadian Cultural Sovereignty: The "Time-Reader's Digest" Case Study* (New York: Praeger, 1974). For further discussion see article by David Leyton-Brown in this volume.

result in retroactive action against US companies elsewhere. In the case of *Time* and *Reader's Digest*, Canadian sensitivity was increased because of the sociocultural and political dimensions of the issues involved.

Jointly Initiated Policies

The US-Canadian automotive agreement and the defense production sharing agreement are examples of two agreements[10] made at the interstate level (relationship number 6 in figure 1) but that affect the parent-subsidiary relationship (number 1). The outcome and implications of these agreements for two companies, Ford Motor Company of Canada, Limited, and Garrett Manufacturing, Limited, have been examined elsewhere.[11] For the purposes of the present essay, the main observation to make is that the performance of the companies under the agreements has been such that one government or the other has wanted to renegotiate the arrangement because the outcome has not been as anticipated or has been felt to be harmful.

The foregoing relationships, numbers 1, 2, and 3, are fairly familiar, although when aggregated they present a formidable array of transnational actions undertaken by governments or firms. The other two relationships, numbers 4 and 5, are less obvious, and number 5 probably has little if any content. That is to say, it is unlikely that the United States government, except perhaps through its officials in Canada, will interact with the subsidiary company. It has no need to because of relationship number 2, interaction with parent company, and number 6, interstate politics. Even the example of US courts requiring the surrender of documents from a subsidiary, which is banned by law in Ontario and Quebec,[12] is primarily a case of approaching the parent company to recover documents from its subsidiary.

Relationship number 4 is more pervasive and is of growing importance. It refers to contacts made between the Canadian government and the parent company in the United States. This takes place in a number of different ways. The Trade Commissioner Service of the Department of Industry, Trade and Commerce provides one level of contact with US companies which may or may not be parent companies at the time of contact. More relevant examples are the dis-

[10] Litvak, Maule, and Robinson, *Dual Loyalty*, pp. 195-225.

[11] Ibid., pp. 61-86. See articles in this volume by Roger Swanson and David Leyton-Brown.

[12] See *The Business Records Protection Act, Revised Statutes of Ontario*, 1960, ch. 44 (Queen's Printer); and *The Business Concerns Records Act, Revised Statutes of Quebec*, 1964, ch. 278 (Queen's Printer).

cussions held by federal and provincial bureaucrats with United States companies in order to induce them to invest in Canada, to expand, or do something new in the case of firms with existing subsidiaries in Canada. This activity may be undertaken in conjunction with relationship number 3, where the Canadian government provides incentives through its regional policies or research and development policies to encourage firms to invest in Canada. Examples of these activities include the negotiations leading up to the location of International Business Machines (IBM) Corporation in Quebec, the expansion of Control Data Corporation in Ontario, and the location of Lockheed Petroleum Services in British Columbia. IBM, Control Data Corporation, and Lockheed Petroleum Services all received financial assistance from the Canadian government.[19]

The defense area is illustrative of another procedure, namely the offset agreement or bargained reciprocity. In instances where the Canadian government purchases large items of military equipment from United States firms, such as aircraft, offset agreements are negotiated between Canadian government officials and United States firms to ensure that a certain amount of production is located in Canada. A similar example can be found in the civil aviation field when Air Canada purchases US aircraft. In this case, Air Canada, being a crown corporation, has to clear the offset agreement with the Canadian government before closing the deal.

A further example of this linkage is the 30 percent equity interest in Texas Gulf Sulphur, a United States company with operations in Canada, acquired by the Canada Development Corporation which is financed by the Canadian government. This action represents a form of Canadian nationalization of a US company, both the parent company in the United States and its subsidiary in Canada.

In sum, relationship number 4 is illustrative of some of the ways in which the Canadian government attempts to implement an industrial policy using the public purse and its bargaining strength. The significance of this relationship is that it promotes bilateral trade resulting from reciprocal negotiations rather than open market transactions, and it encourages countries to establish nontariff barriers to trade.

The basic model used to analyze the six relationships discussed above can be modified in a number of ways. More explicit recognition

[19] Among the numerous examples of provincial governments seeking US investment are speeches made to the business community in New York by Premier Bourassa of Quebec and ex-premier Smallwood of Newfoundland extolling the advantages of locating industry in these provinces. In addition, the Province of Saskatchewan negotiated with the state of New Mexico to support its potash industry. See Holsti-Levy article in this volume for this case.

can be given to the role of provincial and state governments and to the inclusion of trade union activities, and the case of Canadian parent companies with subsidiaries in the United States can be introduced together with the case of US subsidiaries in Canada that in turn have subsidiaries in third countries.

Taking the case of Canadian parent companies, in 1969 Canadian direct investment abroad totaled $5,040,000,000, of which 54.8 percent was located in the US. However, 30 percent of the total was investment made by US-controlled corporations in Canada.[14] The oft quoted remark that Canadians per capita invest more heavily in the United States than Americans do in Canada has to be modified by details of the real origin of the investment.

Take the following instance of Canadian investment in the United States. Maclean-Hunter in Canada has in recent years expanded its American operations, which may explain the change in this company's attitude toward the activities of *Time* and *Reader's Digest* in Canada. During the hearings before the Royal Commission on Publications,[15] Maclean-Hunter argued against the two American periodicals being given special tax treatment in Canada. However, Maclean-Hunter reversed this position in its submission to the Special Senate Committee on the Mass Media in 1970.[16] Fear of retaliation against its operations in the United States may have led to this change of heart. Or consider the state of New York's advertising campaign, "It pays to locate in New York State," and the state's offer of financial incentives to attract Canadian firms (especially from Ontario) to locate there. State officials have published a brochure listing the Canadian firms that have responded to their campaign. Across the border in Ontario, the issue of financial subsidies to firms to locate in that province has given rise to a political issue because a number of large US companies have been the recipients of these subsidies. Thus at the provincial or state level, the public purse has been used to persuade foreign enterprises to locate abroad.

A more complex example of Canadian foreign investment is that of the Ford Motor Company of Canada, which itself has subsidiaries in South Africa, Australia, New Zealand, and Singapore (and Rhodesia from 1960 to 1967). This organizational setup reflects the system of imperial tariff preferences that gave an advantage to firms operating within the British Empire. However, since 1965 the group director of the Canadian Overseas Group has been responsible to an

[14] Statistics Canada, *Canada's International Investment Position* (Ottawa: Information Canada, 1971), pp. 69, 79.

[15] Canada, *Hearings before Royal Commission on Publications*, 1957.

[16] Canada, Senate, *Hearings before the Senate Committee on Mass Media*, vol. 1, 1970, p. 159.

executive vice-president of Ford-US in charge of overseas operations.[illegible] The relationship of the Canadian Overseas Group to Ford-Canada has merely been as a financial pass-through. However, the relationship is sufficient to involve the Canadian government in cases where the United States applies its foreign trade regulations through such subsidiaries in third countries.

The fourth example is still more complex. In 1971 the government of Guyana nationalized the Demerara Bauxite Company, a wholly owned subsidiary of Alcan.[illegible] While Alcan is about 50 percent Canadian owned and has its head office in Montreal, it had American antecedents and not until the 1950s did a US antitrust court decision separate the ownership of Alcan from that of Alcoa (Aluminum Company of America). Moreover, it is well known that Alcoa used Alcan prior to 1940 to gain proxy membership in the international aluminum cartel based in Europe. It is not surprising, therefore, that the Guyanese government perceived Alcan as one of the North American multinational corporations in the aluminum industry, and felt that Alcan was being subjected to pressure by corporations such as Alcoa, Reynolds, and Kaiser not to give in to the demands of the Guyanese. These companies were concerned that nationalization would provide a demonstration effect in the Caribbean where they had interests, such as in Surinam and Jamaica, as well as in other parts of the world.

The Guyanese believed the United States government to have a direct interest in the outcome of the negotiations for nationalization since the US companies were insured by the federal government under the Overseas Private Investment Corporation (OPIC). Moreover, the involvement of Mr. Arthur Goldberg, counsel for Reynolds Aluminum, in the compensation negotiations was seen as involving an emissary from the US government because of his earlier official positions. In fact, the Guyanese saw the US government as being more involved in the negotiations than was the Canadian government, which at the time was trying to develop its own policy toward foreign investment in Canada. Prime Minister Burnham described the role of the Canadian government during the negotiations as "impeccable," a comment reflecting the hands-off attitude taken. The significance of this example is that in the aluminum industry, certain companies are identified by bauxite-producing countries as North American companies with little or no recognition given to the Canadian aspects of Alcan. The US government is known to be active on behalf of its corporations with overseas investments and it is assumed that they act on behalf of

[illegible] Litvak, Maule, and Robinson, *Dual Loyalty*, chapter 5.

[illegible] The remarks in this section are extracted from research currently being undertaken by the authors.

Alcan as well. The absence of a stated policy by the Canadian government toward outward investment serves to substantiate this view and is likely to lead to future issues in Canadian-US relations.

CONFLICT RESOLUTION

The resolution of conflicts arising from the parent-subsidiary relationship shown in figure 1 has taken a number of different forms, including unilateral action by each government and bilateral governmental action involving interstate negotiations. Those policies of the Canadian and United States governments identified as the new mercantilism are examples of unilateral actions. Bilateral negotiations have taken place over balance-of-payments, freedom-to-export, and antitrust issues, at times leading to concessions or early-warning agreements, over special arrangements for industry sectors such as the automobile industry, and over special concessions granted to firms such as the Michelin Tire Company.[19]

Conflicts are also resolved within the corporation between the management of the parent and that of the subsidiary. As with transfer-pricing procedures, the form and nature of such conflict resolution is difficult to determine. However, it is clear from discussions with the management of Canadian subsidiaries that at times they will argue against parent company directives that are viewed as not being in the best interests of Canada. Sometimes this reaction may be due to a concern for Canada and sometimes to a belief that the image of the subsidiary and its associated commercial performance will be harmed by the action required by the parent company. Where Canadians manage the subsidiary they frequently display a personality whose loyalty is split between the US-controlled corporate system and Canada.[20]

In the context of Canadian-US interstate relations, the multinational enterprise has increased the importance of politico-economic bargaining across multiple issue areas involving governmental and nongovernmental actors. Professor Stanley Hoffmann took note that "the competition between states takes place on several chess boards in addition to the traditional military and diplomatic ones: for instance, the chess boards of world trade, of world finance, of aid and technical assistance, of space research and exploration, of military technology,

[19] Litvak, Maule, and Robinson, *Dual Loyalty*, pp. 36-48, and note 21 above.

[20] The ability to resolve conflicts within Canada is also constrained by federal-provincial relationships where provincial governments are anxious to promote industrial activity at almost any price. In the case of Quebec, little distinction is made between English-Canadian capital and that from the United States. In fact, at times there seems to be a preference for the US variety.

and the chess board of what has been called 'informal penetration.' "[9] It is our belief that the preeminent presence of the US multinational enterprise in Canada has increased the subtle and complex linkages between these chess boards for both players. For example, although the US government is host to the headquarters organization of the multinational enterprise, and has the legal authority and power to affect certain commercial activities of US multinational enterprises, it may choose not to do so for political and/or economic reasons because of its relations with Canada. This has been evident in the concessions by the United States in the areas of freedom-to-export, antitrust, balance-of-payments, automotive, and defence-sharing agreements. Implicit in any bilateral consultative agreement is the giving up of some freedom of action by both parties.

Our case studies have shown that the presence of the multinational enterprise promotes the interdependence of political and economic issue areas between Canada and the United States. Offset agreements are becoming an important consideration in the negotiations between the two governments, limiting their scope in some areas, while expanding it in others. It appears obvious that the US multinational enterprise has increased the potential costs of applying certain actions by one nation against another if both are constituents of the same corporate system. This phenomenon will make the multinational enterprise an increasingly important ally or opponent in interstate politics—depending on whether the national interests of the governments involved coincide or conflict with those of the corporation. Consideration of cases involving Canadian companies with subsidiaries in the United States and elsewhere reinforces this view. Thus, the multinational enterprise may be seen as a constraint on a nation's autonomy, which applies to both parent and host governments. In short, the multinational enterprise as a transnational actor presents nations with a revised set of payoffs in their interactions with one another.

[9] Stanley Hoffmann, "International Organization and the International System," *International Organization* 24 (Summer 1970) : 401.

National Independence - Issues and Alternatives

by

R. M. MacIntosh, Executive Vice-President
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at the

Outlook and Issues '76 Conference
Ontario Economic Council
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It is difficult to comment profitably on a document with which one is in substantial agreement. The position paper of the Ontario Economic Council on National Independence is a thoughtful and sensible document, which distinguishes it very greatly from most contemporary Canadian literature on the subject. My chief complaint about the paper is that it is somewhat dry, and for that reason not likely to be widely read or understood.

In any event, it is easier to criticize the critics of the paper than the paper itself. Since one of the critics is present here this morning, in the person of Mr. Williams, who wrote a dissenting opinion at the end of the report, I would like to say a word about his comments. Before doing so, however, I would like to lead off with a general comment about the predictable views of the professional nationalists on this Ontario Economic Council publication.

On February 4th the Toronto Daily Star attacked the Ontario Economic Council's report, saying that the Report's attribution of enormous benefits to Canada from foreign investment is "a misreading of Canada's economic history". The arrogance of journalists in telling highly qualified economists such as the Chairman of the Ontario Economic Council and the Chairman of this panel how economic history is to be read, gives pause for thought. With a fine disregard for the weight of professional opinion, the editorial states:

> "The large degree of foreign ownership in Canada ... has led to a branch plant economy..."

The editors of the Star have never been able to get it through their heads that our branch plant situation is the product of our own tariff and trade policies. The most recent documentation on this subject is found in the Economic Council of Canada's study "Looking Outward".

A further claim of the editorial is that "the problem of foreign investment overshadows most of the economic problems Canada faces, such as jobs, trade, science and investment". This assertion reflects the paper's own bias rather than public opinion.

<u>Proposition 1:</u>

The relative importance of U.S. investment in Canada is more in the minds of the professional nationalists than those of Canadians generally.

A survey taken in 1973 on the issues which are of most importance at the present time to Canadians, details of which are shown in the attached Table 1, showed that only 6.6% of the population regarded the issue of U.S.

investment in Canada as the number one question for Canadians. In the 1972 survey, foreign investment was not even included as an option.

In a recent political convention held in Ottawa, only two candidates dealt with the issue of foreign policy at all, and no candidate discussed the question of foreign investment. This makes it a little difficult to discern exactly in what way United States ownership of Canadian industry can be considered an issue in our political life. Since more than one prominent member of the Committee for an Independent Canada was involved in the back-room activities of this convention, it is a little puzzling to know where their priorities are when the chips are down.

Another point to keep in mind is that the concern here in Ontario about foreign ownership is somewhat greater than in other regions of Canada. A working paper commissioned by the O. E. C. and referred to in the "National Independence" study indicates that 45% of Ontarians would be willing to accept a lower standard of living if this were to reduce or abolish U. S. investment in Canada (see Table 2). What the O. E. C. study omits to add is that only 31.5% of Maritimers would be willing to make a similar trade-off. As we all know and recognize, regional forces are very strongly at work in this country. No national political party can maintain unity without taking account of these forces. Fortunately, some of the provinces have so far saved us from the worst excesses of the Foreign Investment Review Act.

Proposition 2:

Another basic error in the philosophy of the professional nationalists is the proposition that control of foreign investment is an objective in itself. This is simply not true. If control of foreign investment has any merit, it must be found in the benefits which flow from such control, such as giving Canada a greater range of options in its political and economic choices.

There are good analogies to this proposition, also not well understood by editorial writers. Consumption is not an end in itself. If consumption were for its own sake, then we would be better off to make glass which breaks and pantyhose which run. Then, of course, you would have to make more and that is the logic of describing consumption as a goal itself.

In the same way, employment is not a goal in itself. If that were so we could employ everyone digging holes and filling them in again. While this may seem very elementary, it seems to be beyond the range of some journalists and politicians.

By the same token, then, national independence is a goal to the extent that it improves on balance the general well-being of Canadians in a cultural, political and economic sense. Freedom to conduct one's own economic and foreign policies to the extent possible in to-day's interdependent world, maturity, confidence, an environment where cultural activity can flourish, these are the purposes of national independence. The contribution to these objectives of controlling foreign investment is greatly exaggerated in the minds of many, especially when there is virtually no literature in this country which even attempts to show that there has been a significant influence of foreign investment on the internal political life of Canada. In this regard, Dr. Grant Reuber states: "... it is particularly unfortunate that the discussion of these non-economic aspects [of foreign investment] has amounted to little more than a series of bald assertions".[1]

1. P. Grant L. Reuber: "Foreign Investment Issues", The Canadian Business Review, Volume I, No. I, 1974, p. 34.

In the last decade a number of very important corporations have experienced a significant shift in the ownership of their shares from foreign hands to Canadian hands. One prominent case is that of the CPR, which is now majority owned in Canada, after having been majority owned in the United Kingdom from the time of its inception. If majority ownership is so important to the exercise of control, it would be interesting to hear from the Committee for an Independent Canada exactly what policy changes have occurred as a result of the repatriation of CPR stock. Does anyone imagine that federal policies with respect to grain rates, or passenger rail traffic, or the abandonment of spur lines has anything to do with where majority ownership of CPR stock rests?

Other important cases where a significant shift of stock ownership has occurred are those of the Alcan Aluminium Limited and the International Nickel Company of Canada. Something close to a majority ownership in Canada now exists in both cases, whereas majority or plurality control was held in the United States until a few years ago. If the domicile of the stock ownership is so important, here again it would be interesting to know exactly what bearing this has had on the investment policies, production policies, labour policies, and so forth, of these two great companies.

The Foreign Investment Review Act

In recent years, Canadian policy with respect to foreign investment has shifted from the key sector approach towards a generalized system of controlling the extent of foreign investment. The basic thrust of the Foreign Investment Review Act is that all investments, no matter of what kind, must stand the test of "significant benefit".

All foreign takeovers of Canadian based companies with assets over $250,000 or gross annual sales in excess of $3 million are subject to the approval of the Foreign Investment Review Agency. To show how absurd this level of review is, a ski-tow company takeover in Quebec had to be appraised for its significant benefit to Canadians. In the first year of operations, 39% of the takeover bids screened by FIRA involved companies with assets under $1 million (Table 3). Companies with assets under $2 million covered 60% of all screenings. These companies comprising 60% of the individual cases which were appraised, accounted for only 8.4% of the total assets. At the other end of the scale, the ten largest cases involved assets of $482 millions. Surely it is quite apparent that the mesh of the screening agency has been made much too fine. There is far too much bureaucratic intervention in the economy and no real focus on questions of significant benefit. Indeed, FIRA generally does not announce the criteria for its decisions, so there is no way of knowing whether there is a coherent, meaningful policy or not. And of course no one knows how much real economic activity has been discouraged in advance by the prospect of having to wade through the FIRA jungle towards a decision.

Social Responsibility and Private vs. Public Ownership

This brings me to make some brief comments on Mr. Williams' dissenting views which are at the back of the document on National Independence. He contends that there need be no costs paid by society in achieving national independence. He couples this with the proposition that if private companies showed the degree of social responsibility that crown corporations do, then we would make out very nicely.

The thought of extending the foreign investment review process to all domestic capital investment, as Mr. Williams proposes, is a proposition which I view with unqualified horror. This would amount to a mountainous centralized federal bureaucracy, passing value judgements over entrepreneurial proposals throughout the country. In comparison, the present administrative superstructure for administering FIRA would appear to be a molehill. In fiscal 1974-75, as the attached Table 3 shows, there were 150 cases reviewed by FIRA. If one were to extend the same process to domestic capital investment, there would be tens of thousands of cases a year, meaning that FIRA would have to be multiplied by several hundred times its present size. Anyone who thinks that a central committee can sit in judgement on a complex market economy such as we have today, had better look more closely at the success of government investments in recent years.

The country-side is strewn with the wreckage of provincial government disasters. Just to mention a few, we have an oil refinery in Newfoundland, a fish processing plant in Prince Edward Island, a heavy water plant in Nova Scotia, an automobile plant in New Brunswick, an industrial development company in Quebec, a forest products plant in Manitoba and an automobile insurance company in British Columbia. In a market economy private capital investments have to stand the test of economic viability. Where no such test applies, or where it is heavily qualified by a variety of non-economic objectives, there are very real questions as to what is "of significant benefit" to Canadians. Does anyone really imagine that it is of significant benefit to create a heavily subsidized uneconomic enterprise which self-destructs after a year or two throwing hundreds of people into unemployment and creating idle infrastructure which was related to the enterprise?

On another angle, can a postal system which in 1975 alone experienced seven strikes really be considered socially accountable and of net benefit to Canadians? What about a public automobile insurance company with a strike of 3 1/2 months duration after its second year of operations? If the Canadian banking system were run by the government the way these organizations are run, there is no doubt that the payments system in Canada would break down altogether.

Finally, I return to the question of social responsibility of private corporations. This is a very difficult issue, because there are always tradeoffs between productivity, efficiency and employment on the one hand and other social goals on the other. The costs of reducing pollution caused by the steel industry are very considerable. Large capital investments are being made by firms in the industry, not with a view to increasing output, but in order to conform to federal and provincial pollution control requirements. Some would contend that by merely meeting those requirements and not reaching out to reduce pollution down to its minimum possible levels, private steel companies are proving themselves not sufficiently responsible. By the same token, banks could be accused of lacking social responsibility for making loans to steel companies for the purposes of plant expansion rather than the purchase of pollution control equipment or for lending to millions of people for the purchase of cars.

However, any steel worker knows the costs in terms of new employment of pollution control, and could speak eloquently on the folly of a policy bent on the complete elimination of pollution. Would Mr. Williams tell his membership that he favours a socially responsible policy of eliminating the automobile? Cars pollute, cars use steel. Would Mr. Williams advocate as socially responsible a shutdown of the automobile industry until cars can run completely clean? Would he shut down the Hamilton steel mills until you can drink the water in Hamilton Harbour? Would he shut them down for a week, a month, a year, forever?

There is always a tradeoff between employment, income and other social goals including pollution control and national independence. The scale of magnitude of tradeoffs involved in achieving absolute national independence would dwarf even the astronomical costs of turning Hamilton Harbour into a fresh water spring.

TABLE 1

CANADIAN ISSUES WHICH ARE MOST IMPORTANT AT THE PRESENT TIME BY REGION (1973)

	Total Canada	Maritimes	Quebec	Ontario	Prairies	British Columbia
1. Inflation [a]	42.6%	40.9%	45.9%	38.9%	46.4%	41.6%
2. Unemployment	22.1	30.4	27.5	19.3	15.8	19.6
3. Environment & Pollution	14.5	14.4	11.5	16.2	12.8	19.3
4. Taxation [b]	13.7	14.4	11.7	16.1	13.4	10.1
5. U. S. Investment in Canada[b]	6.6	5.0	4.9	8.4	6.3	7.0
6. English/French Relations in Canada	4.0	3.8	3.7	3.8	5.8	2.9
7. No Opinion	1.5	1.4	1.8	1.3	1.1	2.1
All respondents	4980	444	1411	1812	799	514

NOTE: [a]Indicates position in 1972 survey.
[b]Item not included in 1972 survey.
- Percentages total to more than 100% because of multiple responses.

Source: J. Alex Murray and Lawrence LeDuc: A Cross-Sectional Analysis of Canadian Public Attitudes toward U. S. Equity Investment in Canada; June 1975, p. 56 - Ontario Economic Council Working Paper No. 2/75

TABLE 2

ACCEPTANCE OF A LOWER STANDARD OF LIVING FOR MORE CONTROL OVER CANADIAN ECONOMY BY REDUCING OR ABOLISHING U. S. INVESTMENT BY REGION

	Total Canada	Maritimes	Quebec	Ontario	Prairies	British Columbia
No	47.7%	59.2%	52.3%	46.5%	44.3%	34.2%
No opinion	8.6	9.2	7.9	8.2	9.1	10.7
Yes	43.8	31.5	39.8	45.4	46.6	55.1

Source: J. Alex Murray and Lawrence LeDuc: A Cross-Sectional Analysis of Canadian Public Attitudes toward U. S. Equity Investment in Canada; June 1975, p. 35 - Ontario Economic Council Working Paper No. 2/75

TABLE 3

REVIEWABLE CASES: VENDOR COMPANIES CLASSIFIED BY ASSET RANGES

Fiscal 1974/75

	All Vendor Companies		Distribution By	
Asset Range	Number of Cases	Assets	Number of Cases	Assets
		($ mil.)	(%)	(%)
Less than $0.5 mil.	24	7.9	16.0	0.8
$ 0.5 mil.-$ 1 mil.	34	25.1	22.7	2.6
$ 1.1 mil.-$ 2 mil.	32	48.9	21.3	5.0
$ 2.1 mil.-$ 3 mil.	12	27.7	8.0	2.8
$ 3.1 mil.-$ 5 mil.	10	38.4	6.7	4.0
$ 5.1 mil.-$10 mil.	13	91.1	8.7	9.4
$10.1 mil.-$15 mil.	6	76.5	4.0	7.9
$15.1 mil.-$25 mil.	9	172.9	6.0	17.8
Over $25 mil.	10	482.2	6.7	49.7
Total	150	970.7	100.0	100.0

Source: 1974/75 Annual Report: Foreign Investment Review Agency, pages 24 & 25

A P M A (Canada)
Suite 402 55 York St., Toronto, Canada · 416·366·9673

December 17, 1975

The Hon. G.W. Long
House of Representatives
Washington, D.C.

Dear Mr. Long:

I was interested in the public hearings which took place in Washington on Tuesday, December 16th, in which Canadian-United States relations were raised as a major issue.

I was particularly interested in the comments of Roy Bennett, President of Ford Motor Company of Canada. I am under the impression that Mr. Bennett's testimony did not accurately reflect the true state of the automotive industry in Canada.

I am enclosing for your information and the information of your committee a copy of a submission which was made by my Association to the United States International Trade Commission hearings into the United States-Canada Automotive Agreement.

The Auto Pact in its present state is creating a number of problems in Canada at the present time. The attached brief addresses itself to these problems with accompanying statistics.

Please do not hesitate to call on us if you have any questions.

Yours sincerely,

P.J. Lavelle
President

Enc.

A Concept of Mutual Benefit

Submission of:

The Automotive Parts Manufacturers' Association of Canada

To.

The United States International Trade Commission

December 11, 1975 Detroit, Michigan

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"A Concept of Mutual Benefit"

Automotive Parts Manufacturers' Association (Canada)
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My name is Patrick Lavelle and I am here as the President of the Automotive Parts Manufacturers' Association and a representative of the Canadian independent automotive parts manufacturing industry.

The Automotive Parts Manufacturers' Association is a 25 year-old organization representing 220 of Canada's automotive parts producers who supply both original equipment and aftermarket parts to the Canadian and United States markets. A small percentage of Canadian parts output is also directed to third-country markets.

The Association represents large multi-national parts firms operating in Canada, as well as Canadian-controlled companies who can generally be classified as being smaller and somewhat more specialized than their American counterparts.

It is our intention today to address ourselves to the contention of some observers in both countries that the benefits of the Canada-United States Automotive Agreement of 1965 were more advantageous to the Canadian automotive industry than to the comparative industry in the United States.

It is our belief that the Agreement has been mutually beneficial to both partners. For this reason we welcomed the announcement of the United States International Trade Commission's study into the Canada-United States Automotive Agreement and we are confident the results of your study will lead to a review of the Agreement which will benefit both countries. We are also hopeful that such a review would bring about a harmonization of Canada-United States trade figures to the satisfaction of both participants.

Any agreement involving such a volatile and massive section of the economies of both countries requires review and reassessment on a regular basis. The Auto Pact has withstood ten years of operation under drastically changing economic conditions in both countries. We believe that a review at this point in time will be particularly useful.

The Automotive Agreement has had positive effects on the Canadian automotive industry. One must take into consideration when evaluating and comparing the growth in the two countries, however, that the Canadian industry in 1964 was small and fragmented, while the United States automotive industry was nearing maturity. The American automotive assembly industry had been for years the showpiece industry of the western world. Consequently it is difficult to compare the employment, consumption and investment figures in Canada during the early years of the Agreement and make any meaningful comment.

As a result of the Agreement, Canadian parts industry employment grew from 34.8 thousand to a peak of 48.6 thousand in 1973. I might point out that employment has subsequently declined to 40.5 thousand. While employment grew substantially in Canada, it must be taken into consideration that the Canadian industry has remained somewhat less efficient than the United States industry and our production share required relatively more employment. In large measure output gains in Canada have been achieved by increasing employment. Canadian producers have not benefited to the same degree as their American counterparts in the efficiencies achieved by lengthy production runs. (See Table 1.)

A study of Canadian-United States productivity figures will show that the disparity which existed in 1965 between the two industries narrowed substantially in the first five years of the Agreement. As the United States and Canadian economies began to decline in the early '70's, the productivity gap widened to the point where today it is approaching what it was ten years ago. (See Tables 2 and 3.)

We would not want to suggest that productivity is the only factor which separates the two industries. There are other economic factors which have been altered over the past ten years as well. We contend that those factors have had more effect on the smaller less efficient Canadian industry than on the United States industry.

In the past ten years Canadian wage rates, once substantially lower, have reached parity with United States workers in the same industry. Canadian wage rates are substantially higher than wages paid to auto parts workers employed in several regions of the United States, and of course both Canadian and United States producers are faced with low-cost competition from third countries.

A currency advantage in Canada's favour existed in 1965 which amounted to about 8%. This currency differential gradually narrowed to the point where, in 1972, the advantage shifted to the U.S. favour. At the current time, the currencies of the two countries are very close to par.

In addition, Canadian producers have faced competition from United States producers supported by a 2½ per cent export subsidy under the Domestic International Sales Corporation plan. There is no such export subsidy in Canada.

The costs of capitalization, real estate, federal and provincial taxes are all higher in Canada in comparison to those faced by parts and assembly manufacturers in the United States. As a result of these economic factors investment in the Canadian automobile industry has declined in the past four years. Investment in future automobile and parts production in Canada to meet the changing requirements of the market is negligible in comparison to what is taking place in the United States. (See Table 4.)

The great efficiencies achieved in the earlier years of the Agreement have been substantially offset by the economic factors which came into play in the past five years, many of which neither country could control or forecast.

The concept of a North American automotive market embracing both countries is undoubtedly a concept worth pursuing in the economic interest of both countries. This concept to be successful and beneficial to both countries must be based on equality and fair access to the total market by both partners.

In studying the concept of mutual benefit, one cannot escape the fact that the fate of the Canadian industry is substantially affected by decisions made in the United States by the vehicle assemblers. Under normal conditions this fact did not and should not play a major role in sourcing decisions. However, economic conditions such as domestic unemployment, fluctuating exchange rates and inflation have undoubtedly had a major effect on corporate decision making both in Canada and the United States. The decline in market for automobiles has resulted in decisions which have adversely affected Canadian suppliers, and contributed to large trade deficits. (See Table 5.)

As independent auto parts manufacturers, we are naturally drawn in our assessment of benefit from the Agreement to the rate of growth that has taken place in the trade of automotive parts between the two countries over the past ten years.

Canadian exports have grown substantially from $53 million to $2 billion. American imports have grown from $621 million to $3.9 billion. However in the ten years since the Agreement was signed, Canadian auto parts producers have sustained a $12 billion deficit in trade with the United States, and the growth of this deficit has accelerated sharply in recent years.

There is every reason to expect that Canada would sustain a trade deficit because of the very size and might of the United States market and this has taken place. What is not acceptable to Canadian producers is that the deficit is on an ever increasing spiral, while the domestic Canadian market has virtually been lost to Canadian producers. Thus there is no cushion for lost sales in the United States and elsewhere.

We are aware of the contentious nature of the automotive trade figures between the two countries. The official figures agreed to by the governments of both countries and compiled by Statistics Canada and the U.S. Department of Commerce put the 1974 Canadian deficit/U.S. surplus in parts at $2.1 billion. The January to August figures indicate that the deficit in the first eight months has climbed by 40.6 per cent and in all likelihood will reach $2.5 billion in 1975. In two years the Canadian parts industry will have sustained a negative balance of trade equal to the projected Canadian overall deficit for the year 1975. (See Table 6.)

There are those who tend to balance the auto parts trade deficit with the Canadian surplus of vehicles shipped to the United States. Even this relatively stable exchange between the two countries is falling out of line to the extent that the overall deficit in auto trade between the two countries has almost doubled from $603.4 million to $1.1 billion in the first eight months of 1975, an increase of 85%. In the ten years since the Agreement, Canada has sustained an overall trade deficit in the automotive sector of slightly over $5 billion.

We are not here to argue or contest the United States-Canada trade deficits. Trade balances are only one aspect of overall international trade and have to be considered in that light. Trade deficits are one of the symptoms of economic malady which have infected the entire North American auto industry.

There is no question that the recession in the North American industry, combined with present patterns of production, has aggravated the trade balance problems. The overall consumption of imported parts by the United States, however, has not matched the Canadian export decline. In fact, over the past two years the value of parts imports into the United States increased while the value of Canadian parts exports to the United States declined. In 1971 Canada accounted for 72 per cent of United States imports of automotive parts. In 1974 this had declined to 59 per cent. Japan, Mexico and Brazil had all doubled their share, while other countries have become increasingly competitive. (See Table 7.)

Conversely, the Canadian parts exports to the United States represent 94.2 per cent of Canadian output. The balance was shipped to Canadian assemblers. During the United States downturn Canadian parts producers paid a higher price in terms of lost market share than their A...rican counterparts, as the U.S. portion of the Canadian parts market continued to grow while the Canadian producers had to settle for a smaller share of the United States market and a declining share of the Canadian market. (See Table 8.)

It is questionable under any conditions that Canadian exports of domestic production should reach such a high proportion of its output. If Canadians achieved the balance that American producers are presently achieving relative to imports vs exports, the Canadian deficit would be dramatically reduced or eliminated.

The Canadian market for American parts manufacturers has been a source of stable and steady growth since 1965. It is clear that parts exports from the United States offset the less than anticipated growth in the Canadian consumption of automobiles.

According to the UAW's submission to the United States International Trade Commission's inquiry into dumping, $1 billion in automotive sales represents 26,000 jobs. If you measure the value of increased sales over the past ten years, minus the value of Canadian exports, you will find that the American advantage in terms of jobs provided has been substantial.

For a further view of this aspect of the Agreement, I would like to quote from William Eberle, President of the Motor Vehicle Manufacturers' Association of the United States in his submission to the U.S. Trade Commission's dumping inquiry of August 1975. "This is why it is important to not consider just complete automobile imports from Canada, all Canadian cars (of course including those shipped here) have a substantial input of U.S. components and materials -- meaning domestic jobs and profits. The implications of this factor can only be seen in the total automotive trade balance.

"Bilateral trade under the agreement grew from $700 million to over $12 billion. Trade in complete automobile units has been in Canada's favor, some 300,000 units (net) in 1974. At the same time, however, the overall automotive trade balance (including complete units and parts), which is more fully reflective of the total employment and profit effects of the Agreement at the present time, ran over $1 billion in surplus for the United States in 1974 and is running at a greater rate for the first five months for 1975. I want to stress, as I have in past testimony on this subject, that the current balance should not be considered a trend. The balance vascillates, reflecting changing consumer preferences and economic conditions. Nevertheless these figures are appropriate, and instructive, since they cover the period under investigation by the Commission.

"It's also interesting to note when the depressed U.S. market led to a 6% drop in U.S. imports of automobiles from Canada, U.S. exports of autos to Canada rose 14%, reflecting Canada's stronger economy in 1974, one of the few bright spots in the bleak 1974 picture for U.S. manufacturers and workers.

"This increase in trade has brought with it a great expansion of productive facilities and employment. Since the Agreement went into effect, employment in the U.S. automotive manufacturing industry has increased by 188,500 workers and by 40,000 in Canada.

"In a very real sense, imports from Canada, which only became significant after the Agreement went into effect, facilitated the growth and expansion of the U.S. industry and domestic employment as an integral part of the evolution of a fully integrated North American market."

Canadian assembly facilities rely heavily on U.S. sourcing of parts. In 1964, for every dollar's worth of Canadian parts used in Canada, there was just over one dollar's worth in U.S. parts. In 1973, for every dollar of Canadian parts there was $102 U.S. parts.

There has been a similar trend in the United States where more Canadian parts have been used in relation to U.S. made parts, but, of course, resulting U.S. dependence on Canadian parts is far less significant. In 1967 for each dollar's worth of U.S. parts, there was five cent's worth of Canadian parts, and by 1973 this had increased to 13 cents. Considering the size of the production market in the United States, this has meant a substantial increase in demand for Canadian parts. (See Table 9.)

You will also note that in the case of American parts exports, Canada represents the major market for almost every item shipped out of the United States. The items shipped into Canada by either independent parts manufacturers or by the automobile companies themselves represent high cost and high technology, while Canadian production tends to be low unit cost and highly portable. (See Table 10.)

In terms of the new technology evolving in the North American automotive industry, Canadian producers are not sharing proportionately to the North American market share they represent.

American exports of automobiles are directed to Canada. While Canada has provided a sound and growing market for American car exports, there has been virtually no increase of vehicle exports from the United States or Canada to offshore markets. This has taken place despite the fact that imports have increased their share of the North American market from 5.9 per cent to 18.7 per cent over the 10 years the Agreement has been in effect. Exports of automobiles to offshore markets from North America have remained constant at about 1 per cent.

In the anticipated $10 billion positive 1975 trade balance, the United States projects its overall trade account exports of automotive parts and vehicles will represent well over 10 per cent. If you consider parts alone, well over 20 per cent of that surplus will be made up of the parts surplus to Canada.

Meanwhile Canadian parts producers have seen their share of the domestic market go from approximately 92 per cent in 1964 to less than 6 per cent in 1973. With imports up again in 1974, there is no doubt that the trend will be continued. If you take that trend to its ultimate conclusion, that is 100 per cent of Canadian production to the United States, there is no reason to sustain an industry in Canada except to supply the Canadian aftermarket which is protected by a tariff of 12½ per cent to 15 per cent. Despite the tariff protection, Canada's trade deficit in aftermarket trade with the United States in 1974 approached one-half billion dollars. It is clear that some degree of protection must be afforded the Canadian automotive parts industry under present economic conditions.

The safeguards - CVA and the ratio to sales - included in the Agreement have worked but perhaps they have worked too well and worked to the disadvantage of the Canadian parts producers and to the advantage of Canadian assemblers and American parts producers, independent or captive.

We as parts producers support the concept of one North American market. The mutual advantages of increased production and employment in both countries are vital at a time of worldwide economic insecurity and stagnation. Economic growth in both countries has suffered proportionately as a result.

The statistical tables, which are attached to this brief statement, support the contentions we have raised. In terms of the growth of the Canadian industry they tend to clearly define the advantages to Canada. They also clearly demonstrate the areas of disadvantage.

We do feel, as an industry and as a partner in a free-trade arrangement, that once considered and acknowledged these figures should be put behind us and the future of the overall North American industry become a paramount consideration.

Both countries have a large stake in the renewed growth and health of the North American automotive industry. There is - it seems to us - no need to engage in a lengthy discussion over the relative merits of an agreement which was designed ten years ago to meet economic conditions which existed at that time.

What is required now is the endorsement of the principle of mutual benefit and cooperation which will eventually restore a sense of balance to the Agreement and move to satisfy criticisms in both countries aimed at the various inadequacies in the Agreement.

While we do not intend to engage in any lengthy discussion as to how the Agreement should be altered, we would like to put forward some suggestions for the record and for consideration by the Commission.

We want a review to encompass the whole area of automotive trade between Canada and the United States, including the so-called safeguards, the tariff on new cars, the embargo on used cars, and the future of the industry itself.

First, any negotiations must take place with the parts industry firmly separated from the automotive assemblers. I do not say this in an argumentative sense. The Canadian parts industry is a totally different entity with different problems and different prospects than the manufacturers. Of course, we have common interests but our interests will not be served by a reviewed Auto Pact which only protects one aspect of this huge industry.

We have proposed that the trade deficit be controlled by agreement and we feel that the trade balance for the various automotive sectors should be averaged out over a number of years so the deficits in favour of one country or another can be evenly determined by the automotive companies under the supervision of a joint commission.

There is also the question as to the desirability of determining the value of the Agreement based solely on the yearly trade balances. While the parts industry has never had a surplus in the ten years since the signing of the Agreement, the Canadian automotive industry as a whole has had some surpluses, although a good portion of those surpluses were snowmobile shipments to the United States.

The Association has suggested that the balance should be negotiable. We further suggested that this agreed to deficit be averaged out over a period of years so that the usual cyclical swings and the luck of the draw insofar as auto production is concerned be compensated over a period of years.

We would like to see the focus on the effectiveness of the Agreement switch from the trade balance to such important economic indicators as employment, investment, and research and development. All of these issues are critical to the future of the Canadian industry and are not in any way negotiable at the present time.

The abolition of the safeguards and the replacement of them by a new set of criteria more directly related to today's economic realities would have to be overseen by a joint Canada-United States commission on the automotive industry which hopefully would and could be expanded to deal with all matters of trade between the two countries. With or without the Auto Agreement, it is time such a body was established to mediate bilateral trade disputes between our two countries. This can be done without political or economic union. The present processes involved in the settling of economic disputes between the two countries is lengthy and involved, whereas a joint economic commission could reach agreement on issues before they become major irritants which force governments to take public positions and bring about delays.

The failure of governments to discuss the irritants which have arisen as a result of the Automotive Agreement on a day-to-day basis, has led to the current situation. It is clear that some mechanism must be established on international agreements of this kind for constant evaluation and consultation.

We are confident, Mr. Chairman, that the points raised today during your hearings on the Agreement by the various groups appearing will raise a number of issues. We have appeared here in order to inform the Commission of Canadian parts industry views and concerns which have been raised as a result of the mandate extended to you by the Senate Finance Committee.

Any bilateral trade agreement, such as the one entered into by our two countries ten years ago, should be seen to act to the benefit of both countries overall, rather than provide one-sided advantages for individual sectors in both countries. If this cannot be achieved between our two countries, then it is doubtful if it can be achieved at all.

Table #1

TOTAL EMPLOYMENT IN CANADIAN AUTOMOTIVE PRODUCTS INDUSTRY BASED ON CANADIAN STANDARD INDUSTRIAL CLASSIFICATION (SIC), ANNUAL AVERAGES, 1965-73

	TOTAL EMPLOYMENT	
Year	Motor Vehicle Assembly (Sic. 323)	Parts and Accessories (Sic. 325)
1965	41.9	34.8
1966	42.8	37.0
1967	40.7	37.1
1968	41.6	36.7
1969	44.5	39.7
1970	39.4	35.8
1971	43.1	40.6
1972	44.1	42.7
1973	45.2	48.6
1974	46.7	43.1
Sept./1975	44.3	40.5

Source: Statistics Canada - Catalogue #72-002, Employment, Earnings & Hours

Table #2

Productivity - Value Added Per Production Worker
1961-1973
(constant 1961 $000's)

Year	Canadian (323 & 325)	U.S. (3717)	Canadian Assembly (323)	U.S. Assembly (3711)	Canadian Parts (325)	U.S. Parts (3714)
1961	13.56	18.80	17.08	n/a	9.98	n/a
1962	15.88	22.85	20.47	n/a	11.15	n/a
1963	17.36	24.89	22 48	n/a	11.92	n/a
1964	15.58	24.91	19.53	n/a	11.47	n/a
1965	16.87	26.76	20.89	n/a	12.18	n/a
1966	16.88	27.90	20.63	n/a	12.88	n/a
1967	20.23	24.83	26.88	30.86	13.50	19.56
1968	22.11	28.78	30.14	37.41	14.97	21.50
1969	23.18	26.91	31.10	33.39	16.32	21.27
1970	20.01	24.16	25.27	29.50	15.67	19.63
1971	22.21	29.20	27.08	37.68	18.18	21.55
1972	23.04	29.34	27.28	37.36	19.62	22.48
1973	23.51	30.81	29.16	39.60	19.32	23.49

Source: Statistics Canada (42-209 & 42-210), Annual Survey of Manufacturers

Currency: U.S. Dollars

Table #3

Relative Productivity (Value Added Per Production Worker)
In The Canadian Automotive Industry (U.S.=100)

Year	Percent
1961	72.1
1962	69.5
1963	69.7
1964	62.5
1965	63.0
1966	60.5
1967	81.5
1968	76.8
1969	86.1
1970	82.8
1971	76.1
1972	78.5
1973	76.3

Source: Statistics Canada (42-210 & 42-209)
Annual Survey of Manufacturers.

Table #4

CANADIAN CAPITAL EXPENDITURE BY AUTO ASSEMBLERS AND PARTS MANUFACTURERS, 1961-1975
(constant 1961 $ 000's)

Year	Assembly			Parts		
	Construction	Machinery and Equipment	Total	Construction	Machinery and Equipment	Total
1961	8,469	11,654	20,123	735	6,448	7,183
1962	5,327	6,867	12,194	2,314	17,402	19,715
1963	16,113	17,393	33,506	2,949	18,609	21,558
1964	21,176	23,938	45,114	13,088	41,274	54,362
1965	35,574	44,048	79,622	15,869	77,489	93,358
1966	20,644	20,170	40,814	40,588	85,704	126,292
1967	28,903	33,500	62,403	8,326	52,546	60,872
1968	13,634	25,412	39,046	6,345	28,952	35,298
1969	9,574	17,978	27,552	9,043	65,949	74,991
1970	N/A	25,158		12,211	120,807	133,018
1971	4,084	12,789	16,873	5,582	48,459	54,041
1972	4,930	19,184	24,114	5,122	36,178	41,300
1973	8,487	20,957	29,444	8,131	47,136	55,267
1974	18,248	25,664	43,912	18,818	56,967	75,785
1975	7,838	39,355	47,193	7,984	40,314	48,298
A-Average 1961-1964	12,846	14,963	27,734	4,772	20,933	25,705
B-Average 1965-1969	21,666	28,222	49,888	16,034	62,128	78,162
C-Average 1971-1975	8,717	23,590	32,327	9,127	45,810	54,938

Source: Statistics Canada

Table #5

UNITED STATES-CANADA TRADE IN AUTOMOTIVE PRODUCTS 1975
U.S. IMPORTS - CANADIAN IMPORTS - ADJUSTED FOR TRANSACTION VALUE
(Millions of U.S. Dollars)

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	Cum. Year to Date 1975 Aug.
U.S. Exports												
Cars	34	87	267	544	748	732	631	985	1,075	1,439	1,657	1,226
Trucks	23	55	88	122	175	244	263	334	504	643	916	612
Parts	577	738	1,011	1,216	1,684	2,134	2,019	2,448	2,866	3,552	3,980	2,753
Sub Total	634	880	1,366	1,882	2,607	3,110	2,913	3,767	4,445	5,634	6,554	4,590
U.S. Imports												
Cars	18	69	316	692	1,114	1,537	1,474	1,924	2,065	2,272	2,595	1,799
Trucks	4	19	135	228	369	560	564	587	713	789	887	589
Parts	44	139	360	474	783	959	1,080	1,481	1,795	2,172	1,997	1,188
Sub Total	71	227	811	1,394	2,266	3,056	3,118	3,992	4,573	5,233	5,479	3,578
Balance												
Cars	+ 16	+ 18	- 49	- 148	- 366	- 805	- 843	- 939	- 990	- 833	- 938	- 573
Trucks	+ 19	+ 36	- 47	- 106	- 194	- 316	- 301	- 253	- 209	- 146	- 29	- 23
Parts	+ 528	+ 599	+ 651	+ 742	+ 901	+1,175	+ 939	+ 967	+1,071	+1,380	+1,983	+1,565
Overall	+ 563	+ 653	+ 555	+ 488	+ 341	+ 54	- 205	- 225	- 128	+ 401	+1,016	+ 969

Source: U.S. Department of Commerce & Statistics Canada

Statistics do not include tires, tubes and snowmobiles

Table #6

AUTOMOTIVE TRADE CANADA - UNITED STATES
YEAR-TO-DATE (JAN.-AUG.)
(MILLIONS OF DOLLARS)

	1975 U.S. Exports	1975 U.S. Imports	1975 Balance	1974 U.S. Exports	1974 U.S. Imports	1974 Balance	% Change
Parts and Accessories	2,752.8	1,188.6	+1,564.2	2,373.2	1,260.4	+1,112.8	+40.0%
Cars	1,226.1	1,799.7	- 573.6	947.3	1,572.5	- 625.2	- 8.2%
Trucks	611.9	589.8	+ 22.1	589.3	554.6	+ 34.7	-36.3%
Sub Total	4,590.8	3,578.1	+ 968.5	3,909.8	3,387.5	+ 522.3	+85.4%
Tires & Tubes	118.6	36.5	+ 82.1	119.0	37.9	+ 81.1	+ 1.0%
Total	4,709.4	3,614.6	+1,094.8	4,028.8	3,425.4	+ 603.4	+81.0%

Source: U.S. Bureau of Census: Statistics Canada

Canadian import data converted to U.S. dollars

Canadian \$1.00 = U.S. \$0.9558 (August 1975)
Canadian \$1.00 = U.S. \$1.0205 (August 1974)

Table #7

SHARE OF AUTOMOTIVE PARTS IMPORTED INTO THE UNITED STATES (%)

	1971	1974
Canada	72.1	59.2
Japan	8.4	16.4
West Germany	8.0	9.5
Mexico	0.9	1.7
Brazil	1.6	3.0
Other	10.6	13.2

Source: A.P.M.A. (Canada)
Calculated from U.S. Dept. of Commerce Figures.

Table #8

DISTRIBUTION OF CANADIAN AUTOMOTIVE PARTS PRODUCTION

YEAR	VALUE OF SHIPMENTS ($ Millions)	EXPORTS TO UNITED STATES	% OF SHIPMENTS EXPORTED TO U.S.
1964	628.0	53	8.4
1965	755.6	151	20.0
1966	860.5	389	45.2
1967	912.4	512	56.1
1968	1,193.8	846	70.9
1969	1,340.4	1,037	77.4
1970	1,272.2	1,127	88.6
1971	1,660.7	1,496	90.1
1972	1,903.2	1,778	93.4
1973	2,304.6	2,172	94.2
1974		1,953	

Source: Statistics Canada 42210

Table #9

INCIDENCE OF USE OF CANADIAN-PRODUCED AUTOMOTIVE PARTS IN UNITED STATES

Year	U.S. Value of Shipments	U.S. Exports to Canada	U.S. Exports to Other Countries	Value of Parts Remaining in U.S.	Value of Canadian Imports to U.S.	Ratio Canada/U.S.
1967	12,538.6	1,314	583.7	10,640.9	512	.05
1968	15,298.7	1,820	717.6	12,761.1	846	.07
1969	15,945.0	2,307	698.2	12,939.8	1,037	.08
1970	13,648.4	2,107	763.3	10,778.1	1,127	.10
1971	16,275.7	2,448	729.1	13,098.6	1,496	.11
1972	18,103.7	2,873	789.1	14,441.6	1,718	.12
1973	21,748.0	3,565	1,014.0	17,205.0	2,172	.12

Source: Statistics Canada and U.S. Department of Commerce

Table #10

Canada's Importance as an Export Destination

for the U.S. Automotive Industry

The figures below point out Canada's importance as a trading partner with the U.S. in all categories, Canada is the leading partner. The percentage shown represents the position of U.S. exports destined to Canada. The balance (to make up to 100%) is made up by all other countries.

Source: U.S. Department of Commerce Publication FT410 - December 1974

Percentage of U.S. Automotive Exports Destined to Canada

1974

1. Automotive Transmission Belts & Belting, Rubber (6294005)

   Total exports all countries 5,880,373
   Total exports to Canada 1,888,985
   % of all U.S. exports to Canada 32%

2. Asbestos Gaskets (6638105)

   Total exports to all countries 1,684,712
   Total exports to Canada 356,624
   % of all U.S. exports to Canada 21.1%

3. Asbestos Clutch Facings for Automotive Use Incl. Linings (6638202)

   Total exports to all countries 1,856,440
   Total exports to Canada 1,064,135
   % of all U.S. exports to Canada 57.3%

4. Asbestos Clutch Facings, NES, Including Linings (6638206)

   Total exports to all countries 647,276
   Total exports to Canada 217,263
   % of all U.S. exports to Canada 33.5%

5. Asbestos Brake Linings for Automotive Use (6638215)

   Total exports to all countries 6,475,469
   Total exports to Canada 4,122,251
   % of all U.S. exports to Canada 63.6%

6. Diesel Engines, Automotive, for Assembly (7115002)

Total exports to all countries 67,638,959
Total exports to Canada 45,694,796
% of all U.S. exports to Canada 67.5%

7. Gasoline, Engines, Automotive, for Assembly (7115034)

Total exports to all countries 305,592,742
Total exports to Canada 298,403,206
% of U.S. exports to Canada 97.6%

8. Parts and Accessories, NES, for Automobile, Truck & Bus Engines for Assembly (7115062)

Total exports to all countries 154,292,605
Total exports to Canada 99,236,044
% of U.S. exports to Canada 64.3%

9. Parts & Accessories, NES, for Internal Combustion Engines, NEC (7115068)

Total exports to all countries 371,634,717
Total exports to Canada 96,630,734
% of U.S. exports to Canada 26.0%

10. Air Conditioners, Automotive (7191509)

Total exports to all countries 13,337,795
Total exports to Canada 3,324,005
% of U.S. exports to Canada 24.9%

11. Jacks, NEC, & Parts, NES (7193176)

Total exports to all countries 8,338,546
Total exports to Canada 4,908,061
% of U.S. exports to Canada 58.5%

12. Ball Bearings, Complete, Annular Ground of Precision, Not Thrust (7197010)

Total exports to all countries 35,425,523
Total exports to Canada 9,868,933
% of U.S. exports to Canada 27.8%

13. Ball Bearings, Complete, NES (7197020)

Total exports to all countries 20,987,837
Total exports to Canada 6,635,264
% of U.S. exports to Canada 31.6%

14. Roller Bearings, Complete, Cylindrical, Not Thrust (7197030)

Total exports to all countries 18,909,965
Total exports to Canada 6,369,315
% of U.S. exports to Canada 33.6%

15. Roller Bearings, Complete, Spherical, Not Thrust (7197040)

Total exports to all countries 3,268,049
Total exports to Canada 945,114
% of U.S. exports to Canada 28.9%

16. Roller Bearings, Complete, Taper, Not Thrust (7197050)

Total exports to all countries 74,362,648
Total exports to Canada 17,218,442
% of U.S. exports to Canada 23.1%

17. Roller Bearings, Complete, NES

Total exports to all countries 12,129,695
Total exports to Canada 4,049,347
% of U.S. exports to Canada 33.3%

18. Mounted Ball Bearings

Total exports to all countries 3,979,595
Total exports to Canada 1,910,868
% U.S. exports to Canada 48.0%

19. Mounted Roller Bearings (7199308)

Total U.S. exports to all countries. 2,277.550
Total U.S. Exports to Canada 1,284,738
% U.S. exports to Canada 56.4%

20. Plain Bearings, Mounted (7199321)

Total U.S. exports to all countries. 13,783,651
Total U.S. exports to Canada 9,101,930
% U.S. exports to Canada 66.0%

21. Plain Bearings, Unmounted (7199326)

Total U.S. exports to all countries. 17,323,926
Total U.S. exports to Canada 5,094,105
% U.S. exports to Canada 29.4%

22. Gaskets, Laminated Metal & Non-Metal or Gasket Sets (7199400)

Total U.S. exports to all countries. 14,238,205
Total U.S. exports to Canada 4,568,512
% U.S. exports to Canada 32.0%

23. Automobile Radios, Other than Two-way Radios

Total U.S. exports to all countries. 14,742,105
Total U.S. exports to Canada 13,386,873
% U.S. exports to Canada 90.1%

24. Storage Batteries, Lead-Acid Type, Auto 6 & 12 Volt (7291210)

Total U.S. exports to all countries. 18,717,628
Total U.S. exports to Canada 13,187,022
% U.S. exports to Canada 70.4%

25. Parts, NES, for Storage Batteries (7291255)

Total U.S. exports to all countries. 12,541,217
Total U.S. exports to Canada 3,974,229
% U.S. exports to Canada 31.6%

26. Spark Plugs, Complete, Automotive Type (7294120)

Total U.S. exports to all countries. 29,109,623
Total U.S. exports to Canada 3,932,859
% U.S. exports to Canada 13.5%

27. Ignition Coils, Distributors, Magnetos & Ignition Equipment for Engines (7294145)

Total U.S. exports to all countries. 39,632,094
Total U.S. exports to Canada 23,386,107
% U.S. exports to Canada 59.0%

28. Lighting Equipment for Motor Vehicles, Electric, NES, (7294220)

Total U.S. exports to all countries. 37,523,969
Total U.S. exports to Canada 31,292,624
% U.S. exports to Canada 83.2%

29. Windshield Wipers, Horns and Defrosters, Electric, for Motor Vehicles (729430)

Total U.S. exports to all countries. 22,910,156
Total U.S. exports to Canada 20,086,743
% U.S. exports to Canada 87.6%

30. Passenger Cars, Non-military, Assembled, not over 6 cylinders, New (7320120)

Total U.S. exports to all countries..511,963,199
Total U.S. exports to Canada 408,376,436
% U.S. exports to Canada 79.7%

31. Passenger Cars, Non-military, Assembled, over 6 cylinders, New (7320140)

Total U.S. exports to all countries.. 1,604,257,270
Total U.S. exports to Canada......... 1,361,033,035
% U.S. exports to Canada 84.8%

32. Trucks, Truck Chassis, & Truck Tractors, Assembled 6,000 GVW or less (7320204)

Total U.S. exports to all countries ..	320,593,484
Total U.S. exports to Canada	259,294,363
% U.S. exports to Canada	80.8%

33. Trucks, Truck Chassis & Truck Tractors, Non-military, Assembled, Gas, 6,001 - 10,000 lbs. GVW, New(7320208)

Total U.S. exports to all countries ..	199,935,864
Total U.S. exports to Canada	151,153,307
% U.S. exports to Canada	75.6%

34. Trucks, Truck Chassis & Truck Tractors, Non-military, Assembled, Gas 10,001-14,000 lbs., GVW, New (7320212)

Total U.S. exports to all countries ..	6,749,508
Total U.S. exports to Canada	2,503,138
% U.S. exports to Canada	37.0%

35. Trucks, Truck Chassis & Truck Tractors, Non-military, Assembled, Gas, 16,001 - 19,500 lbs., GVW, New (7320220)

Total U.S. exports to all countries ..	10,259,191
Total U.S. exports to Canada	7,590,662
% U.S. exports to Canada	73.9%

36. Trucks, Truck Chassis, & Truck Tractors, Non-military, Assembled, Gas, 19,501 - 26,000 lbs., GVW, New (7320224)

Total U.S. exports to all countries..	70,878,066
Total U.S. exports to Canada	55,813,853
% U.S. exports to Canada	78.7%

37. Trucks, Truck Chassis & Truck Tractors, Non-military, Assembled, Gas, 26,001 - 33,000 lbs., GVW, New (7320228)

Total U.S. exports to all countries ..	22,504,193
Total U.S. exports to Canada	21,206,140
% U.S. exports to Canada	94.2%

38. Trucks, Truck Chassis & Truck Tractors, Non-military, Assembled, Diesel, 16,000 lbs. GVW & less, New (7320236)

Total U.S. exports to all countries ..	4,528,543
Total U.S. exports to Canada	1,406,277
% U.S. exports to Canada	31.0%

39. Trucks, Truck Chassis, and Truck Tractors, Non-military, NES, New (7320256)

Total U.S. exports to all countries ..	20,381,771
Total U.S. exports to Canada	7,280,807
% U.S. exports to Canada	35.7%

40. Motor Buses, non-military, Gasoline, New (7320420)

Total U.S. exports to all countries ..	15,391,587
Total U.S. exports to Canada	5,223,736
% U.S. exports to Canada	33.9%

41. Motor Buses, Non-military, Diesel, New (7320430)

Total U.S. exports to all countries ..	13,649,000
Total U.S. exports to Canada	11,092,183
% U.S. exports to Canada	81.2%

42. Truck, Bus and Passenger Car Bodies, New (7328100)

Total U.S. exports to all countries ..	21,890,882
Total U.S. exports to Canada	9,229,543
% U.S. exports to Canada	42.1%

43. Wheels, New, for Assembly, for Non-military Vehicles NES (7328932)

Total U.S. exports to all countries ..	47,423,173
Total U.S. exports to Canada	45,547,747
% U.S. exports to Canada	96.0%

44. Parts and Accessories, NES, New, for Assembly, Non-military (7328938)

Total U.S. exports to all countries ..	1,858,963,271
Total U.S. exports to Canada	1,474,723,834
% U.S. exports to Canada	79.3%

45. Mufflers and Tailpipes, New, for Replacement, for Non-military (7328942)

Total U.S. exports to all countries ..	8,380,338
Total U.S. exports to Canada	6,917,074
% U.S. exports to Canada	82.5%

46. Shock Absorbers & Parts, NES, for Replacement,for Non-military (7328943)

Total U.S. exports to all countries ..	11,326,774
Total U.S. exports to Canada	4,324,518
% U.S. exports to Canada	38.1%

47. Brakes and Parts, New, for Replacement, for Non-military (7328944)

Total U.S. exports to all countries ..	28,004,429
Total U.S. exports to Canada	13,786,380
% U.S. exports to Canada	49.2%

48. Parts and Accessories, NES, New, for Replacement (7328948)

Total U.S. exports to all countries ..	591,335,958
Total U.S. exports to Canada	176,197,691
% U.S. exports to Canada	29.7%

Summary Table 10

Total U.S. Exports to all Countries (48 selected auto parts)	$6,697,568,571
Total U.S. Exports to Canada (48 selected auto parts)	$4,748,833,853
Percent of all U.S. Exports to Canada	70.9%

Table #11

ANALYSIS OF AUTOMOTIVE PARTS DEFICIT
1965 - 1975

PERCENTAGE CHANGE OVER PREVIOUS YEAR

Year	Deficit (000,000)	% Change from Previous Year
1964	528	
1965	599	+ 13%
1966	651	+ 8%
1967	742	+ 14%
1968	901	+ 21%
1969	1,175	+ 30%
1970	939	- 25%
1971	967	+ 2%
1972	1,071	+ 11%
1973	1,380	+ 29%
1974	1,983	+ 43%
Year to date (Aug.) 1974	(1,113)	
Year to date (Aug.) 1975	(1,565)	+ 40%

Source: A.P.M.A. (Canada)
Calculated from U.S. Dept. of Commerce Figures

Table #12

32

Canadian - North American Vehicle Sales Ratio (Units)

Cars and Trucks

North American Domestic Sales	Canadian Domestic Sales	% Canadian to North American	Year
(000)	(000)		
11,056	794	7.1	1965
10,754	758	7.0	1966
9,840	738	7.5	1967
11,211	779	6.9	1968
11,187	788	7.0	1969
9,488	622	6.5	1970
11,431	739	6.4	1971
12,857	834	6.4	1972
13,630	1,018	7.4	1973
10,091	1,055	10.2	1974

*Retail Sales
*Source: Wards Automotive Reports

Table #13

ANALYSIS OF NORTH AMERICAN VALUE OF SHIPMENTS - AUTO PARTS
($ Million)

Year	Value of Shipments Canadian Auto Parts Industry	Value of Shipments United States Auto Parts Industry	Total North American Value of Shipments Auto Parts Industry	% Canadian Value of Shipments of North American Value of Shipments
1967	912	12,539	13,451	6.8
1968	1,194	15,299	16,443	7.2
1969	1,340	15,945	17,285	7.8
1970	1,272	13,648	14,920	8.5
1971	1,661	16,276	17,937	9.3
1972	1,903	18,104	20,007	9.5
1973	2,304	21,607	23,911	9.6

Source: Statistics Canada 42210 (Survey of Manufacturers)
U.S. Bureau of Census

Table #14

1974 Trade

Parts and Accessories

Country	Canadian Imports ($)	Canadian Exports ($)	Balance ($)
U.K.	14,937,000	3,515,000	(11,422,000)
France	17,332,000	1,371,000	(15,961,000)
Italy	3,665,000	210,000	(3,455,000)
West Germany	24,932,000	3,768,000	(21,164,000)
Netherlands	464,000	464,000	-
Belgium	458,000	313,000	(145,000)
Ireland	NA	82,000	82,000
Luxembourg	NA	NA	NA
Denmark	77,000	323,000	246,000
Total EEC	61,865,000	10,046,000	(51,819,000)
Japan	19,522,000	1,205,000	(18,317,000)

( ) Denotes deficit

Source: Statistics Canada

Table #15

1974 Trade
Passenger Cars & Trucks

Country	Canadian Imports	Canadian Exports	Balance
U.K.	32,182,000	3,282,000	(28,900,000)
France	14,627,000	392,000	(14,235,000)
Italy	31,956,000	49,000	(31,907,000)
West Germany	102,027,000	1,518,000	(100,590,000)
Netherlands	15,000	295,000	280,000
Belgium	566,000	47,000	(519,000)
Ireland	NA	NA	NA
Luxembourg	NA	NA	NA
Denmark	21,000	6,000	(15,000)
Total EEC	181,394,000	5,589,000	(175,085,000)
Japan	215,268,000	142,000	(215,126,000)

( ) Denotes Deficit

Source: Statistics Canada

Table #16

1974 Trade
Parts and Accessories

Country	Canadian Imports	Canadian Exports	Balance
Argentina	6,000	14,841,000	+14,835,000
Brazil	180,000	10,632,000	+10,452,000
Venezuela	84,000	11,258,000	+11,174,000
Mexico	2,807,000	24,673,000	+21,866,000
Total	3,077,000	61,404,000	+58,327,000

Source: Statistics Canada

Table #17

DOMESTIC AND IMPORT SHARE OF NORTH AMERICAN MARKET
(Passenger Cars)

Year	North American Produced	N.A. Exports	N.A. Imports	N.A. Market Total	Import Share of N.A. Market
1965	10,042	110	623	10,555	5.9
1966	9,289	87	822	10,024	8.2
1967	8,121	63	774	8,832	8.8
1968	9,738	65	1,270	10,943	11.6
1969	9,250	65	1,321	10,507	12.6
1970	7,474	80	1,480	8,874	16.7
1971	9,667	58	1,989	11,598	17.2
1972	9,983	66	1,897	11,813	16.1
1973	10,896	78	1,744	12,562	13.9
1974	8,477	115	1,924	10,287	18.7

Source: Eighth Annual Report of the President on the Automotive Agreement
Statistics Canada 65202, 65203

Table #18

Rates of Growth Output

Selected Countries, 1960-70 and 1970-80

Output 1960-70 (actual)

Actual, 1960-70	Average Annual Percentage Rates of Growth
Japan	11.6%
Italy	5.8%
France	5.7%
West Germany	5.0%
Denmark	5.0%
Netherlands	5.4%
Belgium	5.0%
Sweden	4.9%
United Kingdom	2.9%
United States	4.0%
Canada	5.0%

Output 1970-80 (projected)

Projected, 1970-80	Average Annual Percentage Rates of Growth
Japan	7.3%
Italy	5.9%
France	7.0%
West Germany	5.1%
Denmark	4.2%
Netherlands	4.8%
Belgium	4.9%
Sweden	3.9%
United Kingdom	3.8%
United States	4.2%
Canada	5.7%

Source: Economic Council of Canada

Table #19

Rates of Growth of Employment of Selected Countries, 1960-70 Actual and 1970-80 Projected

	Employment Growth 1960-70 (actual)
Japan	+1.6%
Italy	- .8%
France	+ .7%
West Germany	+ .5%
Denmark	+1.2%
Netherlands	+1.3%
Belgium	+1.0%
Sweden	+ .9%
United Kingdom	+ .3%
United States	+1.6%
Canada	+2.5%

	Employment Growth 1970-80
Japan	+ .8%
Italy	+ .7%
France	+ .5%
West Germany	+ .2%
Denmark	+ .1%
Netherlands	+1.0%
Belgium	+ .6%
Sweden	+ .3%
United Kingdom	+ .1%
United States	+1.8%
Canada	+2.5%

Source: Economic Council of Canada

Table #20

Rates of Growth of Output Per Person Employed,
Selected Countries 1960-70 and 1970-80

Percentage Growth of Output Per Person Employed 1960-70 (actual)

Japan	9.8%
Italy	6.3%
France	5.2%
West Germany	4.2%
Denmark	4.0%
Netherlands	4.0%
Belgium	3.9%
Sweden	3.9%
United Kindom	2.2%
United States	2.1%
Canada	2.1%

Percentage Growth of Output Per Person Employed 1970-80 (Projected)

Japan	6.0%
Italy	4.1%
France	5.0%
West Germany	4.2%
Denmark	3.7%
Netherlands	3.5%
Belguim	3.4%
Sweden	2.5%
United Kingdom	2.5%
United States	2.0%
Canada	2.2%

Source: Economic Council of Canada