

Statistics Canada
Balance of Payments Division

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The Canadian balance of international payments and international investment position

A description of sources and methods

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SYMBOLS

The following symbols are used in this Statistics Canada publication.

Text

- ◆ see additional material in Appendix 11, Addendum – An Updating.

Statistical Tables

- . . figures not available.
- . . . figures not appropriate or not applicable.
 - nil or less than half unit expressed.
 - amount too small to be expressed.
- P preliminary figures.
- r revised figures.
- x confidential to meet secrecy requirements of the Statistics Act.
- * new series not strictly comparable with earlier years.

PREFACE

This book provides a description of the sources of statistics for Canada's balance of payments and international investment position and the methodology used in their construction. Some historical perspective to the development of the series is also given.

Bower Carty, the author of the book, spent most of his career in the development and refinement of the framework, concepts and practices employed for Canada's balance of payments. Assistance to the author was provided by the following members of the staff of the Balance of Payments Division:

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Scott Houston and Michael Valiquette of the Financial Flows and Multinational Enterprises Division also assisted. Large parts of the manuscript were reviewed by Douglas Blyth, John Randall, Keith McAlister and Donald Anderson, all of whom have served as directors in charge of balance of payments statistics for Canada, and by Robert Crozier, a former Director of the National Accounts Division, who made many useful comments. Guy Leclerc and Stewart Wells of the System of National Accounts reviewed the last draft of the text.

The French translation required intensive research for appropriate terminology. This work was carried out by Dominique Raymond.

A country's balance of payments may be defined as a systematic record of all the flows of real resources between that country and the rest of the world. It is also a measure of changes in a country's foreign assets and liabilities. The stock of a country's foreign assets minus its liabilities to non-residents equals its international investment position.

Official statistics of the Canadian balance of international payments and of Canada's international investment position date back to 1926. Official work in the field began considerably earlier. A landmark was the work of Dr. R.H. Coats in connection with the Board of Inquiry into *Cost of Living in Canada* published by the Government of Canada in 1915. Coats' contribution included an analysis of the growth and distribution of capital from 1900-14 and its relation to the rise in prices. Estimates of the values of exports and imports of both goods and services and of foreign capital investments were included. Coats' work, together with that done in other countries, was received with a great deal of interest by the international academic community and was followed by a number of important studies including Jacob Viner's classic *Canada's Balance of International Indebtedness, 1900-1913* (Harvard University Press, Cambridge, 1924).

It is not surprising therefore that with the establishment of the Dominion Bureau of Statistics in 1918 under Coats as Dominion Statistician development of statistics of the Canadian balance of payments and of Canada's international investment position became a continuing statistical objective. This work led in 1939 to the publication familiarly known as the "red book", *The Canadian Balance of International Payments. A Study of Methods and Results*. In the intervening years the program has been further developed, extended and enlarged.

Balance of payments developments have been reviewed in quarterly and annual reports and the statistics themselves have been made available in a variety of forms. A number of the publications have provided some information concerning the sources and methods employed in construction of the estimates. Among them were *The Canadian Balance of International Payments, 1926-1948*, *The Canadian Balance of International Payments in the Postwar Years, 1946-1952*, *Canada's International Investment Position, 1926-1954* and more recently a series of notes under the collective title "About the Figures" appearing in the reports for the years 1960 through 1972. Nevertheless there has not been available for many years an up to date comprehensive and systematic description of the sources and methods employed in these statistics.

The development of statistical methodology in the field in Canada may be broadly divided into three periods. First is the interwar period which is covered in the "red book". The introduction of exchange control with the outbreak of war in 1939 provided an opportunity for new insight into some aspects of the balance of payments, particularly those related to capital flows, and the statistical results in the period from 1940 through 1951 reflected largely a blending of the methodology employed in the prewar period with the information emerging from the massive reporting system necessitated by exchange control. This period, too, was influenced by the emergence of new international statistical standards for work in the balance of payments under the aegis of the International Monetary Fund. Quarterly balance of payments statistics developed initially to meet internal policy requirements were refined and extended to become part of the regular publication program. With the termination of exchange control near the end of 1951 some of the statistical sources which had been used for more than a decade were no longer available. The third main period beginning in 1952, involved the more extensive use of survey methods in the design of which the experiences of both earlier periods played important parts.

In retrospect, the earlier periods understandably tended to place emphasis on explorations into uncharted territory, stimulated by strong pragmatic needs to assist in throwing light upon changing and often pressing problems related to public policy. Among these were war finance, the foreign exchange and wartime controls over the economy, and their subsequent dismantling. While there was awareness of conceptual issues and problems, the interests of users in them were often served by personal consultation and interchanges. Knowledge of content tended to be accumulated from experience rather than arrived at *a priori*, and was the concern of smaller groups. But in the post-war period there developed a more widespread interest in economic policy and in time a greater diffusion of interest among economists in the private sector, in academia, and in international bodies, in the observation and forecasting of macro-economic aggregates such as the national accounts and balance of payments. A growing use of econometric models and techniques further expanded the range of users requiring access to greater knowledge about the balance of payments statistics. This kind of wider and more sophisticated use has contributed to a sharpening and elaboration of concepts, definitions and structures to which the international agencies have contributed greatly.

While the period covered by official statistics may conveniently be divided into these three main groups based upon the combination of principal sources, there are, of course, some fundamental and pervasive influences on sources and methods. Someone has said "change is the constant of our times". This is not least true of international financial and economic relationships. These changes may not, with a few exceptions, be seen as dramatic watersheds yet their effects on both sources and methods are extremely important. For this reason any study of sources and methods will begin to be outdated almost as soon as it is completed. It is indeed the mark of a good statistician that developing situations will be identified at an early stage, or even anticipated, so that the statistical frame may develop *pari passu* with the emerging realities.

In his presidential address at the 126th Annual Meeting of the American Statistical Association in 1966 on "The Quality of Statistical Information and Statistical Inference in a Rapidly Changing World", Frederick F. Stephan included among his forecasts about statistical developments in the near future, the following:

More attention will be given to the definitions and explanations that accompany the numerical part of statistical information. Too often statistics are treated merely as sets of numbers or at most, as numbers whose meanings can be taken for granted. Rigorous care in the manipulation of the numbers must be matched with equal care in the manipulation and transmission of their meanings since the link between each quantity and the description of what it measures is the essential part of all statistical data. This will lead to useful discussion about the congruence, or lack thereof, between statistical concepts as defined for purposes of measurement, on the one hand, and the formal concepts of the social and natural sciences to which they should correspond, on the other.

This volume is in some respects an attempt to meet this need.

MARTIN B. WILK,
Chief Statistician of Canada.

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PART I

THE GENERAL STATISTICAL FRAMEWORK

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THE BALANCE OF PAYMENTS

“ ‘When I use a word,’ Humpty-Dumpty said, ‘it means just what I choose it to mean – neither more nor less.’ ”

Lewis Carroll

The Broad Conceptual Frame

The term “balance of payments”, although sanctified by long usage, is not a particularly felicitous one. For many it conjures up either a single balance or a time series of balances. In either sense it is a misnomer.

The balance of payments is designed to reflect transactions between residents of one country and the rest of the world. It has been described by the International Monetary Fund¹ as a system of accounts covering a given period to record systematically (i) flows of real resources, including the services of the original factors of production, between the domestic economy of a country and the rest of the world, (ii) changes in the country’s foreign assets and liabilities that arise from economic transactions, and (iii) transfer payments, which reflect real resources or financial items provided to, or received from, the rest of the world without any *quid pro quo*.

The principal balance of payments estimates and supporting statements as currently published in Canada, including quarterly data, comprise about 1,500 cells of information per year. An additional 1,000 cells annually are represented by monthly series for some items, and basic commodity trade statistics provide a further 500,000 cells per year.

To facilitate analysis of the current and potential effects of these international transactions, it is usual to focus on the totals or balances of particular groups of them.

Amitai Etzioni has written that “any measure of a social science concept that relies on a single indicator should be viewed as dubious”.² So it is with the balance of payments. Any single figure drawn from the estimates is of limited value in appraising a country’s balance of payments position and prospects. No measure of surplus or deficit can characterize adequately the kaleidoscopic interplay of domestic and international economics.

Certain conventions are followed in the recording of balance of payments transactions. The statistics adopt a double entry system of accounting although, as will be seen later, most of the statistical inputs do not become

available in the form of pairs of entries. Transactions giving rise to claims on non-residents are recorded in balance of payments statements as credits and shown as positive numbers. The uses to which these claims are put are recorded as debits and shown as negative numbers. Transactions that give rise to claims on non-residents are exports of goods or services, income receipts from non-residents, increases in foreign liabilities, and decreases in foreign assets. Debit entries are made for imports of goods or services, income payments to non-residents, decreases in foreign liabilities, and increases in foreign assets. Thus an export will appear as a credit and the acquisition of a claim on foreigners to which it gives rise as a debit. The disposition of this claim to repay, say, maturing debt held by a non-resident will be reflected as a credit or inflow in respect of the disposal of the foreign asset and as a debit or outflow in respect of the repayment of the foreign debt liability. (An exception to the general presentation is sometimes made in respect of official net monetary movements when the actual change may be shown rather than the balance of payments flow which by convention would have the opposite sign. When the conventions are followed throughout the statement, the sum of all entries, is of course, zero.)

Transactions are normally recorded in the balance of payments on an accrual basis, i.e., independently of the timing of any cash settlement. Thus a commodity export is in principle recorded at the time it occurs, and until such time as settlement is received there is also a capital export represented by the accrual or acquisition of a claim on non-residents. This capital export is the counterpart of the export of goods by which it was accomplished.

Changes may occur, however, in Canada’s external assets and liabilities without any reflection in the balance of payments as such. The recorded value of assets or liabilities may change as the result of a deliberate write-up or write-down, or as the result of changes in exchange rates. Values will change as a result of the undistributed earnings which may accrue on particular securities but which are not explicitly reflected in the balance of payments. (A note on this subject will be found in Part VII.) Changes may occur because the recorded value of claims exchanged between residents and non-residents may differ from the prices at which they are exchanged as, for example, when secondary trading takes place in securities. It may not be the practice to fully articulate particular transactions in the balance of payments, for example exchanges of shares. And the union of Newfoundland with Canada, which in effect changed Canada’s

¹ IMF *Balance of Payments Manual*, Third Edition (1961).

² Quoted by Bertram M. Gross and Michael Springer in *New Goals for Social Information*. The Annals of the American Academy of Political and Social Science, September 1967.

boundaries, had effects on Canada's external assets and liabilities which were not reflected as balance of payments transactions.

It may be useful to remind readers that the primary criterion in the balance of payments is residency and that citizenship itself has no direct implications for balance of payments statistics. Corporations are normally treated as residents of the country in which they are incorporated, although their foreign branches are treated as residents of the countries in which they are located. There are some special situations in which Canadian corporations are treated as non-residents; these have been described in a note in Part VII. (A special treatment applied to the transactions of residents of Newfoundland between 1940 and its entrance into Confederation in 1949; this treatment is described in a note in Part VI.)

Estimates of the Canadian balance of international payments have normally been presented in the historic form of a current account, a capital account, and net official monetary movements. The principal component totals are as follows:

- Current account
 - Merchandise
 - Services
 - Goods and services
 - Transfers
- Capital account
 - Movements in long-term forms
 - Movements in short-term forms
- Net official monetary movements.

The component series are listed in Table I.1 in the next subsection, and are described in detail in Parts II and III.

The current account is not easy to describe in concept and some experts have strong reservations regarding the use of the term.

A recent attempt³ to define it in concept describes it as

all transactions which are "current", in the sense that they are not acquisitions of claims or liabilities *vis-à-vis* foreign residents.

(A "current" transaction will, of course, normally involve the acquisition of a claim or liability in settlement but this acquisition is not in itself a current account transaction.)

³ Patricia Hagan Kuwayama. *Measuring the United States Balance of Payments*. Federal Reserve Bank of New York Monthly Review, August 1975.

Most readers will find it sufficient to define the current account in terms of its major components, e.g., all transactions in goods and services together with transfers.

Many users of the current account balance make little distinction between it and its major component, the net balance on goods and services. This more restricted group of transactions reflects the balance of real resources made available to or drawn from the rest of the world and is the balance carried, in the national accounts framework, from the non-resident sector's income and outlay account into Gross National Expenditure. It is, therefore, the visible point in the accounts where international and domestic activity interact directly in the production and distribution of goods and services.

Transfers represent, broadly, transactions undertaken without a *quid pro quo*. Examples include foreign aid, private donations, inheritances, or transfers of their savings by migrants. It was only with the introduction of special wartime financing arrangements during World War II, and the massive extension of official grant aid and increasing migration which have been features of the postwar period, that the distinction of transfers from services became statistically of major importance.

The capital account is more easily defined in concept, reflecting as it does the transactions in external assets and liabilities other than net official monetary movements. For many years these latter were also included in the capital account but, because of their residual role in the adjustment process, the practice developed of isolating them as a special group.

This presentation and related analysis reflect those features of the balance of payments that have tended for the most part to concern Canadians.

Other presentations may be more suitable under special circumstances and have been employed in Canada from time to time. When, during World War II, transfer payments by Canada to finance external costs of the war efforts of allies became a dominant feature of Canada's balance of payments, they were for a time shown separately from the current account to emphasize their role in financing it. When, during the 1950's, net official monetary movements played a very limited role in the adjustment of Canada's external accounts, these movements were shown in the capital account rather than separately. In historical tables, however, for the sake of consistency the currently used format has been employed.

The balance on current account is dominated by, and is itself an important determinant of, levels of economic activity in the countries involved. Exports of goods and services constitute a demand for domestic production, while imports constitute a supply from abroad serving to satisfy part of the economy's overall demands. Either a surplus or a deficit may be appropriate

at a particular time. The gross exchanges of goods and services which are involved are presumed to reflect mainly the comparative international advantages associated with specialization, and consequently their overall effect is to raise living standards in both economies.

Although the composition of external assets and liabilities is changing constantly, a country can on balance import capital⁴ only through a current account deficit, and can have a current account deficit only when it imports capital. For example, in the absence of increased net imports of goods and services, the creation of an external liability through the flotation abroad of a bond issue is necessarily accompanied by the acquisition either of the foreign funds borrowed or some other foreign asset for which they may have been exchanged, or by extinguishing some external liability. The capital balance is thus unchanged unless and until the borrowing gives rise to additional net purchases from non-residents of goods and services. Only an increase in imports (of goods and/or services) or a decrease in exports can transfer capital into a country. Conversely, of course, a current account surplus and a net export of capital are inseparable.

The balance of payments, as a system of accounts, lends itself to a variety of arrangements to serve various analytic ends. "Designers of statistics are indeed philosophers, however unwilling to claim the name, and are fully aware that different aspects of reality can be lit up if alternative sets of concepts are used."⁵

While the Canadian estimates have tended to follow a rather traditional format stressing, if anything, their domestic impact, other foci are possible.

The concern may be the country's international liquidity, as was the case for many years in the United States. Liquidity is, of course, a matter of concern to every country, but it became especially so to the United States as a result of the structure of its balance of payments, its role in the world, and its exposure as an international reserve centre. The United States has at different times emphasized a number of foci. Examples from recent years are the balance on current account and long-term capital, the net liquidity balance, and the balance of official reserve transactions. (The balance on current account and long-term capital, more commonly described as the "basic balance", is discussed in Part VI.)

Although both Canada and the United States have been concerned with the maintenance of sound external financial positions, the monetary roles and the structures

of the balances of payments of the two countries are quite different. It is not surprising, therefore, that the focus of balance of payments analysis in the two countries has differed somewhat. The Canadian economy as a whole is considerably more open to international influences than that of the United States. In the case of Canada relatively much more of its income is dependent on levels of effective demand in other countries as well as on its ability as a competitive supplier. International influences often play a dominating role in the whole financial market. This exposure of the economy to the trials and tribulations of the rest of the world gives the Canadian balance of payments crucial importance for Canadians.

Alternative presentations of the balance of payments have been devised for various analytic purposes, e.g., the identification of compensatory official financing, or the distribution of capital flows as stabilizing or destabilizing, autonomous or equilibrating.

For analysis of exchange rate fluctuations all balance of payments transactions might be ranked in order from those which are least to those which are most responsive to exchange rate considerations. A statement presented on this basis showing the changing primary forces of supply and demand acting on the exchange rate, and the reactions of other items serving in an equilibrating role, might go some way towards explaining fluctuations in rates. But in practice this subjective division may be extremely difficult. Two examples of the difficulties may suffice. Particular categories of transactions may at one time tend to play an equilibrating role in the exchange market, but at another an autonomous one, e.g., sales of Canadian bonds have sometimes occurred because of exchange rate considerations, and at other times despite them. And an intimate knowledge of the basic data reveals that a given category may contain at the same time a mixture of both autonomous and induced transactions, e.g., the flow of direct investment capital, often thought to be practically uninfluenced by short-run exchange rate changes, may be speeded up through transfers in excess of immediate requirements or deferred through temporary local borrowing because of exchange rate expectations.

The wealth of statistical detail available within the framework of the balance of payments, no matter how arrayed, is however insufficient by itself for an understanding of a country's international transactions. They can be evaluated only in relation to the domestic and international environments, to the trends revealed in the national accounts, the stage of the business cycle, productivity and international competitive positions, monetary and fiscal conditions, price changes, inventory positions, the amount of unutilized capacity (whether in manpower or plant), tax policies and their effects, prospective developments in economies elsewhere, the external asset and liability positions of the country and of its international customers, etc. The list is not

⁴ The term is used here in its broadest sense to include monetary as well as other financial claims.

⁵ Bertrand de Jouvenel, quoted by Bertram M. Gross and Michael Springer in *New Goals for Social Information*. The Annals of the American Academy of Political and Social Science, September 1967.

See also E. B. Carty, *Deficits in the Balance of Payments - Semantics, Simplicities and Statistics*. The Commerce Journal, 1965. The Commerce Club, University of Toronto, 1965.

exhaustive. Nor can one disregard the significance of international exchange values as reflected in the structure of exchange rates.

And it must always be remembered that "an information system does not tell what courses of action are conceivable. Man must conceive them".⁶

An authoritative Canadian view on the foci of analysis appropriate for Canada was indicated by the then Governor of the Bank of Canada during the hearings of the Royal Commission on Banking and Finance on January 9, 1963.⁷ Replying to a question, the Governor suggested that in considering what determined a sound external financial position, one had to look beyond the cash position of a country, the changes in its reserves, to the composition of its international transactions. Three points, he felt, needed to be looked at: the cash position, the nature of the capital flow, and the size of the current account balance.

Insofar as the cash position is concerned, it is clear that if the situation is to be sustainable, the inflow of capital must be sufficient to cover any current account deficit without undue pressure on the reserves. In the postwar period Canada has undergone several painful reserve experiences, and on two particularly notable occasions has had to accommodate itself to an embarrassment of international riches. *read foreign currency to cover current account deficit.*

The nature of the capital inflow has been given increased attention within Canadian balance of payments statistics since the early 1960's through a distinction between capital movements in long-term forms and those in short-term forms. To be analytically most useful, the distinction between long-term and short-term capital should be based on motivation, rather than on form. Short-term capital movements should cover those likely to be reversed in the short term, say from one year to the next. Unfortunately, in the case of much of the flow, motivation can at best be guessed at or determined in the perspective of time, long after statistics are required. The distinction of capital movements as long term or short term is more susceptible to analytic judgement than to statistical compilation. One example of the difficulty lies in international transactions in securities. For the most part these securities will be clearly long term in form, but their movement may be either long term or short term from a behavioural point of view. Similarly capital flows may occur into short-term instruments such as treasury bills, deposits, or paper, but may through subsequent roll-over conform for considerable periods to the behaviour of capital in long-term forms.

⁶ Raymond A. Bauer, quoted by Bertram M. Gross and Michael Springer in *New Goals for Social Information*. The Annals of the American Academy of Political and Social Science, September 1967.

⁷ Bank of Canada. *Evidence of the Governor before the Royal Commission on Banking and Finance*. Bank of Canada, Ottawa, May 1964.

An exception to this classification by formal term is made in Canadian statistics in the case of direct investment flows. For these it has been possible to introduce a distinction between long-term and short-term capital based on probable behaviour. Since a large part of the data are derived by questionnaire, it is practicable to ask respondents to classify as long term those claims which are intended or likely to remain outstanding for more than one year from the date incurred. This definition has proved more meaningful than adherence to the strict term of claims because demand obligations or open account claims are frequently applied in parent company-subsidary accounting to capital having an essentially long-term function.

The continuous balancing of a current account balance through a flow of short-term capital is not likely to represent a sustainable situation. While the crisis of confidence faced by the Canadian dollar in 1962 can be attributed to the convergence of a number of factors and influences, an underlying weakness may be found in the preceding period. Deficits on current account significantly exceeded the capital inflow in long-term forms from 1956-62. By early 1962 the accumulated current account deficit since the end of World War II exceeded the corresponding net capital inflow in long-term forms; over the period Canada had begun to borrow "short". Other developments then contributed to speculative outflows which made the situation clearly untenable.

Somewhat the reverse situation occurred in the latter half of the 1960's. The accumulated sum of the current account balances and net capital flows in long-term forms rose by almost \$4.5 billion between the beginning of 1967 and the first quarter of 1970. In the event, the Canadian dollar was unpegged at the end of May.

Attention focused solely on Canada's reserve position would not have revealed either of the developing situations. Throughout the 1950's Canada's reserve position had tended to be relatively stable. Even between the beginning of 1967 and the first quarter of 1970, net official monetary movements reflected an increase of less than \$1 billion.

The size of the current account deficit also calls for consideration. Reference has already been made to the relationship between the current account balance and the economy as a whole. The appropriateness of a particular balance is dependent on the state of development of the economy and in the shorter run on the stage of the business cycle in which the country finds itself. Foreign capital flowing into the country through a current account deficit makes it possible for the country to expand and develop beyond the limits of its internally generated resources. The increased foreign indebtedness and the increased transfers of interest, dividends and amortization which may be expected to follow will, it is hoped, be matched by increased capacity. This capacity

may enlarge the country's ability to produce export commodities for which there is effective world demand, or to produce efficiently things it has previously imported. To the extent that it does so, the growth undertaken with foreign resources will generate both the income and the transfer capacity necessary to service the foreign-owned capital.

Economic analysts sometimes express Canada's payments to non-residents on account of interest and dividends (or less often Canada's current account balance) as a proportion of Canada's Gross National Product, the value of all goods and services produced in a stated period. Despite its increasing size, the deficit on income account now represents a much smaller proportion of Gross National Product than in some earlier periods, and may therefore be presumed less burdensome in a domestic sense. The use of such domestic macro-economic aggregates in the evaluation of international transactions is one way of taking into account the general growth of the economy. But the inference cannot be made that the proportions in some way measure directly ability to meet international payments. International payments can be made only from the international revenue of a country, or from the proceeds of borrowing or the disposal to non-residents of saleable assets. Gross National Product may increase through the more efficient or complete utilization of domestic resources without generating export income or reducing the need for imports.

Similarly ratios have been produced to demonstrate that payments on income account represent a smaller proportion than formerly of Canada's merchandise export receipts. The same reservations must apply, for there are clearly many other exchange claims on export revenue, not least among them being payments for imports. Indeed the interrelationships within the economy are such that a sharp rise in exports almost inevitably gives rise to increased imports, either of imported components or materials forming a part of the exports, or through the spillover of demand from the income generated by the increase of exports.

A longer-run consideration relating to the size of the current account deficit which is discussed less frequently is the position of a country in the world and the standard of living it maintains. If this standard is very high, then bearing in mind the requirements of countries less able to provide their own capital, its overall policy objective over a long period might be to arrive at a position where it starts to provide resources to the rest of the world, rather than drawing resources from it.

Summing up, the following points emerge.

There are times and there are conditions under which a current account deficit will be appropriate for a country, others when a current account surplus will be appropriate. A country will wish to determine whether the balance is suitable from the point of view of its level

of activity, the stage of the business cycle, and of its place in the world. It will wish to know the dynamics of the situation, to what extent a deficit on current account is the reflection of an effort to import capital in the financial sense, and to what extent a capital inflow is the outcome of the satisfaction from foreign sources of real (i.e., non-financial) demands originating in the economy.

A country facing a long succession of deficits or surpluses will wish to determine not only whether the situation is appropriate but also whether and to what extent it is sustainable. Continuing deficits or surpluses involve the continuing accumulation of net liabilities or net assets. It will wish to know whether capital movements in forms and amounts adequate to finance the balance are likely to occur without major stresses and strains on the economy, whether foreign exchange is likely to become available for the future payment of dividends, interest and amortization. It will wish to determine any adjustments in monetary, fiscal, or commercial policy which may be necessary to maintain or modify the situation, and whether they are compatible with domestic economic objectives. And it will wish to consider whether there are any limits to the accumulation of claims on (or of) an economy beyond which implications may arise for its structure and relationships.

While these questions are for the most part not answerable by statistics, or even by statisticians as such, statistical knowledge will necessarily play an important part in the formulation of answers.

Current Presentations♦

Table I.1 sets out the structure of the balance of payments as currently published in Canada. The main components stand out clearly and require no further comment.

Balance of payments codes – Commencing with the publications in 1951 a series of account or code numbers was introduced to facilitate reference to specific balance of payments series. The designations established at that time remained relatively unchanged for more than 20 years. Some regrouping of loans and subscriptions by the Government of Canada occurred to permit series numbers to be applied to the Columbia River Treaty transactions and export credits. Other minor changes were made following the identification of all transactions as being in either long- or short-term forms, and in the placing within the estimates of net official monetary movements. These changes were accommodated without seriously impairing the general structure of the codes. Developments over the period did give rise, however, to some anomalies and certain items were published for a time without designation. Accordingly during 1973 a new set of numbers was developed to supersede many of those previously used. Wherever possible numbers used earlier have not been reassigned to other accounts.

TABLE I.1. Balance of Payments Codes Introduced in 1973

Current Account

Account number	Former account number	Item
A	A	Current receipts:
1	1	Merchandise exports (balance of payments basis) ¹
4	4	Service receipts:
15	5	Travel
21	6	Interest and dividends
23	11*	Freight and shipping
		Other service receipts
28	..	Total service receipts
29	..	Sub-totals, exports of goods and services ²
30	7	Transfer receipts:
33	11*	Inheritances and immigrants' funds
38	..	Personal and institutional remittances ³ (paid in currency)
		Withholding tax ⁴
40	12	Total current receipts
B	B	Current payments:
1	1	Merchandise imports (balance of payments basis) ¹
4	4	Service payments:
15	5	Travel
21	6	Interest and dividends
23	11*	Freight and shipping
27	..	Other service payments
		Withholding tax ⁴
28	..	Total service payments
29	..	Sub-totals, imports of goods and services ²
30	7	Transfer payments:
33	11*	Inheritances and emigrants' funds
37	9	Personal and institutional remittances ³
		Official contributions
40	12	Total current payments
C	C	Current account balance:
1	1	Merchandise trade
4	..	Service transactions:
15	..	Travel
21	..	Interest and dividends
23	..	Freight and shipping
27	..	Other service transactions
		Withholding tax
28	..	Total service transactions
29	..	Balance on goods and services
39	..	Net transfers
40	4	Total current account balance

¹ Trade of Canada figures with certain valuation, coverage and timing adjustments appropriate for balance of payments.

² As used in the National Income and Expenditure Accounts.

³ Personal and institutional remittances include those for pensions.

⁴ Tax withheld on income distributions and service payments to non-residents.

* part.

TABLE I.1. Balance of Payments Codes Introduced in 1973 - Concluded
Capital Account⁵

Account number	Former account number	Item
D	D	Direct investment: ⁶
21	1	In Canada
25	2	Abroad
		Portfolio transactions:
		Canadian securities:
30	3.1	Outstanding bonds
31	3.2	Outstanding stocks
32	4	New issues
33	5	Retirements
		Foreign securities:
35	6	Outstanding issues
37	7	New issues
38	8	Retirements
		Loans and subscriptions - Government of Canada:
40	9	Advances
44	10	Repayments
48	11	Columbia River Treaty
49	12	Export credits directly or indirectly at risk of the Government of Canada
50	13	Other long-term capital transactions
E 1	E 1	Balance of capital movements in long-term forms
		Resident holdings of short-term funds abroad:
D 61	D 17.1a	Chartered bank net foreign currency position with non-residents
65	17.1b	Non-bank holdings of short-term funds abroad
		Non-resident holdings of Canadian:
71	14.1	Dollar deposits
72	14.2	Government demand liabilities
74	14.3	Treasury bills
75	17.2a	Commercial paper
76	17.3	Finance company paper
77	17.2b	Other short-term paper
81	17.4	Other finance company obligations
82	17.5	Other short-term capital transactions ⁷
E 2	E 2	Balance of capital movements in short-term forms
E 3	E 3	Total net capital balance
F	F	Balance to be settled
G	G	Balance settled by exchange transfers
J		Allocation of Special Drawing Rights
K	H	Net official monetary movements:
4	4	Official international reserves
5	5	Official monetary liabilities
6	6	Net official monetary movements

⁵ A minus sign in Accounts D and E indicates an outflow of capital from Canada and represents an increase in holdings of assets abroad or a reduction in liabilities to non-residents.

⁶ Exclusive of undistributed profits.

⁷ Includes balancing item representing difference between recorded measures of current, capital and reserve movements and embodies all unidentified transactions.

The elements in Table I.1 are identified by the account number currently in use and its relationship to the system in effect immediately prior to the 1973 revision. Table I.2 provides historical details of the numbering systems applied since 1946. These will be of assistance to users of earlier historical publications such as *The Canadian Balance of International Payments. A Compendium of Statistics from 1946 to 1965*.⁸

Timeliness — At the time of writing quarterly estimates of the balance of payments are made public through an information release about two and a half months after the reference quarter. A complete publication is released about the tenth of the following month. Totals for transactions in goods and services appear earlier in the estimates of Gross National Product which are released to the press about two months after the end of the reference quarter.

About the turn of the 1970's a single summary balance of payments table was released six weeks after the close of the reference quarter. The timing was dictated by that followed at the time in respect of the national income and expenditure accounts, but the data were normally revised before full publication. When the present timing of release of the national income and expenditure accounts was established, the early release of balance of payments data was discontinued to reduce the number of published revisions.

Timeliness of publication of the balance of payments closely approximates that of the United States, although the United States continues to have a preliminary estimate about six weeks following the reference quarter.

Elements of the balance of payments which are produced and published monthly include items A1 and B1 merchandise exports and imports (balance of payments basis), D30 trade in outstanding Canadian bonds, D31 trade in outstanding Canadian stocks, and D35 trade in outstanding foreign securities. Source publications are indicated in the appropriate sections of Parts II and III of this volume.

Revision policy — The revision policy in connection with estimates of Canada's balance of payments has varied but the practice currently is to confirm revision of current account for the quarters of earlier years to the time of publication of each year's first quarter data, in step with the national income and expenditure accounts. Capital account data, and current account data for previous quarters of the present year, are revised as necessary. The full exploitation of data sources extends over a protracted period of several years.

Methodology — Since the larger part of this volume is devoted to a description of the methodology used in the construction of balance of payments estimates, little

will be said about it at this point. In fact not one, but rather several, methodologies are employed. As subsequent parts will reveal the methodology followed in respect of quarterly estimates may have to differ considerably from that employed in annual estimates. The latter estimates are designed to be definitive. The quarterly methodology seeks to establish estimates on a current basis and to provide the basis of quarterly allocations of the definitive estimates that have become available. The linking of the two at times presents difficulties. When the absence of any other information necessitates allocation differences evenly over the four quarters of a year, fourth-to-first quarter changes may be particularly distorted.

While the methodology is under continuing review, another important element in the process of evaluation of different accounts within the balance of payments is to examine them in depth and in a long-term perspective at fairly infrequent intervals. Such examinations permit a more penetrating exploration of series than is feasible in the normal process of quarter-to-quarter estimation and analysis, and are more likely to reveal deteriorations in the quality of estimates due to changing structure or to the development of biases in projection techniques.

As will be described later, the data inputs may be of an administrative character, may come from surveys designed specifically for the purpose, or may be estimated on the basis of observations of greater or lesser accuracy. The individual series and their components range accordingly between the valid and the indicative.

Historical Continuity of the Statistics♦

Although estimates of the balance of payments were published by the Dominion Bureau of Statistics for some earlier years, the official series are now considered to begin only with 1926. For the earlier period the reader is referred to the estimates by Viner, Knox and others, which may most conveniently be found in *Historical Statistics of Canada*,⁹ and which may be regarded as having superseded both the Bureau publications listed in Appendix 10 relating to years prior to 1926 and the Canadian data for this period supplied to the League of Nations.¹⁰

Classifications used in balance of payments statistics have varied over the years. An attempt to present early official data on the basis currently employed is contained in recent annual reports. Thus Tables 33 through 35 in *The Canadian Balance of International Payments, 1973 and 1974* (Catalogue 67-201) contain data in respect of current transactions from 1926 and capital transactions from 1927. These distributions are not available for the full period on either a regional or

⁹ M.C. Urquhart, ed. *Historical Statistics of Canada*. Toronto, The MacMillan Company of Canada Ltd., 1965.

¹⁰ League of Nations, *Memorandum on International Trade and Balance of Payments, 1913-1927*, Volume I, pp. 73 through 79.

⁸ Catalogue 67-505.

TABLE I.2. Balance of Payments Codes Applied Since 1946

Account number		Title	Note
New	Old		
A	A	CURRENT ACCOUNT RECEIPTS	(C2, 3, 4 were previously used for sub-totals)
B	B	CURRENT ACCOUNT PAYMENTS	
C	C	CURRENT ACCOUNT BALANCES	
1	1	Merchandise trade (balance of payments basis)	
	2	Mutual aid to NATO countries (credit only)	Removed
3	3	Gold production available for export	Discontinued 1968
4	4	Travel	
15	5	Interest and dividends	Some subdivision
21	6	Freight and shipping	
22	8	War services	Discontinued 1946
23	11*	Other services	Some subdivision
27	..	Withholding tax (debit only)	
28	..	Total service receipts	
29		Total goods and services	
30	7	Inheritances and migrants' funds	
33	11*	Personal and institutional remittances	
	10	Mutual aid to NATO countries (debit only)	Removed
37	9	Official contributions	
38	..	Withholding tax (credit only)	
39	..	Total transfers	
40	12	Total current	
D	D	CAPITAL ACCOUNT	
21	1	Direct investment in Canada	
25	2	Direct investment abroad	
		Portfolio Canadian securities:	
30	3.1	Trade in outstanding Canadian bonds	Some subdivision
31	3.2	Trade in outstanding Canadian stocks	Some subdivision
32	4	Sales of new issues of Canadian securities	Some subdivision
33	5	Retirements of Canadian securities	Some subdivision
		Portfolio foreign securities:	
35	6	Trade in outstanding foreign securities	Some subdivision
37	7	New issues of foreign securities	Some subdivision
38	8	Retirements of foreign securities	Some subdivision
		Loans and subscriptions by Government of Canada:	
	9	Advances:	
41	9.1	National governments	
42	9.2	International financial agencies	Originally in D13 and D17
	10	Repayments:	
45	10.1	Repayments of postwar loans	
46	10.2	Repayments of war loans	Originally D11
47	10.3	Special settlements	No entry from 1947 through 1975
48	11	Columbia River Treaty	From 1964-73
49	12	Export credits directly or indirectly at risk of the Government of Canada	From 1962
	13	Other long-term capital transactions:	
51	13.1	Finance company borrowing in long-term forms, n.i.e.	Discontinued 1966
52	13.2	Other long-term transactions	Discontinued 1966

* part.

TABLE I.2. Balance of Payments Codes Applied Since 1946 -- Concluded

Account number		Title	Note
New	Old		
D 60	D 17.1	Resident holdings of foreign currency bank balances and other short-term funds abroad	Discontinued 1963
61	17.1a	Chartered bank net foreign currency position with non-residents	From 1964
65	17.1b	Resident non-bank holdings of short-term funds abroad	From 1964
70	14	Change in Canadian dollar holdings of foreigners:	
71	14.1	Non-resident holdings of Canadian dollar deposits	
72	14.2	Non-resident holdings of Government of Canada demand liabilities	
74	14.3	Non-resident holdings of Canadian treasury bills	
75	17.2a	Non-resident holdings of Canadian commercial paper	Separately from 1964
76	17.3	Non-resident holdings of Canadian finance company paper	From 1963
77	17.2b	Non-resident holdings of other Canadian short-term paper	Separately from 1964; some subdivision from 1974 which may be extended back
81	17.4	Non-resident holdings of other Canadian finance company obligations	From 1952
82	17.5	Other short-term capital transactions	Some subdivision from 1966
E 1	E 1	Capital movements in long-term forms	
E 2	E 2	Capital movements in short-term forms	
E 3	E 3	Net capital movement	
MULTILATERAL SETTLEMENTS			
F	F	Balance to be settled	
G	G	Balance settled by exchange transfers	
OFFICIAL MONETARY RESERVE TRANSACTIONS			
J	..	Allocation of Special Drawing Rights	
K 1	H 1	Change in official holdings of gold and foreign exchange	Discontinued 1960
K 2	H 2	Change in net International Monetary Fund position	Discontinued 1960
K 3	H 3	Other special international financial assistance	Discontinued 1960
K 4	H 4	Official monetary reserves	From 1961
K 5	H 5	Official monetary liabilities	From 1961
K 6	H 6	Net official monetary movements	From 1961

* part.

quarterly basis, and the definitive estimates continue to be those cited in the publications listed at the beginning of Appendix 10. Both sets of data are likely to be available also, in somewhat compressed form, in the forthcoming revision of *Historical Statistics of Canada*.

While the discontinuities which occurred in the definitive series at the end of 1938 and again at the end of 1945, mainly in respect of capital transactions, present regrettable difficulties for some users, they are a reflection of their times. The outbreak of war in 1939 brought a new policy urgency to the statistics. Problems, or potential problems, were faced in financing Canadian war purchases from the United States, in defending the Canadian dollar against heavy withdrawals of capital, in financing the Canadian dollar deficiency of the sterling area, and in the role which Canada was to play in the period of postwar reconstruction. With the end of general convertibility, currency regions assumed greater significance than had formerly been the case. The mobilization of the economy meant that the importance of some types of flows such as direct investment became overshadowed by massive intergovernmental financial arrangements. At the same time the introduction of exchange control brought with it enormous reporting systems of an administrative nature. In some respects these gave the statistician great insight into areas which had previously been murky, but in other respects they were less satisfactory than the surveys designed for statistical purposes. With the pressure on resources, both private and public, there was some erosion of the prewar methodology. In short, the balance of payments went to war. The period represented so different a world that the discontinuities were quite as much real as they were statistical.

With the easing of resources at the war's end and the emerging shape of postwar presentations, the data were worked back on a reasonably consistent basis to 1946. Another discontinuity had occurred, of course, with the end of exchange control late in 1951, but it proved possible to patch together the material reasonably well and to build into the rejuvenated questionnaire systems the relevant experience which had been gained from exchange control. The major gap in the transition was in the development of statistics of short-term items such as accounts receivable and payable, and it was at this time that the practice was introduced of treating the balancing item of errors and omissions as a short-term capital flow.

Some of the other discontinuities which occurred within the postwar period, represented the breaking out and isolation of new developments of importance such as the program of export credits, and of international money market transactions.

Others, which were carried consistently back through the series, included the display in the balance of payments of taxes withheld on payments of non-residents (described later in series B27 and A38), the elimination

of entries in respect of mutual aid to NATO countries (described in series A2 and B10), and changes in 1963 in the treatment of international financial agencies and of Canada's official monetary reserves (see *The Canadian Balance of International Payments 1961 and 1962 and International Investment Position* (Catalogue 67-201, p. 98)).

But other discontinuities could not be wholly eliminated. Pension receipts could not be isolated until 1952, and remain for earlier years with the series for services. Further changes in the coverage of official international reserves introduced in 1970 led to a small discontinuity at the end of 1960 as described in series K1 through K4, and the change in 1973 in the treatment of the foreign currency operations of the Canadian chartered banks (see series D60 and D61) could be carried back only to 1964. The change in 1973 in the conceptual treatment of gold, described under series A3, was carried back to the second quarter of 1968 when the two-tiered market was introduced. Marked discontinuities exist between 1970 and 1971 in a number of current account series. These reflect the culmination in 1975 of a long process of evaluation and development of basic series, when revisions were made to incorporate conceptual and statistical changes arising from the reconciliation described in Part VI of merchandise trade and other balance of payments current account statistics with the United States. At the same time adjustments were introduced to eliminate transportation costs from merchandise trade with overseas countries; under Canadian conventions these costs are already included in the freight and shipping accounts. The union with Newfoundland described in Part VI and the changes in area classifications described in Part VII also introduced discontinuities.

Linkages to Other Systems

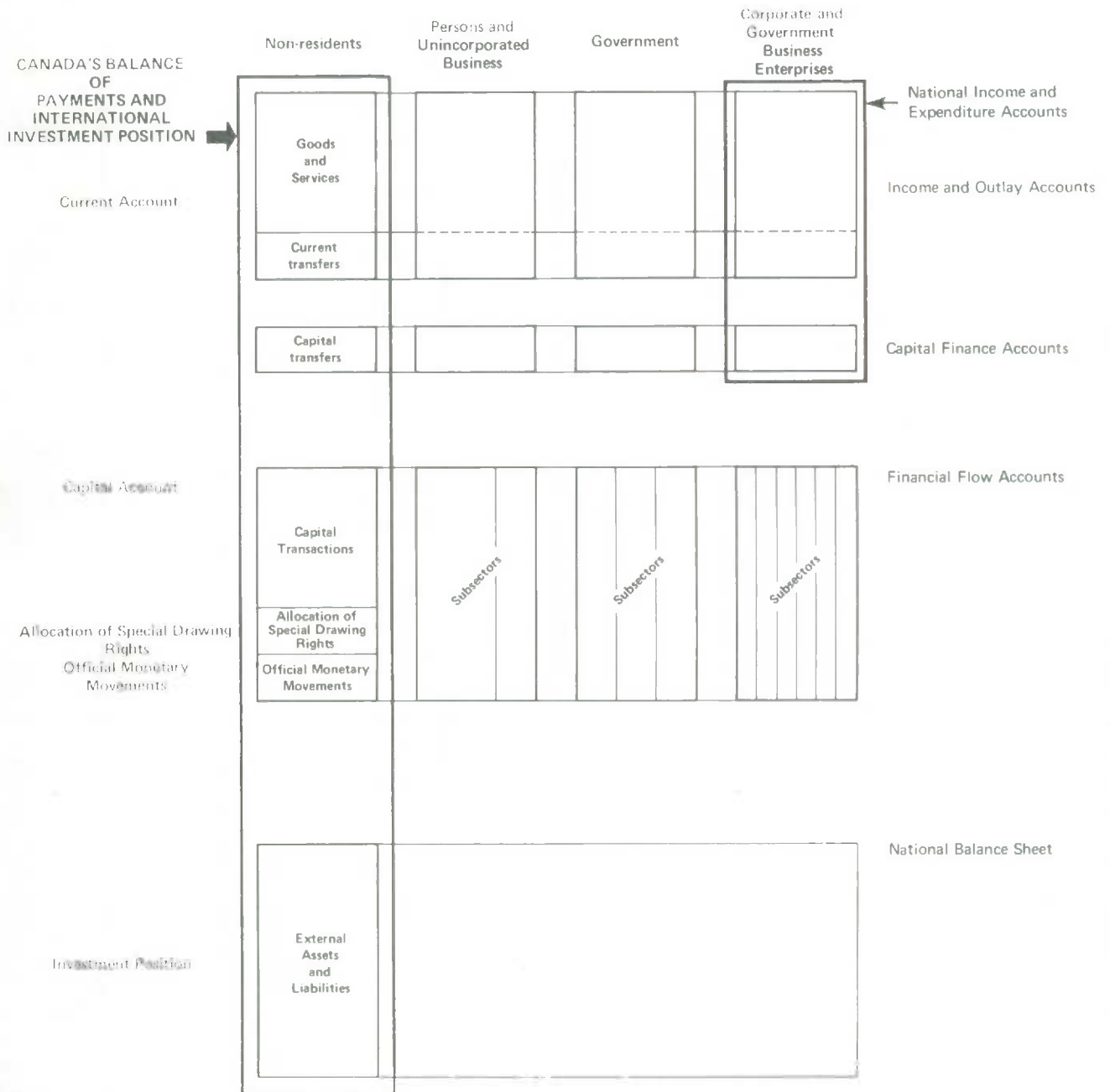
Although balance of payments statistics were developed earlier than the general frame, they constitute one element of the set of major economic statistics developed mainly after the end of World War II, now generally described as the System of National Accounts.

These comprise:

- the Canadian balance of international payments, described in this volume;
- the more comprehensive national income and expenditure accounts, which are constructed around the central concepts of production, the factors of production, income of the factors of production (national income), consumption, capital formation and savings;
- the financial flow accounts, which show changes in the network of financial claims underlying net lending and borrowing activity as summarized in the capital finance accounts of the national income and expenditure accounts;

Chart 1-1

Schematic Linkage Between the Balance of Payments, the National Income and Expenditure Accounts, the Financial Flow Accounts and the National Balance Sheet



- the indexes of real domestic product by industry, which show changes in the industrial composition of real or "constant dollar" output, with total real output measured on a Gross Domestic Product at factor cost basis,
- the input-output tables which display the industry and commodity structure of economic production and provide a special focus on inter-industry transactions and technological relationships underlying intermediate production; and
- the indexes of productivity, which show changes in output per person employed and output per man-hour for the commercial sector of the economy and various industry groups, using real domestic product by industry data to provide the constant dollar measures of changes of output.

The purpose of this section is to indicate briefly the principal linkages between the balance of payments and other elements of the system. For a more complete description the reader is referred to *A Guide to the National Income and Expenditure Accounts*.¹¹ The principal relationships are set out schematically in Chart I.1.

Linkages to the national income and expenditure accounts and to the financial flow accounts are set out in summary form below, and in greater detail in Appendices 3 and 4 respectively.

Balance of payments statistics may also be seen as part of an international system. In their very nature, national balance of payments statistics are but one part - a cross section - of the worldwide flow of goods, services and capital. Transactions which affect one country's balance of payments have counterparts in another's. This intrinsic unifying influence has been augmented by the deliberate efforts of international agencies to establish common concepts and frames, beginning under the auspices of the League of Nations and continued under the International Monetary Fund; Canadian experts have played significant roles in this work in both agencies. More directly pragmatic influences in the same direction have stemmed from the use inter-governmentally of data, for example under the aegis of the European Recovery Plan, and, more directly related to Canada, the resolution of balance of payments and related problems between Canada and the United States. Finally the advantages of joint use of data have had some influence in the maintenance of internationally consistent statistics.

While the international standards as presently established by the International Monetary Fund are the outcome largely of the collective wisdom and experience

¹¹ *A Guide to the National Income and Expenditure Accounts: Definitions - Concepts - Sources - Methods*, National Income and Expenditure Accounts, Volume 3 (Catalogue 13-549). Chapter 12, the System of National Accounts: Linkages from Income and Expenditure Accounts to Other Parts of the System.

of its members, and are a potent force for standardization, there are inevitably deviations. Some of these reflect the particular institutional structures of member countries. Some reflect the relative importance of particular aspects of the frame to an individual country, and some reflect the ease or difficulty encountered in particular types of measurement.

The Canadian statistics have been influenced to a considerable degree by the international standards, to the formulation of which they had in turn contributed. A description of some of the major differences and of the reasons for them will be found in Appendix 5. Examples of the returns made to international organizations are reproduced in Appendices 6 and 7.

Linkages to the national income and expenditure accounts - Gross National Product and Gross National Expenditure are designed explicitly to measure the value of the nation's total final production of goods and services, providing a statistical picture of the structure and functioning of the economy - the composition and use of the nation's production, and the various types of income which are generated in the course of producing it.

Because a part of Canada's current production of goods and services is sold to non-residents, it is necessary to include in final sales the value of exports of goods and services in order to arrive at a full accounting of current production. Conversely, because sales to persons, government, business and non-residents include goods and services produced by non-residents, i.e., imports of goods and services, it is necessary to subtract these in order to arrive at a correct summation of the value of Canadian output.

The figures of exports and imports of goods and services appearing in the Gross National Expenditure table are those published in the Canadian Balance of International Payments (subject to certain modifications related to wartime financing and to Newfoundland prior to its union with Canada). The relationship between transactions in goods and services and the current account of the balance of payments is set out in Table I.3. Basically, current account receipts and current account payments reflect, in addition to exports and imports of goods and services, current transfers and transfers of inheritances and migrants' funds. Current transfers appear in the income and outlay account of non-residents but are not included with exports and imports of goods and services in Gross National Expenditure since they are not considered to represent current earnings of Canadian or foreign factors of production. Inheritances and migrants' funds received or paid are transfers of a capital nature and for this reason do not appear in Gross National Expenditure.

Until fairly recently the links between balance of payments data and the National Income and Expenditure Accounts were not fully articulated. Users of historical balance of payments reports will find it necessary to

make a number of further adjustments discussed in Appendix 3, which also gives an example of the Reconciliation Table published in the National Income and Expenditure Accounts.

A more extended description of the relationships between the National Income and Expenditure Accounts and the Balance of Payments will be found in Chapters 3 and 8 of *A Guide to the National Income and Expenditure Accounts*.¹²

Linkages to the Financial Flow Accounts – The Rest of the World sector of the Financial Flow Accounts represents essentially a rearrangement of capital flows

¹² Catalogue 13-549.

and official monetary movements as they appear in the balance of payments to conform to the standard classifications employed for all sectors of the Financial Flows. A detailed description will be found in Appendix 4.

International Monetary Fund and Organisation for Economic Co-operation and Development – Reports by Canada to the IMF and OECD conform insofar as is possible to the international standards adopted by these institutions. Appendix 5 describes the principal differences between the statistics as normally published in Canada and the standards provided in the International Monetary Fund's *Balance of Payments Manual*. Appendix 6 reproduces one of the Canadian reports to the IMF and OECD.

TABLE I.3. Relationship Between Balance of Payments Current Account Figures¹ and Exports and Imports of Goods and Services as Per Gross National Expenditure,² 1974

	Millions of dollars
Current receipts, balance of payments	40,259
Deduct:	
Inheritances and immigrants' funds	- 702
Current transfers received from abroad ³	- 653
Exports of goods and services as per Gross National Expenditure	38,904
Current payments, balance of payments	41,751
Deduct:	
Inheritances and emigrants' funds	- 168
Current transfers paid abroad ⁴	- 624
Imports of goods and services as per Gross National Expenditure	40,959

¹ Data as published in *The Canadian Balance of International Payments*, First Quarter, 1976 (Catalogue 67-001).

² Data as published in *National Income and Expenditure Accounts*, First Quarter, 1976 (Catalogue 13-001).

³ Tax withheld on service payments and income distributions to non-residents, personal and institutional remittances, and pensions received from abroad.

⁴ Official contributions, pensions paid abroad, and personal and institutional remittances.

THE INTERNATIONAL INVESTMENT POSITION

The Broad Conceptual Frame

Closely allied to the balance of payments are statements of "international investment position", perhaps more commonly referred to as the "balance of international indebtedness". The latter term is sometimes criticized both because of its apparent emphasis on the "bottom line" and of the inclusion in the series of equity investments as well as debt. Nevertheless the term is time honoured in Canada, having been in use at least since the publication more than half a century ago of the

pioneer study *Canada's Balance of International Indebtedness, 1900-1913* by Jacob Viner.¹³

Investment position statistics were highly developed in both Canada and the United States during the interwar period, but there has never been emphasis on data of this sort by the international community comparable to the efforts at standardization in the field of the balance

¹³ Jacob Viner. *Canada's Balance of International Indebtedness, 1900-1913. An Inductive Study in the Theory of International Trade*. Harvard University Press. Cambridge, 1924.

of payments. This is perhaps surprising since, for an understanding of the behaviour of many series in the balance of payments, some knowledge of the stocks of relevant claims is a *sine qua non*.

The international investment position shows the nature, form and amount of all international assets and liabilities of residents. These claims may have originated in capital movements or in other sources such as the growths generated internally through the retention of income accruing beneficially to international owners. The data disclose in a sense the skeleton of a country's international financial relationships, revealing both the underlying claims giving rise to income transfers, and the extent to which a country has been both a receiver from, and a supplier to, the rest of the world of real and financial resources.

The balance of international indebtedness of Canada has risen rapidly, from a post-World War II low of \$4 billion in 1949 to some 10 times that figure in 1975.

Components of Canada's international investment might be aggregated in a number of ways to facilitate analysis of different aspects of the country's international economic and financial relationships. There could be special interest in distinguishing long-term and short-term components, or components providing for contractual repayment, or those carrying service obligations in foreign currency at a predetermined rate, or in the range of yields (immediate or accrued) attaching to their term and liquidity, or in their division between the private and public sectors. Each of these might have meaning in the context of a particular study. While it is not possible to compile all the components of Canada's international investment position in such a way as to permit precise classifications on all these bases, a great many combinations to meet particular purposes are possible using the variety of detail available.

Most of the valuations employed in Canada's international investment position are book values, i.e., they reflect the values found in the accounts of surveyed corporations. A detailed note on valuations appears in Part VII and there are comments on the valuations of some specific series in Part IV.

Current Presentations

The basic format in which Canada's international investment position is currently published is set out below.

Canada's assets:

- Direct investment
- Portfolio investment
- Miscellaneous investment

Canada's assets - Concluded*

- Government of Canada credits
- Government of Canada subscriptions to international investment agencies
- Canadian long-term investment abroad
- Net official monetary assets
- Other Canadian short-term holdings of foreign exchange
- Short-term receivables, n.i.e.
- Gross assets

Canada's liabilities:

- Direct investment
- Government bonds
- Other portfolio investment
- Miscellaneous investment
- Foreign long-term investment in Canada
- Non-resident equity in Canadian assets abroad
- Official SDR liabilities
- Total long-term liabilities
- Non-resident holdings of Canadian dollars
- Short-term payables, n.i.e.:
- Finance company obligations
- Other
- Gross liabilities

Canada's net international indebtedness

A substantial amount of detail is available in respect of many of the series and is described in Part IV.

The distinction between long-term and short-term capital in Canada's international investment position, as in the balance of payments, is based upon probable behaviour rather than on the nominal form of the claim. Respondents are asked to classify as long term those claims which are intended or likely to remain outstanding for more than one year from the date incurred.

As noted earlier demand obligations or open-account claims are frequently applied in parent company-subsidiary accounting to capital having an essentially long-term function. In general, therefore, the definition adopted approximates capital employed both in fixed assets and in a more or less "permanent" level of working capital.

Historical Continuity of the Statistics

Although some fragments of work within Statistics Canada on Canada's international investment position exist for years prior to 1926, the relatively complete official series go back to that year. For earlier data the reader is referred to the estimates by Viner, Knox and

others, which may most conveniently be found in *Historical Statistics of Canada*.¹⁴

The classifications used in the series have remained relatively unchanged, and there are few of the breaks which exist in some of the earlier balance of payments statistics.

An estimate of Canada's international investment position as a whole was first published in highly summary form in the early 1950's in *Canada's International Investment Position, Selected Years, 1926-1949*,¹⁵ and regular annual publication of the summary statement began with the *Canadian Balance of International Payments, 1953 and International Investment Position*.¹⁶ Long before the summary estimates were compiled, the Bureau had been publishing estimates of foreign investment in Canada and of Canadian capital invested abroad, and it proved possible to round these out into estimates of Canada's international investment position as a whole, for most years back to 1926, with some omissions in the earlier years of elements of limited importance.

In 1952 interest in the burgeoning petroleum and natural gas industry in Canada led to special work on foreign investment in that industry, components of which had previously been classified to a variety of other activities.¹⁷ This work led to the isolation of the industry as a group in the investment position statistics commencing with the annual report for 1957,¹⁸ but it

was possible to produce the data on the new classification basis only for 1930, 1945, 1951 and from 1953 forward.

By the time of the report for 1953 it was possible to incorporate a series for foreign miscellaneous investment in Canada which was carried back consistently to 1926.

The estimates of Canada's international investment position published up to this time had excluded short-term commercial indebtedness. A study of this was carried out in the late 1950's leading to the publication of *Canada's External Short-term Assets and Liabilities, 1945-1957*¹⁹ and the investment position estimates published thereafter reflected these claims back to 1945.

Finally, in 1967 estimates of Canadian miscellaneous investments abroad were made and carried back to 1926.²⁰ At this point the coverage of Canada's external assets and liabilities was conceptually complete.

Canada's international investment position in summary form for the years 1926, 1930, 1933, 1939, 1945, 1950, 1955, and 1966 through 1970 will be found in Table I of *Canada's International Investment Position, 1968-1970*.²¹ Data for the intervening years between 1945 and 1960 will be found in Table I of the corresponding volume for 1926-1967.²²

¹⁴ M.C. Urquhart, ed. *Historical Statistics of Canada*, Toronto, The MacMillan Company of Canada Ltd., 1965.

¹⁵ Catalogue 67-503 A.

¹⁶ Catalogue 67-201.

¹⁷ See the note on industrial classification in Part VII.

¹⁸ Catalogue 67-201.

¹⁹ Catalogue 67-504.

²⁰ *The Canadian Balance of International Payments 1963, 1964 and 1965 and International Investment Position* (Catalogue 67-201).

²¹ Catalogue 67-202.

²² Catalogue 67-202.

TABLE I.4. Canada's International Investment Position, Year-ends 1945 and 1974, and Some Estimated Factors in the Change

	Book value year-end 1945	Capital movements	Undistri- buted earnings	Other factors	Book value year-end 1974
billions of dollars					
Assets:					
Long term	2.0	9.9	6.2	0.9	18.9
Short term	1.9	16.9	-	- 0.3	18.6
Gross assets	3.9	26.8	6.2	0.5	37.5
Liabilities:					
Long term	7.3	33.9	23.6	- 0.8	64.0
Short term	0.9	7.5	-	0.4	8.8
Gross liabilities	8.2	41.5	23.6	- 0.5	72.8
Net international indebtedness	4.2	14.7	17.4	- 1.0	35.3

Note: As figures are rounded individually, totals do not necessarily equal the sum of their component parts.

Relationship to the Balance of Payments

While the international investment position is closely allied to, and indeed reflects, the capital movements shown in the balance of payments, it is a substantially more comprehensive statement. It reflects many other influences in addition to capital flows. Between 1945 and 1974 for example, Canada's net international indebtedness rose by \$31.1 billion from \$4.2 billion to \$35.3 billion. Some 47% of this increase, \$14.7 billion, arose from net capital flows. Another way of putting this is, of course, that during this 29-year period Canada had a net current account deficit of \$14.7 billion. There were a large number of factors which contributed to the remaining growth in Canada's international indebtedness of \$16.4 billion, but the overwhelming element was the accrual of undistributed earnings on direct and portfolio investments in Canada and abroad.

It has been one of the characteristics of the statistical system employed in Canada that estimates of the balance of payments and of the international investment position have been constructed largely independently, although as explained elsewhere the data from individual respondents are reviewed as a whole for consistency. The approach followed has been the result of a number of considerations including the timeliness of particular estimates, inherent qualitative superiority and the minimization of statistical inest. In principle it would be possible to develop a highly integrated set of balance of payments and investment position statistics but the costs, financial and non-financial, to both private and public sectors would not appear to warrant such a development.

Nevertheless it is possible to make use of detail from worksheets and other sources to provide a rough

indication of how the pieces fit together. The preceding table presents a summary of the results of such an exercise. A detailed description of the exercise is presented in Appendix 2.

Relationship to the National Balance Sheet

Developmental work on the system of national balance sheet accounts has recently been completed and preliminary estimates have been prepared for the years 1970-76. National balance sheet accounts, for the years 1975 and 1976, have been published in the fourth quarter 1976 issue of the *Financial Flow Accounts*.²³ The national balance sheet accounts in their present form are confined to data on financial assets and liabilities; no attempt, as yet, has been made to incorporate data on real assets into them.

The Rest of the World sector of the national balance sheet accounts is presented from the point of view of non-residents and has a direct correspondence to Canada's international investment position. The Rest of the World sector represents, essentially, a rearrangement of Canada's external assets and liabilities in order to conform to standard classifications employed for all sectors of the national balance sheet accounts. The rearrangement primarily involves grossing up those items which appear in net form in investment position statistics and reclassifying various items to meet the conceptual requirements of the national balance sheet accounts. Consequently, total financial assets and liabilities for the Rest of the World sector will differ from the investment position. However Canada's net indebtedness to non-residents (total financial assets less liabilities) will be in agreement.

²³ Catalogue 13-002.

THE STATISTICAL SYSTEM

Introduction

Balance of payments and to a lesser extent related investment position statistics reach into the lives of nearly everyone. Most Canadians indeed have engaged directly in such international transactions as a subscription to a foreign periodical, or travel outside Canada. The statistical organization must accordingly be able to cope with a range of flows varying from a multiplicity of the simple to unique transactions of great complexity. It must be adaptable to both the measurement of large streams of similar transactions and the examination of extraordinarily intricate financial activities. The achievement of this at a reasonable resource cost calls for a high degree of flexibility and pragmatism. The late Joseph Schumpeter is credited with the thought that what we call economics is

more profitably conceived of as historical sociology than as applied algebra or secularized theology.²⁴

The discipline of standard formats for international comparability, the maintenance of historical continuity, and the need to reflect meaningfully the changing vicissitudes of international economic and financial relationships, must be harmonized insofar as is possible. There is little room in this work for Procrustean beds.

Some of the inputs to balance of payments statistics are derived from highly organized data systems related to administrative sources. The best and largest example is the statistics of commodity trade, but there

²⁴ Quoted by Eliot Janeway in *Saturday Review*, 11 April 1970.

are many other elements of the balance of payments which are dependent in whole or in part on administrative records. The statistical exploitation of such records is sometimes the only possible source of data and may in any event offer considerable economies to both the statistical agency and respondents. At the same time the data may suffer for statistical purposes because they have been designed to meet other needs whose criteria may not be totally relevant to those to which they must be adapted. Descriptions of the use of administrative statistics will be found in a number of places in Parts II and III.

When administrative records have been effectively exploited, recourse is next made to statistical surveys, sometimes designed as parts of other statistical frames and sometimes specifically to fill gaps in balance of payments or investment position series. The survey system is described further in a later note in this section and is the subject of Part V. This work rests legally on the Statistics Act.²⁵ This powerful Act establishes that among its duties Statistics Canada shall "collect, compile, analyse, abstract and publish statistical information relating to the commercial, industrial, financial, social, economic and general activities and condition of the people". With appropriate safeguards for the protection of confidential data from disclosure, it gives Statistics Canada access to any documents or records that are maintained in any department or in any municipal office, corporation, business or organization, from which information in respect of the objects of the Act can be obtained. Penalties of fines or imprisonment are provided *inter alia* for persons who, without lawful excuse, refuse or neglect to answer, or wilfully answer falsely, any question requisite for obtaining any information sought in respect of the objects of the Act, and for those having custody or charge of any documents or records who refuse to grant access to them. (To protect respondents wilful disclosure or misuse of the particulars obtained from identifiable individual returns is similarly punishable by fine or imprisonment.)

These teeth are necessary but rarely used. The philosophy which pervades the statistical system can aptly be described in words used by Cromwell to the Army in 1647:

"What we gain in a free way is better than twice as much in a forced, and will be more truly ours and our posterities'. That which you will have by force I look upon as nothing."²⁶

For the construction of estimates of Canada's balance of payments and international investment position, statistical information is sought, as described

²⁵ *An Act respecting statistics of Canada*. Chapter 15, 19-20 Elizabeth II.

²⁶ Quoted in Winston S. Churchill: *A History of the English Speaking Peoples*. Vol. 2, *The New World*. p. 314.

elsewhere in this volume, from many types of respondents including corporations, government agencies and departments, stock exchanges, banks, insurance companies and other financial institutions, and individual persons. Most of them are residents of Canada clearly subject to the Statistics Act.

Inputs are also necessary, however, from hundreds of others who are resident elsewhere and have in fact little direct connection with and no formal responsibility to Canada. Their assistance is sought, and is obtained voluntarily, either because it has proved impractical or uneconomic to identify fully Canadian parties to transactions with them, or because of their possible impact on statistical series for Canada compiled in other countries. In seeking data from non-residents, the utmost consideration is given to the nature of the burdens involved and every endeavour is made to restrict them as far as possible.

The co-operation and assistance received from non-residents who have been approached on a voluntary basis has been invaluable. This probably reflects a recognition by them that it is important that those responsible for relevant policies in Canada and elsewhere should have available to them the best statistics which can be produced, as well as appreciation of the efforts made by the Bureau to minimize the burden of the request.

The same general considerations apply in the case of respondents who have a clear obligation in respect of the Statistics Act. Information supplied in a co-operative effort is frequently superior to that elicited by the application of legal powers. Supplementary information offered voluntarily may be indispensable for the understanding, analysis and classification of data submitted on a structured questionnaire. A technically accurate response from an unwilling respondent may on occasion be misleading.

In short, the quality of the statistical output is more generally dependent on a co-operative approach to the information collecting process by the statistical agency and by respondents, than on confrontation and legal powers. But, while the formal powers under the Statistics Act are rarely used, they are nonetheless essential.

The combination of administrative records and statistical surveys cannot alone cover the full gamut of international transactions. "Measure what is measurable and make measurable what is not measurable" said Galileo Galilei.²⁷ It is here where the ingenuity of the balance of payments statistician is required. He or she must explore the minutiae of available data, identify overlaps and gaps, and contrive, as best as may be done, their remedies. This calls for integrity and responsibility.

²⁷ Quoted by Bertram M. Gross and Michael Springer in *New Indicators for Social Information*. The Annals of the American Academy of Political and Social Science, May 1967.

It involves the tapping of expert knowledge in various areas, the identification and development of new data sources and indicators, analysis, understanding and intuition. The statistician must recognize that the failure to make an estimate is equivalent in effect to an implicit assumption that no flow occurred.

It may be useful here to digress briefly on the subject of illegal activities. Under the concepts followed within the national accounts illegal transactions are explicitly excluded.²⁸ The case for this treatment can be defended on the grounds that illegal activity is not seen by society as productive, but tends rather to involve transfers between various elements of the population. The balance of payments, on the other hand, is not confined to a production concept but is more comprehensive insofar as it reflects all international transactions. For this reason attempts have been made, where possible, to reflect in it the impact of illegal transactions. The feasibility of measurement is, however, limited. In practice, apart from petty smuggling by travellers which is believed to be largely covered through the measures of international travel described later, measures have been confined to external lottery transactions and, for a period, estimated wholesale smuggling of tobacco products. No estimate is made of the balance of payments effects of illegal traffic in drugs, but it seems likely that these represent only a small proportion of the very large sums which may be involved domestically.

When all the sources have been exploited and inter-related, the balance of payments statistician analyses, evaluates, and, where appropriate, modifies the results in the light of the times and conditions at home and abroad, and of his own experience. At its best, the balance of payments is a hand-crafted product. "To protect yourself against overgeneralization", said Marion Harper Jr., "fondle enough of the building blocks so that your insight into the problem is personal."²⁹

The Survey System and the Organization of Records

All statistical processes involve the maintenance of records of greater or lesser complexity. In general the degree is determined by the extent and variety of the inputs which are employed and of the outputs which are desired. In addition to data files or worksheet records, when direct surveys are involved, records of survey operations and respondents are required to be maintained.

This section gives a general outline of the nature of the statistical records required to produce estimates of Canada's balance of payments and Canada's international investment position. It describes the processes by which survey respondents are identified and selected and it describes in very general terms the survey processes

which are employed. A more detailed description of the surveys, including reproduction of the questionnaires in use at the time of writing will be found in Part V.

Worksheets in respect of current quarterly estimates of the balance of payments follow closely the structure of the published estimates and link them with the data sources which are employed. Those covering the final annual estimates are particularly complex, and bring together all the components employed in the construction of all balance of payments estimates regularly published in Canada, the joint IMF/OECD common reporting system, and additional detail required for reports to the Development Assistance Committee of the OECD.

At the time of writing a computer system was being developed to handle the final assembly of components into the various outputs such as IMF and Development Assistance Committee returns, to provide data required for the Rest of the World sector in the financial flows and to load balance of payments series into CANSIM.

In all, about 25 different questionnaires are employed in the direct survey work of the Balance of Payments Division. Of these, about six collect data for sub-annual periods. Although in practice use of the questionnaires involves their interrelationship in a variety of ways, some of which are described in Parts II, III and IV, survey questionnaires focus primarily on either balance of payments or international investment position data.

Some of those focusing primarily on the balance of payments are confined to specific types of companies such as those engaged in transportation, or financial institutions such as insurance companies, trust and mortgage loan companies and security dealers. By far the largest part of the balance of payments questionnaires are however, of a general character applicable in greater or lesser degree to all types of companies. The international investment position questionnaires may be thought of as comprising two groups, those directed primarily to the measurement of Canada's external liabilities and those directed primarily to the measurement of Canada's external assets. In the case of almost all the surveys, however, there is inevitably some spill-over between these groups and functions.

The surveys are organized largely around records of international investment primarily from those of Canada's external liabilities. These records extend back to the early 1930's. Virtually all respondents are identified by code numbers which reflect the primary classification process used in the measurement of foreign investment in Canada, extended where necessary for other purposes. Each corporate respondent, generally at the enterprise level, is assigned uniquely to one of the following six groups.

²⁸ *National Income and Expenditure Accounts*, Volume 3, Catalogue 13-549 E, p. 62.

²⁹ *What is Marion Harper Saying?* Fortune, January 1961.

Group 1 – Enterprises considered to be Canadian controlled in which long-term investment from abroad amounts to less than \$10,000, and which have no foreign subsidiaries.

Group 2 – Enterprises considered to be Canadian controlled in which long-term investment from abroad amounts to \$10,000 or more.

Group 3 – Enterprises in Canada which are considered to be controlled by residents of the United States, whether taking the form of subsidiaries or (unincorporated) branches of United States corporations or otherwise controlled through stock ownership by residents of the United States.

Group 4 – Enterprises in Canada which are considered to be controlled by residents of the United Kingdom, whether taking the form of subsidiaries or (unincorporated) branches of United Kingdom corporations or otherwise controlled through stock ownership by residents of the United Kingdom.

Group 5 – Enterprises in Canada which are considered to be controlled by residents of other countries, whether taking the form of subsidiaries or (unincorporated) branches of other countries' corporations or otherwise controlled through stock ownership by residents of other countries.

Group 6 – Enterprises considered to be Canadian controlled in which long-term investment from abroad amounts to less than \$10,000, but which have foreign subsidiaries; and non-Canadian enterprises which are considered to be controlled by Canadian non-corporate persons.

Groups 2 through 5 are the basic sources for foreign investment in Canada in Canadian enterprises and in unincorporated branches of non-Canadian corporations, but are also the source lists for other surveys such as those relating to investment abroad or to international service transactions. Enterprises in Group 1 are surveyed only exceptionally in the case of those having significant international service transactions, major international receivables or payables, or otherwise statistically important to particular measures. Group 6 is surveyed generally in respect of investments abroad, income and service transactions, and receivables and payables.

Each enterprise is also classified by industry. The classification system employed is described in Part VII. In addition, within Groups 2 through 5 there is a special classification to which are assigned a variety of companies whose characteristics require special treatment. These are described in the note on non-resident Canadian companies and other special situations in Part VI.

The concept of control for the purpose of assigning enterprises to one group or another is in the nature of a statistical convention whose objective is to identify the

source of investment in a business enterprise which is sufficiently concentrated to constitute control. Thus what is implied is potential control through ownership of capital rather than an actual exercise of control over business policy although the latter is usually present. Those instances where control over business policy is exercised by other means such as licensing, management contracts, marketing arrangements or franchises are not normally reflected in the category. In practice the criterion used is the concentration within a single country or area of ownership of more than 50% of the value of the common stock of the enterprise. (Where this condition does not pertain, the enterprise is normally assigned to Canadian control.) The strict criterion of majority ownership of the common stock of an enterprise is modified to take account of a few cases in which it appears that the distribution is such that control may be exercised without majority ownership. A subsidiary of a Canadian company is, of course, classified to the same group as its parent company.

There is one exception of a general nature. An investment fund whose assets comprise holdings of securities of a portfolio nature is classified to one of the Canadian-controlled groups regardless of its ownership.

The basic registers are maintained to facilitate mailing of appropriate schedules on a selective basis. Their maintenance is a time-consuming operation. In 1974 there were some 282,000 Canadian corporations or branches in Canada of foreign corporations. Foreign capital was invested in something over 16,500 of these. The records of the Balance of Payments Division naturally include a much larger number of concerns whose ownership has been explored, but in which there is currently no significant foreign ownership.

While estimates of the balance of payments and the international investment position depend ultimately on records collected officially, early estimates and the maintenance of coverage depend heavily on the sifting and use of many sorts of information of varying quality. Some of this "intelligence" is used to update the basic registers. The sources examined include formal incorporation and licensing notifications published in the official Gazettes for Canada and the provinces; information derived from other Statistics Canada operations such as the Corporations and Labour Unions Returns Act, a general nature of business survey, the central registers of corporations and establishments, and specialised surveys; publications of the Bank of Canada, the Ontario Securities Commission, the Investment Dealers Association of Canada, the principal stock exchanges, and the *Financial Post*; the financial and daily press in Canada and abroad; reference services such as the *Financial Post*, *Moody's* and *Standard and Poor's*; trade publications, company reports and prospectuses.

In 1976, 2,455 concerns were surveyed for the first time. The origins are shown below but it should be noted

that although several sources may have identified a potential respondent only the primary source is credited. The growth of the active register was, of course, smaller than the figures given because some earlier respondents disappeared through Canadian takeovers, mergers or liquidations, and because some of the concerns newly surveyed were not incorporated into the continuing active register.

Source	Number	Percentage
Canadian and provincial official Gazettes	981	40
Newspapers	139	6
Other divisions of Statistics Canada	879	36
References on other Balance of Payments Division schedules	147	6
Reference books	107	4
Other	202	8
Total	2,455	100

The schedules received from respondents are examined for indications of response error and are related to past records for the respondent and to any "intelligence" of special transactions accumulated over the period. Crosschecks are made for consistency and where necessary the data are confronted with other sources within Statistics Canada or further direct enquiries are made to respondents. When any editing which is indicated as a result of these procedures has been carried out, the data are ready for tabulation. The processes which are employed vary with the nature of the survey. The most simple relates to such questionnaires as the BP-21, the report of transactions between Canada and other countries; or the BP-30 covering sales and purchases of securities between Canada and other countries; these are carried out by pegboard-comptometer operation and the original questionnaires retained as the basic record. For such surveys as the BP-52 covering the geographical distribution of the ownership of capital of Canadian companies the data are posted to ledger records and tabulated by accounting machine. The BP-59 survey of capital invested abroad by Canadian enterprises, which involves more manipulation, is compiled by more sophisticated data processing methods producing a more extended set of cross tabulations.

History and Organization

This section describes some of the institutional history surrounding the development of official statistics of the balance of international payments in Canada and

concludes with some indications of the organization and resources devoted to the work.

The Twenties and the Thirties

In December, 1913 the government established a Board of Inquiry to investigate the increase in the cost of living in Canada and the causes which had occasioned it. One of the Commissioners was Robert H. Coats, then Chief Statistician of the Department of Labour.

At an early stage in the Board's history, Dr. Coats formed reservations about its approach to the problem. After discussing them with the Chairman and his own Minister, the latter authorized him to prepare a separate report and provided substantial assistance for the task. Dr. Coats' report of over 1,100 pages was completed within about nine months.

Meanwhile, the Board itself had apparently formed the opinion that war had made the cost of living a dead issue. When called for by the Prime Minister, a brief report was produced which comprises the first 79 pages of Volume I of the *Board of Inquiry Into Cost of Living in Canada, 1915*. This, Dr. Coats refused to sign. He produced his own report in manuscript, as his idea of what the Board report should contain. Dr. Coats was called by the Prime Minister to explain his action. His own report was favourably received and was published in its entirety as Volume II.

This firmly established Coats' reputation as a statistician, and he was called upon in 1916 to be the first Dominion Statistician, and to organize the Dominion Bureau of Statistics. This he did, and the Bureau commenced its work in 1918.

Coats' report engendered a great deal of interest on the part of academic economists. Among them was Professor F.W. Taussig of Harvard who was greatly interested by the chapter dealing with the balance of payments. At a meeting of the American Statistical Association in Boston, he mentioned to Coats a bright young Canadian student named Viner, who was looking for a Ph.D. project and who would be suitable to work in this largely undeveloped field. The result was Jacob Viner's well-known book on the Canadian balance of payments³⁰ which Coats later reviewed for the *Journal of the ASA*.

The first rough estimates of the invisible items of the balance of payments made by Coats³¹ were improved and amplified in Viner's work. Professor Frank A. Knox

³⁰ Jacob Viner. *Canada's Balance of International Indebtedness, 1900-1913. An Inductive Study in the Theory of International Trade*. Harvard University Press. Cambridge, 1924.

³¹ *Report of the Board of Inquiry into Cost of Living*, Ottawa, King's Printer, 1915. Volume II, pp. 889-907.

followed Viner and published estimates covering the period 1900-34.³²

The Bureau's work relating to the balance of payments started in the 1920's. Academic economists making preliminary studies in the field in the summer months included Professor Kenneth W. Taylor of McMaster University, and later Professor Frank A. Knox of Queen's University, J.F. Parkinson of the University of Toronto and J.M. MacDonald. (Another outstanding example of academic assistance in the Bureau in the summer months was that provided by the late Dr. W.C. Clark, who worked on the commodity classification introduced in the 1920's by the Bureau.)

Meanwhile Mr. Herbert Marshall, Chief of the Internal Trade Branch of the Bureau developed other aspects. The variegated pattern of activities of his Branch may appear curious, embracing as it did the balance of payments, prices, retail and wholesale trade, and the census of merchandising and services. Dr. Coats made it clear that the Branch as developed under Marshall was designed to take up and develop what he regarded as major gaps in statistics revealed in his work on the Cost of Living which had drawn attention, among other things, to the many elements in the balance of payments including capital movements and the tourist trade and the importance of these in the Canadian economy.

Accordingly in 1926 the Branch commenced to lay the foundations for a comprehensive collection of factual data on items for which no recorded information had previously existed. At the start it gave special attention to foreign investments in Canada and Canadian investments abroad because these were of basic importance both in the understanding of the balance of payments and in the economic development of the country.

Formal estimates of the balance of payments by the Dominion Bureau of Statistics first made their appearance with the publication in 1928 of a report covering the years 1920-26. Initially only the visible trade items could lay any claim to reliability, other estimates being based on generally sketchy data. But while the results could be no more than suggestive, they provided a framework for improvement and extension. In subsequent publications, however, the year 1926 was regarded as the first covered by official estimates.

The road from 1914 had been a long one.

³² Frank A. Knox, *Canadian Capital Movements and the Canadian Balance of International Payments, 1900-1934*. Excursus in Herbert Marshall, Frank A. Southard and Kenneth W. Taylor, *Canadian-American Industry. A Study in International Investment*. New Haven, Yale University Press. Toronto, Ryerson Press, 1936, and New York, Russell & Russell, 1970. Also Frank A. Knox, *Dominion Monetary Policy 1929-1934. A Report Prepared for the Royal Commission on Dominion-Provincial Relations, Ottawa, mimeographed, 1939.*

"I am afraid I cannot help you in the matter of the Invisible Trade Balance. The calculation which I made in 1914 was part of a general economic survey and the period under review was, of course, a good deal more stable than subsequent years. We hope within the next year to assemble materials that will enable us to interpret the meaning of our trade balances from year to year in future, but until we do this we are frankly not in a position to make an official estimate of the nature you would require."

R.H. Coats, 22 January 1923.

"We had planned to make a thorough analysis of the trade balances of Canada for the discovery of invisible items during the past Autumn and to incorporate the results in the current issue of the Canada Year Book, but the pressure on our staff has been so great from general sources that we have had to postpone the job for another year."

R.H. Coats, 24 December 1924.

"Several years ago I worked out the Canadian trade balance for the period 1900-13. The results were published in the *Cost of Living Report of 1915*, Volume II, p. 889. Since then there has been no similar investigation made in Canada, although we have been planning to do it from year to year ever since in the Bureau for publication in the Canada Year Book. I quite intend to have it done for the past three or four years."

R.H. Coats, 22 January 1925.

"We are going into the matter of the Canadian trade balance shortly when I will write you in connection with this item."

R.H. Coats, 5 February 1925.

"We have no statistics in Canada for the invisible items of the trade balance, though this Bureau is at present engaged in an investigation of the matter."

R.H. Coats, 5 March 1925.

"I have been endeavouring for some time to have an annual investigation made into the invisible items of our trade balance, but it requires skilful handling, as you know, and I have been unable to get the necessary time. Until recently moreover, we were without detailed information on the gold

movement. However, we have the preliminary data assembled and I shall try to get forward with it during the next two months and advise you of the result."

R.H. Coats, 15 August 1925.

"I am at the present moment engaged in making a study of the kind you mentioned (invisible factors in Canada's trade), but doubt that it will be completed within two or three months time, as I am going into the matter rather fully and unfortunately am subject to interruptions."

R.H. Coats, 10 December 1925.

"We are at the present time working on an analysis of the Canadian trade balance, and have several special enquiries under way with regard to annual 'invisible' items. I regret, however, that this study is not sufficiently advanced to enable us to make any statement with regard to the results."

R.H. Coats, 8 June 1926.

"I have your letter of the 17th but am sorry to say that I cannot help you out. The analysis of the annual balance for the so-called 'invisible items', most of which you enumerate, is a problem we have had for some time, but have never been able to complete. I am in hopes that within the next year, we may institute a plan whereby statistics of this kind will be issued annually."

R.H. Coats, 20 January 1927.

"In reply to your letter of February 18 I do not know of any calculation of invisible items of our balance of trade later than the one that was made by myself up to 1914.

"This subject was done over again and improved in a volume by Jacob Viner"

R.H. Coats, 22 February 1927.

"We have made several attempts to make our study 'balance', but to date the discrepancies are too great to warrant publication of the figures. We are still looking for possible sources of error and hope to be able to issue something before the end of the year."

R.H. Coats, 26 October 1927.

When supplying information with respect to invisibles to the Honourable H.H. Stevens, Minister of Trade and Commerce on August 12, 1932, Coats added:

"I should like to take advantage of this opportunity to point out that we are carrying out our study of international payments and capital movements under a considerable handicap . . . Mr. Marshall has been doing this work assisted by a routine clerk and with very occasional assistance from a university man for a month or two in the summer. In view of the fact that Mr. Marshall has a large branch in his charge, which includes such important work as that of prices and the census of merchandising, it is practically impossible for him to devote as much time to the study of international payments as the subject warrants. The work needs to be extended. In particular more comprehensive records of capital and interest movements should be inaugurated. We badly need another trained man working under Mr. Marshall in this section of the Bureau's activities."

In 1934 Mr. C.D. Blyth joined the Internal Trade Branch to carry out research in the field of balance of payments and investments and to assist in the organization of Canadian statistics in the field. The staff devoted to this work increased from two, with additional seasonal help, in 1930 to about 14 by 1936. Much of it was recruited from the 1931 Census staff. Two of the major current invisibles — freight and interest and dividends — were developed to a degree of accuracy adequate for ordinary purposes and three of the more important early gaps were effectively filled — trade in outstanding securities, capital movements between branch plants and their parent companies, and insurance companies' transactions. Thus by 1939 only travel among the major items remained to be placed on a relatively reliable basis along with some relatively unimportant invisible items for which there was no satisfactory basis for estimation under prewar conditions.

The status of balance of payments estimates and the details of the methods employed just before the beginning of the war were fully described in *The Canadian Balance of International Payments, a Study of Methods and Results*, published in 1939. Briefly, by that time the annual balance of payments estimates had shifted from a somewhat academic exercise to a vital tool in the shaping of policy. While some series were still far from perfect there existed both a well-developed and fairly reliable record of the past and well tested machinery for gathering information and calculating most of the important items. Along with data on current transactions the Bureau had built up detailed and accurate records of foreign investments in Canada and Canadian investments abroad. This, too, proved to be invaluable as need for greater precision arose.

The Forties

The outbreak of war in 1939 introduced an entirely new set of circumstances.³³ The significance of the balance of payments for public policy was greatly enlarged. The anticipated shortage of United States dollars led to the introduction on September 16, 1939, of foreign exchange control. Immediately the suggestion was put forward that there would be great advantages to the work both of the new Foreign Exchange Control Board (FECB) and of the Bureau, if an increasingly close relationship developed between the two agencies.

As a result of the new wartime requirements for information it had become necessary to co-ordinate closely all government activities in the field. The Department of Finance was the official link with the British and United States Treasuries, and since the matters concerned had important bearings upon budgetary and other financial policy a primary responsibility for the information rested with that Department. At the same time the detailed sources of information employed in constructing balance of payments statements originated mainly in other agencies such as the Bureau and the new Foreign Exchange Control Board. The latter organization produced as a by-product much information which had formerly been collected directly from the public by the Dominion Bureau of Statistics or from secondary sources. It also provided new insights into some areas of activity.

The extent of information required was also enlarged by the war. Whereas formerly balance of payments statements were compiled on an annual basis, there was now need for quarterly statements in order to keep abreast of the rapidly changing background. While the construction of estimates of the balance of payments was a major objective, the need for observing international transactions did not stop with the preparation of statements of past performance.

The inconvertibility of sterling necessitated separate estimates and forecasts for both the dollar and the sterling areas. Rapidly diminishing dollar reserves forced a much more careful appraisal of current and prospective balance of payments developments than in the past. The Hyde Park Arrangements required Canada to furnish the United States Treasury with quarterly data and forecasts, a year ahead, for the sterling and United States dollar balances of payments. Later, development of measures of Gross National Product created data needs for other than foreign exchange considerations. It is scarcely necessary to add that under wartime conditions the financing of the sterling area deficit and, as it turned out, the financing of large accumulations of dollar reserves made the balance of payments an important element in the government's budgetary forecasts. For almost a

decade work in the area of the balance of payments tended to be dominated by unusual day-to-day needs.

Preparation of statistical data related to the Canadian balance of payments and Canada's international investment position was the continuing responsibility of the Dominion Bureau of Statistics, but necessitated close liaison with the FECB and other government agencies which were directly concerned with the international financial relations of Canada, or which provided information from other administrative activities required in the construction of balance of payments estimates. When exchange control was introduced, the FECB established its own Statistics and Research Section to which the Bureau made available a number of employees trained in this field. While the Bureau's staff in the balance of payments field and the Board's Statistics and Research Section maintained quite distinct existences (indeed their functions were in many respects quite different) there was maintained at all times the closest liaison between the two. From the start the Bureau had access to the Board's records with mutually beneficial results. Shortly after the establishment of exchange control Mr. Blyth, the Bureau's senior balance of payments expert (who became first chief of the Balance of Payments Section when it was established) was given office accommodation at the Board and spent most of his time there. From the beginning of 1945 until the termination of control in 1951 he served as Acting Chief of its Statistics and Research Section while in addition continuing to have the responsibilities attached to the duties of the International Payments Branch at DBS.

Partly fortuitously and partly by design, therefore, balance of payments activities - records and forecasts - enjoyed a high degree of centralization of the available sources of information. At the same time the relationships between those concerned were very flexible, due in part to the fact that most of them had been accustomed to working together and exchanging views on related subjects since before the war. This resulted in easy adaptation to changing circumstances and to continuity in development.

It is a common misconception that foreign exchange control and the resulting coding and classification of payments and receipts means that the balance of payments in precise form emerges automatically. In Canada, at least, this was not the case.

This is not the place for a comprehensive discussion of the use of exchange control documentation as a statistical source. It may suffice to record that the essential feature of the control was that all international transactions were subject to control, and all documentation related to the approval or reporting of transactions was examined. The statistical compilations which resulted had as their primary purpose the meeting of administrative needs. They were, however, also extended and

³³ See George S. Watts. "The Bank of Canada during the War Years." *Bank of Canada Review*, April 1973.

adapted so as to become an important source in the construction of balance of payments estimates. The extent to which they could be employed for this purpose varied. Generally speaking, they could be used more completely for the measurement of capital movements than for the current account. The extent to which sales and purchases of exchange covered net settlements for current transactions, and the great variety of charges associated with commercial trade weakened the usefulness of the data when the objective was the measurement of gross international exchanges of goods and services rather than actual foreign exchange transfers. The variety of channels of payments which were continually changing, and the use of "sundry" classifications to cover transactions below specific limits also affected the usefulness of the data for measuring some current transactions, for example, international travel. Growing needs for estimates of transactions with individual countries or areas made it necessary to employ foreign trade statistics on commodity movements for many balance of payments purposes. Nevertheless, even where they could not be used directly the analyses of exchange transfers provided useful supplementary information sharpening up some items and revealing the importance of others not previously ascertainable, and they threw light on leads and lags and other short-term changes in private positions.

At the same time the practice of frequently reviewing Canada's balance of payments (prior to the formal introduction and publication of quarterly statements) made it necessary to adopt various types of methods and sources in order to prepare estimates at short notice. Every available source was, therefore, used in constructing interim statements as well as more definitive annual statements. Because of the variety of channels used and the changes which took place in them, the employment of data from exchange sources for measuring international transactions required constant vigilance.

For forecasting, the careful analysis of exchange control records permitted a considerably more up-to-date record of developments than would otherwise have been the case; it was possible, for example, even in the 1940's to prepare tolerable estimates of balance of payments transactions within about six weeks after the end of a year or quarter. And with the coding system employed by the Statistics and Research Section major changes in the reserve position could be explained within a very few days and the information applied to the revision of projections.

The first attempts at balance of payments forecasting had commenced in the Bank of Canada in 1937 but they were of rather a rudimentary nature. The first formal Canadian balance of payments forecasts (those mentioned previously that were prepared for the United States Treasury) and a few earlier ad hoc estimates were prepared by committees representing interested departments. For a time the forecasts were assembled and prepared by an expert in balance of payments within the Department of Finance which was, of course, responsible

for their submission. He was dependent on the established sources for his information and in practice became chairman of a small committee of experts in the field from the Dominion Bureau of Statistics, Foreign Exchange Control Board, Department of Finance and Bank of Canada, with occasional representation from the Departments of Munitions and Supply and National Defence. When he left in 1944 an informal interdepartmental balance of payments committee was set up representing the above-mentioned bodies with Mr. Blyth serving as chairman. Forecasting was not a traditional role for the Bureau, and with the growth of the public service and the general fragmentation which accompanied it this apparatus ceased to exist during the 1950's.

Forecasting as such during this period did not require any large or additional staff, but the process was directly dependent on the existence of an extensive body of records. The staff in the Bureau's International Payments Section at the end of the war consisted of about eight persons on general work plus a group ranging up to 35 at peak periods employed in coding and analysing the returns on international travel. The corresponding staff at the Foreign Exchange Control Board numbered a dozen or so consisting mainly of coders and statistical clerks.

While full advantage was taken of the advice of industry, trade, and other experts in specialized fields, final estimates could differ considerably from the aggregate of individual estimates received. The reasons for this are numerous. Specialized knowledge has its disadvantages as well as its advantages and concentration upon particular subjects may result in failure to fit them into the total picture. Moreover, it was difficult to obtain estimates from a variety of sources which were in harmony with the basic assumptions of the forecast for which the forecasters had to be responsible. In other words unless, for example, estimates of exports were recast according to a perception of levels of activity and demand abroad they could lack homogeneity in the final product. This meant that those engaged in forecasting required both a working knowledge of the main commodities and their markets, and ability to assess the mix of judgements involved. While it is arguable that there was danger in altering the estimates of experts who were certainly better informed than any small group could hope to be, experience demonstrated that an overall pruning and harmonizing of individual estimates was better than a mere aggregation of individual calculations however skilfully and carefully prepared. In any event, to have confidence in their results the forecasters required sufficient knowledge of the components to defend them intelligently if need be.

Forecasts of imports presented a much more complicated problem than exports. Apart from a relatively few bulk staples, imports consisted of innumerable items, largely manufactured, the demand for which it was quite impossible to estimate individually. At the time there was no valid historical basis for calculating the level of

imports under conditions of high incomes and freely available supplies. Moreover, the flow of imports from the largest source — the United States — was largely a function of supply governed by reconversion to a peacetime economy, strikes, and the operations of different government agencies; from other countries the unpredictable allocation of scarce supplies was important. In the early postwar period the procedure was simply to take what specialized knowledge was available (and it was comparatively small) and to project the latest available quarter, after having studied the effects on it of changes in quantity or price, and finally for the longer run to make allowance for the intensity of local demand, price prospects, restocking of capital goods and the return of standard peacetime products. However, in the circumstances the results could not be much better than guesses. The forecasting of imports, particularly from the United States, was unquestionably the weakest link in the estimates at the time.

Similar approaches were taken in the forecasting of other items of the current account. Forecasts of the capital account were made only occasionally in response to specific needs and were, on the whole, not very satisfactory.

In the late 1940's the need was recognized for further senior professional resources. A position was established for the co-ordination and analysis of statistical information used for balance of payments purposes. The principal responsibility was the close observation and study of all of Canada's international and commercial transactions. It was noted that while a primary objective was the measurement of their extent, the necessity of understanding the interrelationships between these transactions, and the internal and external factors influencing them, required the planning and executing of independent investigations of a research nature and close liaison with other government organizations. It was a job, the staffing request noted, where the right man would be more important than an abstract list of qualifications. Dr. A.E. Safarian was recruited.

The Fifties On

The growing responsibility of the government to provide statistical information to international organizations led to additional statistical demands. At times considerable work was done to meet requests, particularly from the International Monetary Fund, the Organisation for Economic Co-operation and Development, and the United Nations. In the later years these needs were co-ordinated to a growing extent with the regular program of the unit, although they continued to represent a significant resource cost.

The administrative by-products of exchange control which had become firmly embedded in the statistical structure ceased to be available with the termination of

control in December 1951. As a result it became necessary to develop new techniques to cover transactions which were previously estimated from the analysis of exchange transactions. Surveys which had become dormant during the early years of the war, as well as those which had been maintained, were reviewed and extended in the light of the new knowledge which had been acquired, and where gaps remained new sources were developed as quickly as possible.

In August 1952 the International Trade Division comprised a total staff of 131, including 10 positions involved in balance of payments work; 22, including 10 part time, in international travel, and 97 in external trade and trade analysis.

Although quarterly estimates of the Canadian balance of payments had been constructed for official use since the war years, it was not until August 1953 that they were sufficiently developed to warrant regular publication. At that time estimates of the current account from the beginning of 1946 and of the capital account from the beginning of 1950 were published. The continuing production of quarterly data on a regular and timely basis, with increasing amounts of detail, became from this time the highest priority of the unit.

A decade later the work received some notoriety from the Glassco Commission³⁴ when selected as typical of an entire statistical process under the guidance of only one or two professionals, with no juniors or understudies capable of being trained to senior posts or able to keep the process going in an emergency:

“The compilation of the statistics of Canada's balance of international payments is a good example. The compilation of this very important set of statistics involves a high degree of skill and knowledge which is specific to this particular area. The process cannot be reduced to routine and it is not possible for a statistician working in another area quickly to master the complexities. At present these statistics are of high quality and are produced with reasonable speed. The resulting impression is one of stability, but the organization is actually on a tenuous foundation. If one particular person . . . should die, fall seriously ill, or suddenly resign, the balance of payments statistics would be delayed and the quality seriously impaired for some months. If two people were to leave simultaneously the process might even have to be suspended temporarily, and it might be years before the former quality was restored. This condition, present also in other divisions, is not satisfactory; the danger of serious interruptions of important statistical processes is too great.

³⁴ The Royal Commission on Government Organization. *Supporting Services for Government*. Report 12. Economic and Statistical Services. Queen's Printer, Ottawa, 1963.

"One argument commonly advanced against centralization is that statisticians of a centralized agency are not in sufficiently close touch with the work of the departments using the statistics. This difficulty can be overcome only by providing, within the Bureau, a number of subject-specialists sufficient to study and understand the research, policy and administrative problems of the various users. In addition, the Bureau should be adequately staffed to provide specialist technical advice to departments and agencies grappling with complex statistical problems. The professional statistical staff will have to be expanded to fill these needs."

It is perhaps significant that it was in this period that the program of annual publications on the balance of payments lapsed temporarily, to be fully caught up only with the report for 1971.

The work of the Balance of Payments unit from the 1950's on need not be described in detail here. It appears throughout this volume. The period saw a number of interesting developments in the understanding of which statistics played an important role. It is sufficient to perhaps list the introduction of the floating rate for the Canadian dollar in 1950, the termination of exchange control in 1951, the development of an effective short-term money market, the re-establishment of a fixed rate in 1962, the exchange crisis of 1962, the introduction of the United States Interest Equalization Tax in 1963, the great growth of the Eurobond and Eurocurrency markets, the United States guideline measures to alleviate their balance of payments pressures, the Canadian exchange crisis of 1968, the gold rush, the float of the Canadian dollar in 1970, the August 1971 New Economic Policy of the United States, massive international exchange dislocations, the energy crisis, and worldwide inflation of more recent years. The statistics, and the perceptions of them, have played a part in the bilateral consideration of balance of payments between Canada and the United States with respect to the interest equalization tax, reserve targets, the automotive agreement and other trading arrangements. Some of these matters are described in the course of this volume. Others are covered in the contemporary reports.

Organizationally over the years balance of payments work has found a variety of homes within the Bureau. As noted it was initially little more than a specific interest of the first Dominion Statistician. It was developed under the Internal Trade Branch and later was one of the parts of the International Trade Division, which was formed with the Chief of the Balance of Payments Section also serving as Director of the Division whose responsibilities additionally embraced trade statistics.

In 1962 the section became a part of the National Accounts and Balance of Payments Division which was

the nucleus for the Economic Accounts Branch established in 1967. Currently the Balance of Payments Division is part of the System of National Accounts (Current) Branch. In the 35 years since it was first established as a separate unit in 1943, only four persons have been its head.

International travel has been closely associated with the balance of payments since its early days and was for many years a sub-unit. During the 1960's it became a separate section.

The Balance of Payments Division of Statistics Canada as organized in mid-1976 was made up of three output-oriented sections and other units of operational staff.

It would be well, however, at the outset to emphasize that the balance of payments must be seen as an integrated whole and that the sources are highly inter-related. For this reason an emphasis on the organizational frame may suggest a degree of compartmentalization which does not exist. In fact there has been a conscious attempt over the years to maintain a degree of fluidity within the organization in order to exploit the resources effectively to ensure consistency of the estimates and to provide, insofar as is possible, a widening perception of the total product on the part of all staff.

The Current Account Section - This comprises two professionals and three support staff. The group is responsible for the construction of estimates of all elements of the current account except investment income (which can more effectively be produced in close association with construction of estimates of Canada's international investment position). Part II dealing with the current account gives an indication of the functions carried out by this group. In brief it is dependent upon four major groups of inputs. Merchandise trade comes largely from the External Trade Division of Statistics Canada, although as will be noted, a close review of the material is required to ensure that the figures are appropriately adjusted for balance of payments use. A second major input is the travel account, which is produced by the International Travel Section of the Financial Flows and Multinational Enterprises Division; these figures are produced under concepts consistent with their use in the balance of payments and no adjustment is required. A third major input comes from the surveys (largely carried out by the International Investment Position Section described below), of which greater detail is provided in Part V. A part of the survey editing and evaluation with respect to current account items is carried out within the Current Account Section, and totals of them are estimated by it on the basis of the survey results and other indicators. Finally, as will be seen, there is a group of items in the current account which do not involve intensive survey operations but are estimated on the basis of a variety of sources ranging from the precise to the nebulous.

The Capital Account Section — This comprises three professionals and a support staff of five. Using survey results and other sources, including administrative records of other departments and agencies, it is responsible for estimates of all the series covering capital flows and reserve movements. Extended descriptions of the sources and methods employed will be found in Part III.

The International Investment Position Section — This has three professionals and one senior technician of equivalent standing supported by a staff of 14. It is responsible for the construction of estimates of Canada's international investment position as described in Part IV, for the estimation quarterly of investment income transactions, and for a variety of analytic measures including those of foreign ownership and control of long-term capital employed in Canada. The Section produces the reports on Canada's international investment position. A major part of its resources is directed to the maintenance, editing and processing of the principal surveys described in Part V, providing important inputs from them to the other output-oriented sections.

Other operational functions — Other operational functions include systems research, bilateral reconciliations (described in Part VI), each of which absorb one professional, and a mailing indexes and publications unit comprising a staff of seven.

With the addition of its Director and secretaries, the staff employed in early 1975 totalled 51 persons including about four persons provided for temporary development projects. Most of the increase from 42 persons in 1972 was necessitated by rapid growth both

in the volume and complexity of transactions. In mid-1975 the staff totalled 41.

Expenditures in the fiscal year 1975-76 were of the order of \$770,000 comprising \$655,000 of personnel costs, \$60,000 of other direct costs and \$55,000 of indirect costs (mainly data processing and programming, field services and pooled typing services).

Overall, the Balance of Payments Division measured transactions aggregating about \$130 billion in 1974 and external assets and liabilities of the order of a further \$100 billion. Almost \$70 billion of the current transactions were derived from the External Trade Division and the International Travel Section. The total also includes a significant volume of banking transactions, which as noted in Part III, are obtained from the Inspector General of Banks and the Bank of Canada under arrangements to rationalize the collection and distribution of banking statistics.

The International Travel Section had a total staff of 28 made up of four professionals and 24 support staff. Its expenditures for 1975-76 totalled about \$425,000 made up of about \$275,000 of personnel costs, \$50,000 of other direct costs and \$100,000 of indirect costs. The variation in the distribution of costs between this Section and the Balance of Payments Division reflects the different nature of their operations.

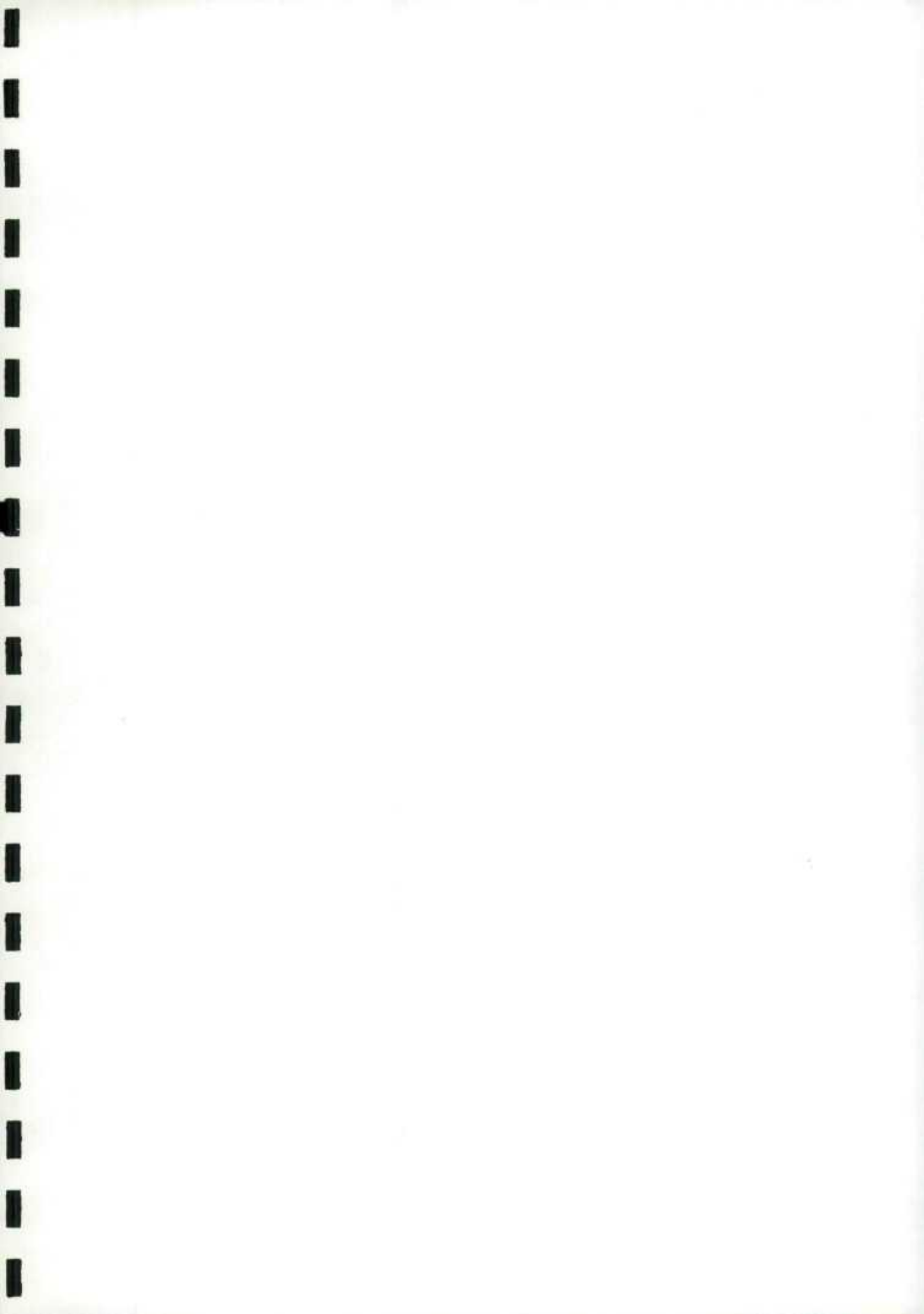
To round out the picture it may be recorded that the External Trade Division, which is, of course, responsible for a massive amount of commodity and country detail, involved a total staff of about 275 and expenditures of approximately \$4,400,000 in 1975-76.

10

PART II

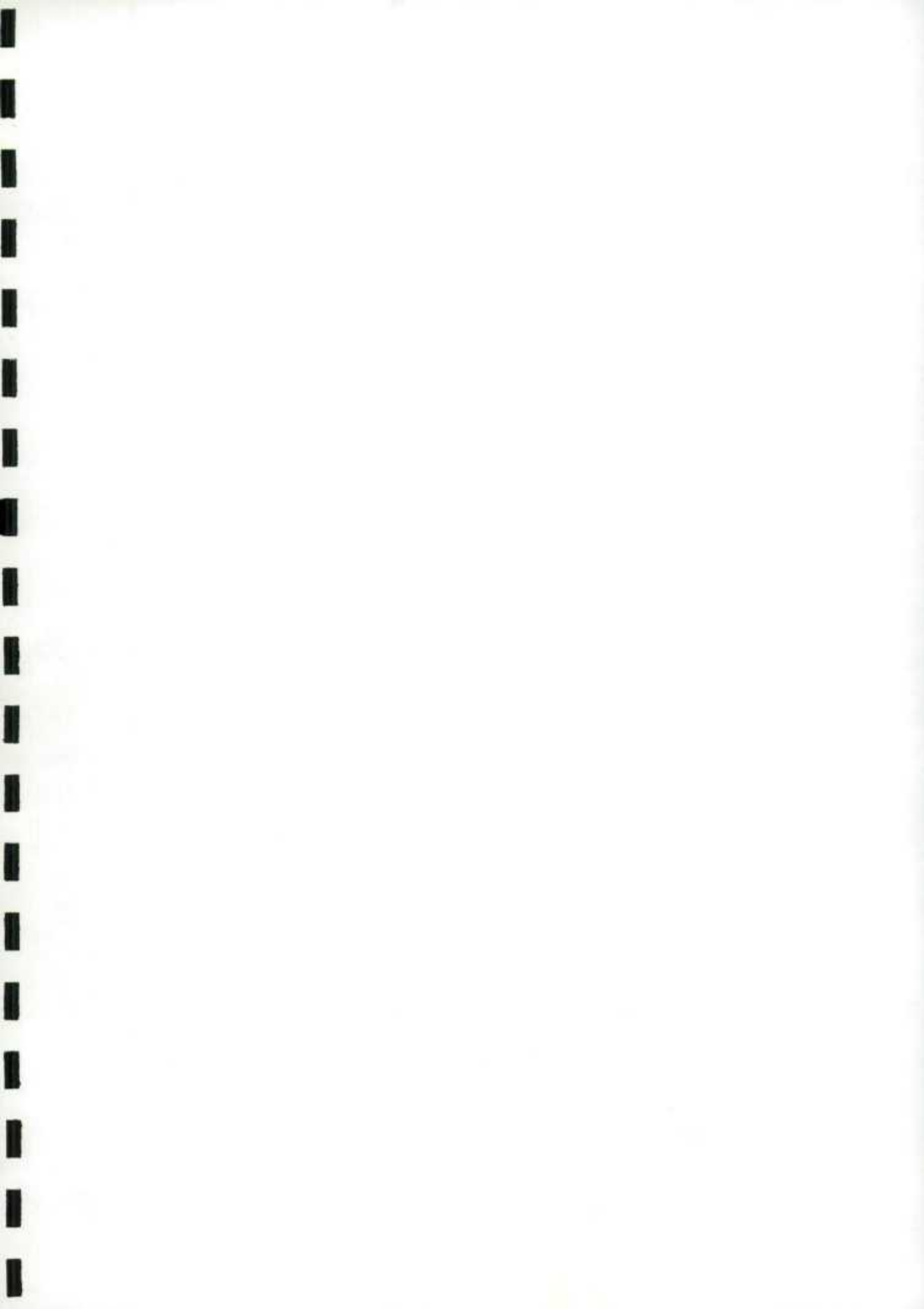
THE CURRENT ACCOUNT

Series in the Standard Balance of Payments Presentation



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Introduction

This part deals with current account items in the standard balance of payments presentation. It is followed by Part III dealing with items in the capital account and Part IV dealing with statistics of the international investment position.

The material with respect to each item is presented, insofar as is possible, in a standard format:

- Title
- Code
- Concept
- Description
- Sources and Methods
- Evaluation
- Linkages and Relationships
- Series Availability
- Supplementary Data
- Related Data.

In the descriptions of sources and methods the emphasis is on those currently in use. Some attempt is made to indicate in a general way the basis upon which earlier estimates were made. No attempt is, however, made to cover systematically earlier methodology (or descriptions) for which the reader must depend upon the contemporary publications. Even in the case of current estimates it is not possible in a volume of this nature to set out the complete methodology or to provide sufficient information to permit users to replicate the estimates even were they to have full access to survey results.

Merchandise Exports and Imports

Codes – A1 Merchandise exports (balance of payments basis)

BI Merchandise imports (balance of payments basis)

Concept

Fundamentally, these series cover transactions involving a change of ownership of movable goods between residents and non-residents of Canada.

Description

Merchandise trade is the largest single element entering into the Canadian balance of international payments. Changes in it may be rapid, and are frequently of decisive importance in the current account.

To do so would involve the inclusion of a totally unmanageable amount of detail and the discussion of many individual situations which would be precluded by the confidentiality provisions of the Statistics Act. The approach taken is to present a highly compressed summary view of the construction of the estimates – the skeleton so to speak – with, from time to time, a digression to provide some flavour of the sort of work involved.

It is probably useful to record here that the statistical methodology has had to take account of the ease, speed and economy with which data could be derived. Thus, while the statistical frame itself is a conceptual product, the process by which it is filled is in contrast often institutional or administrative. As a result, in the course of constructing publishable aggregates there may at times be developed series of an indicative nature which may validly be used in the process but which by themselves must often be so hedged with caveats as to represent only a tantalizing morsel of little use to the seeker of a discrete sub-series.

The term relationships covers those with other parts of the System of National Accounts, such as the National Income and Expenditure Accounts and the Financial Flow Accounts, and with international standards and returns, such as those of the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD). Relationships to other published statistical series are described as related data.

Trade statistics are generally the oldest set of continuous time series available anywhere. In Canada they date from 1869 although fragmentary data exist for much earlier periods.¹

The primary Canadian statistical series on exports and imports are produced in the External Trade Division of Statistics Canada. Well over 2 million export documents were involved in 1974, while import documents numbered about 7 million. Exports and imports are cross-classified to some 1,200 and 2,700 commodity classes respectively, and to more than 140 countries. Some millions of additional documents recording duty-free imports of Canadian resident travellers abroad are not now processed for statistical purposes. The statistics are published in great detail in the series of *Trade of Canada* reports listed at the end of this section.

¹ K.W. Taylor. *Statistical Contributions to Canadian Economic History*. MacMillan. Toronto, 1931.

Adjustments to the monthly totals are normally necessary to make them suitable for use in the balance of payments. A description of these adjustments is provided later, but it may be helpful at the start to describe briefly the characteristics of the basic source series.

Sources and Methods

Sources of Trade of Canada data – The basic sources of *Trade of Canada* series are, with a few exceptions, the export and import documents collected by Revenue Canada, Customs. Totals for low value shipments to and from the United States have been estimated on the basis of samples of documents since 1969 in the case of imports, and 1975 in the case of exports. At the time of writing samples of 10% for imports and 20% for exports are used for shipments of less than \$2,500.

Electricity exports have been reported since January 1960 by exporting firms through the National Energy Board; imports have been reported since January 1963 directly by importing enterprises to Statistics Canada. Crude petroleum and natural gas exported by pipeline companies have been reported directly by them to Statistics Canada since January 1964. Records of exports to and imports from the United States of motor vehicles have been supplied since 1970 directly by the major manufacturers.

Timing – Generally, the statistics for any calendar period include goods declared on export or import entries received at Statistics Canada up to the last working day of the period. There may be a lapse of up to a week in the receipt of documents from outlying customs ports, and the receipt of entries for major customs ports normally requires two or three days. Exports to and imports from the United States of motor vehicles cover the period from the 26th of one month to the 25th of the following month. Trade in electricity and exports by pipeline of petroleum and natural gas for a given month are included in the statistics for the following month because of reporting time lags.

Coverage – Certain commodity movements which either have no international commercial or financial implications or are better considered as non-merchandise transactions in the statistics of Canada's balance of international payments are excluded from the trade totals regularly published on a customs basis, but are shown as a supplementary group of "Special Transactions – Non-trade" in *Trade of Canada* publications. These are:

- current coin;
- settlers' effects;
- private donations, gifts and bequests;

- identifiable exports of tourist purchases;
- goods exported to Canadian diplomatic representatives or Canadian armed forces stationed abroad, or by foreign diplomatic representatives or foreign armed forces returning home after posting in Canada;
- goods imported for foreign diplomatic representatives or for allied armed forces stationed in Canada, or brought back by Canadians returning from postings abroad;
- temporary exports or imports for exhibition or competition, including films for processing abroad;
- until the end of 1973 imports of tourist purchases exempt from duty, and declared in writing;
- until the end of 1975, gold and gold products where the value of the gold content was 80% or more of the total value (with minor exceptions).

Not reflected anywhere in the basic trade statistics are bunker supplies and ships' stores sold to foreign vessels or aircraft in Canada or purchased abroad by Canadian vessels or aircraft,² temporary exports (other than contractors' equipment) and temporary imports (other than for exhibition or competition, or films for processing abroad), and goods merely moving in transit through Canadian territory. Also omitted from the basic trade series are ships of British construction and registry imported for use in Canada, as well as ships, and (until 1966) aircraft, purchased abroad for use as international carriers but not used to carry goods between points in Canada. Other goods crossing the customs frontier without change of ownership, as exemplified by goods exported or imported on a lease or rental basis, are also excluded from trade statistics. The Canadian practice with respect to the processing and repair trade follows United Nations recommendations, in that goods imported or exported for processing are recorded at full value, while only the value of repair work is taken into account with respect to imports or exports of goods for repair.

Import statistics include goods which are entered into customs warehouses, as well as goods which are cleared by customs on arrival in Canada, following the "general" system of recording trade statistics.

Export statistics include goods withdrawn and exported from customs bonded warehouses.

Geographic classifications – Exports are classified to the country to which they are consigned at the time the goods leave Canada, i.e., to the furthest known destination. Imports are generally classified to the country from which the goods were first consigned

² These are covered in balance of payments series for freight and shipping or, in the case of aircraft and military vessels, for government and business service transactions in the appropriate "other services" category.

directly to Canada whether or not this is the country of origin. Since July 1946, however, goods originating in Caribbean, Central or South American countries, but consigned to Canada from the United States have been classified to the country of origin.

Valuation – Export documents define the value to be reported as “f.o.b. (free on board) place of lading”, i.e., at the point of production for the majority of commodities, and exclusive of such charges as inland freight, insurance, handling, etc., from the Canadian point of consignment to the point of exit and beyond. (Export prices are adjusted as necessary to include export taxes, e.g., on petroleum exports.) It has been found, however, that a significant proportion of exports by water or air reflect values which include transportation charges to the port of export, and some overland shipments to the United States are recorded at a value which includes part or all of the transportation charges to the ultimate destination. Wheat and oil seeds, which are important commodities, are reported on an f.o.b. port of exit basis, i.e., at Vancouver, Thunder Bay or St. Lawrence and Atlantic ports. Alberta coal is reported f.o.b. west coast of British Columbia. Exports are compiled in Canadian dollars, following conversion of any values denominated in foreign currency.

The value of imported goods is the customs value for duty, which is normally based on the fair market value (usually at wholesale level in the country of export, or the selling price, whichever is higher). Excluded are inland freight from the point of consignment to the foreign point of exit, transportation, insurance and handling charges, and export or import duties. In the case of individual shipments of over \$50,000, the declared selling price is used unless the transactions are at non-arms-length. (Imports of automobiles are, however, valued on the basis of the selling price.) Because some imports from the United States are purchased on a “delivered” basis, their prices reflect an allowance for transportation costs.³

Changes in the structure of trade statistics – The structure of trade statistics has undergone a number of changes over time. Where possible the External Trade Division has revised past data to take account of such changes. The following paragraphs outline some of the more important changes and indicate where more complete descriptions of them may be found.

Effective at the beginning of 1960 a new category was established in both export and import statistics under the title “Special Transactions – Non-trade”. Previously published totals included various special and non-commercial transactions, some of which were not treated uniformly in export and import series. The new category, which is excluded from the regularly published

³ The foregoing paragraphs summarize the relevant portions of descriptive material to be found in *Trade of Canada* publications.

totals, grouped various commodity movements which either had no international financial implications or, for various reasons, were better considered separately from merchandise trade in economic analysis. The current elements of this category have already been listed. Following the changes made in 1960, export and import totals had substantially the same coverage and more closely approximated the merchandise trade component of the balance of payments. The usefulness of the totals was increased, while at the same time information on special and non-commercial transactions continued to be available. A more extended description of the changes introduced in 1960 will be found in Chapter IV of the *Review of Foreign Trade, Calendar Year 1959*, Catalogue 65-205.

The basis of compiling trade statistics was changed at the beginning of 1964. Until then, Canadian statistics were of the “Special Trade” type, i.e., they were measured at the “customs frontier”, the point at which imports leave or exports enter customs supervision. Canada’s trade statistics have since been compiled on the “General Trade” basis or at the national frontier, the point at which goods enter or leave the country. Generally speaking it had appeared to make little difference to the *Trade of Canada* statistics whether Canadian trade was recorded on one basis or the other until 1962. The imposition in June of that year, as a temporary exchange conservation measure, of surcharges on imports led to substantial increases in stocks in customs warehouses as importers who had not previously used customs warehousing facilities built up stocks there in the hope that the measure would be cancelled before the goods were required. This resulted in some widening of timing discrepancies between Canadian records of trade in certain commodities and the statistics of partner countries. Because of this and the preference in balance of payments accounting for measuring the actual movements of goods rather than the technicalities of customs clearance, the “General Trade” basis of compilation was adopted in 1964. A more extended description of this change will be found in Chapter IV of the *Review of Foreign Trade, Calendar Years 1960-1963*, Catalogue 65-205. A definitive statement of *Trade of Canada* totals on a “General Trade” basis back to 1955 will be found in Table A-1 of the *Review*, Catalogue 65-501, for 1966-72 and series exist back to 1952 based on estimates available for the difference between the value of goods warehoused under customs supervision and the value of goods withdrawn for domestic consumption.⁴

Adjustments for balance of payments purposes – The remaining portion of this section is devoted to a description of the adjustments to *Trade of Canada* series made to fit them to balance of payments use.

The concept of trade statistics which is most meaningful may differ for different types of users.

⁴ Catalogue 65-205, calendar year 1955.

Some users of them are concerned particularly with revenue and protection aspects of the administration of the tariff. Others are concerned with the origin and destination of commodities in detail as elements of market analysis. Still others, particularly users of the aggregates, are concerned that they be relevant within the context of the broad system of national accounts or that they represent a measure of impact, whether immediate or ultimate, on exchange markets. While it is possible for this group of users to conceive of useful measures in terms of market values as being relevant in some "welfare" sense, they will generally find it appropriate to have a set of statistics in which the principles applied to the valuation of both exports and imports are, insofar as is possible, consistent in the sense that imports will be recorded on the same price basis as the exports (or other considerations) exchanged for them, and consistent with other economic and financial series to which they may be related. (They will wish also, of course, to have consistent timing and coverage.)

It may be noted, however, that the use of actual transfer (transactions) prices is almost a *sine qua non* for highly integrated statistical systems and their parts, e.g., balance of payments, income and expenditure accounts, and input-output. Other values would lead into a morass of imputations in such series as profits, inventories and capital flows. The basic *Trade of Canada* series are already so constructed as to reflect transfer prices in respect of exports and of imports of automotive vehicles. To the extent that measures are possible, further adjustments in respect of other commodities are made to *Trade of Canada* series to put them on a transfer price basis before they are used in the balance of payments.

The search by statisticians for symmetry reflects an underlying concern over the consequences of international trade and payments statistics which may on a worldwide basis show biases towards either payments or receipts. The national policy postures which may develop under such conditions are counter productive to the objective of achieving a smooth and effective functioning of the international adjustment process.

Adjustments made to trade figures to make them more appropriate for balance of payments use, include the objective of placing them on a basis consistent with the measures of other elements of the balance of payments in terms of coverage, valuation and timing. They have varied over time. Changes in the structure and coverage of *Trade of Canada* series in 1960 and 1964, which have already been described, eliminated the necessity for a number of adjustments, and in the details which follow it will be noted that a number of other adjustments have in fact been rendered unnecessary with changing conditions or changes in statistical processes.

Although changes in statistical procedure have over time made the primary data more appropriate for use in the balance of payments, there are constraints which limit the extent to which they can be made wholly appropriate. While most users of *Trade of Canada* aggregates are probably best served by the adjusted measures used in the balance of payments, the source data required for these adjustments are normally not all available with the timeliness, frequency, and degree of commodity and geographic detail which would be necessary to adjust fully the hundreds of thousands of cells published in the trade series. However, monthly aggregates on a fully balance of payments adjusted basis are available from January 1971, and are published regularly in the *Statistics Canada Daily*, Catalogue 11-001E.

The principal adjustments to the primary data are set out schematically in Chart II.1 where they are shown in two main groups. The first embraces adjustments of coverage or valuation. The second covers adjustments in respect of the timing of trade transactions. The chart identifies separately those adjustments which are applicable to currently published *Trade of Canada* totals and those which were originally required but have since been incorporated in historical *Trade of Canada* series. The currently applicable data are provided in Tables II.1 and II.2.

Adjustments of coverage or valuation - Among the group of balance of payments adjustments for coverage or valuation were deductions of exports and imports of settlers' effects, private donations and gifts, imports for consular use, certain transactions on military account with the United Kingdom and North Atlantic Treaty Organization countries, and imports of tourist purchases exempt from duty. (All of these adjustments ceased to be necessary with the data commencing for 1960 when they, together with certain other transactions, were grouped into the category "Special Transactions - Non-trade" as described above. Accordingly these adjustments up to the end of 1959 are necessary only when used in association with *Trade of Canada* series which have not been reconstructed in the format of 1960 and subsequent years.)

Other adjustments made in respect of coverage or valuation include:

- Tourist purchases - A small arbitrary deduction is made for tourist purchases recorded in commodity exports, which should more properly be included in travel receipts.
- Non-monetary gold - Since new arrangements in respect of non-monetary and monetary gold were introduced at the end of the first quarter of 1968 non-monetary gold has been treated in substantially the same manner as other commodities, and sales and purchases with non-residents are added to exports

Schematic Presentation of Adjustments to Trade of Canada Series for Balance of Payments Use

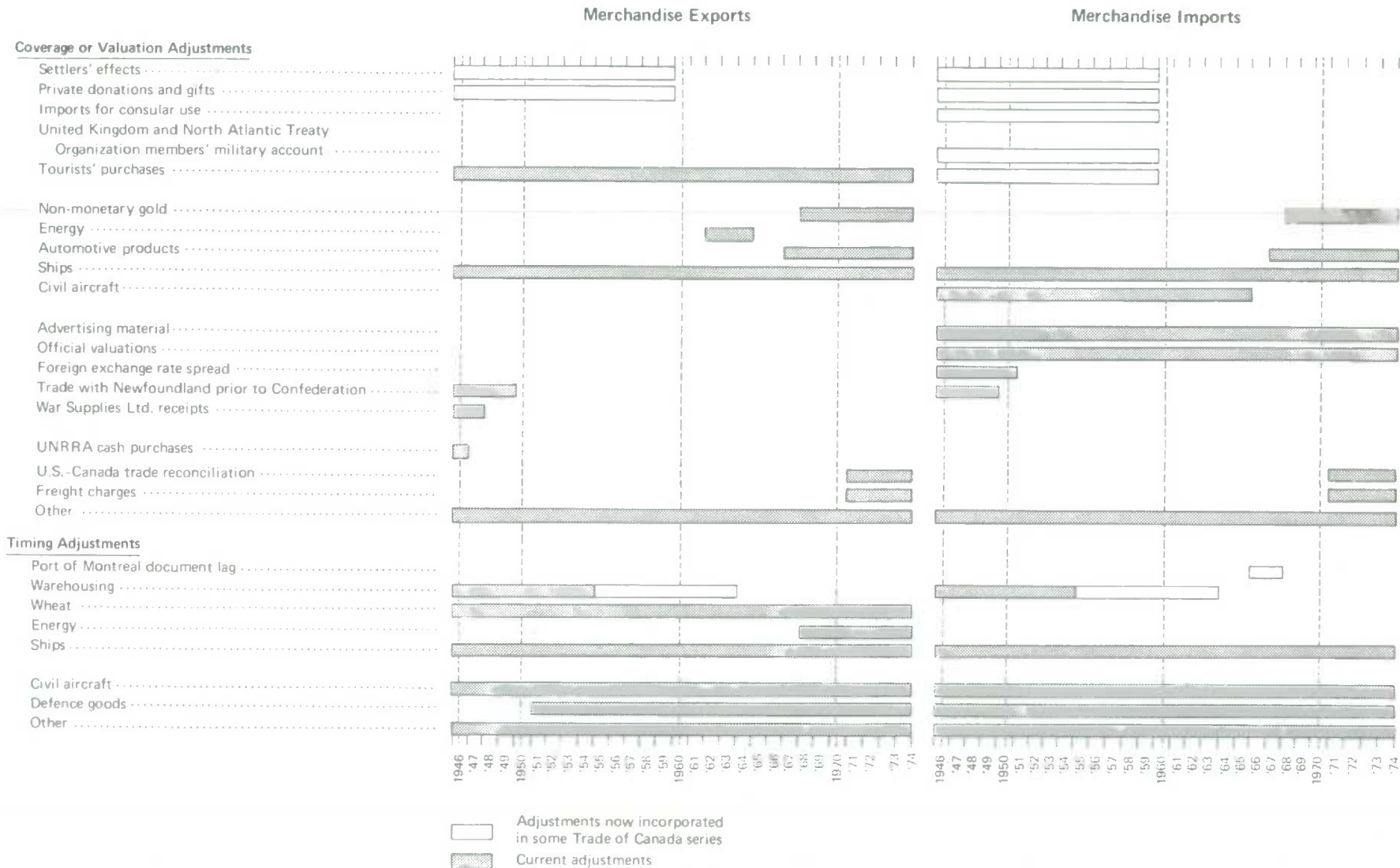


TABLE II.1. Adjustments to Trade of Canada Exports for Balance of Payments Use

	Trade of Canada Exports (including re-exports)	Balance of payments - Adjustments							
		Non-monetary gold	Wheat	Energy ¹	Auto-motive products	Ships	Civil aircraft	Defence goods	Tourist purchases
millions of dollars									
1946	2,299	...	38	..	..	5	-	3	..
1947	2,790	...	- 14	..	..	- 4	-	-	- 3
1948	3,087	...	14	..	..	- 16	-	-	- 2
1949	3,004	...	- 4	..	..	- 5	-	-	- 3
1950	3,143	...	-	..	..	- 5	-	-	- 6
1951	3,946	...	- 6	..	..	- 1	-	9	- 5
1952	4,337	...	- 10	..	..	-	-	15	- 4
1953	4,152	...	- 4	..	..	-	-	- 8	- 3
1954	3,926	...	- 2	..	..	-	-	- 14	- 3
1955	4,332	...	- 2	..	..	-	-	5	- 3
1956	4,839	...	- 5	..	..	6	-	- 1	- 3
1957	4,890	...	- 6	..	..	7	-	5	- 2
1958	4,899	...	- 2	..	..	-	-	- 4	- 2
1959	5,144	...	6	..	..	4	-	-	- 3
1960	5,390	...	- 6	..	..	7	2	-	- 2
1961	5,903	...	- 15	..	..	2	-	-	- 2
1962	6,357	...	6	18	..	-	-	7	- 2
1963	6,990	...	33	17	..	2	-	42	- 2
1964	8,303	...	- 29	5	..	3	-	- 42	- 2
1965	8,767	...	16	..	..	2	5	- 42	- 3
1966	10,325	...	- 10	..	..	-	22	- 9	- 3
1967	11,420	...	- 29	..	- 57	1	6	2	- 5
1968	13,679	123	- 4	5	- 91	3	- 20	29	- 4
1969	14,868	207	13	18	- 112	1	- 8	52	- 4
1970	16,819	156	5	15	- 54	1	- 4	- 12	- 5
1971	17,820	159	- 4	19	- 53	44	3	39	- 4
1972	20,150	173	11	28	- 68	22	- 7	- 35	- 5
1973	25,421	144	54	76	- 86	- 21	-	-	- 5
1974	32,441	187	60	183	- 132	74	-	-	- 5

¹ Data exist which would permit construction of adjustments in respect of timing of energy exports prior to 1968, but these would not on balance be large.

TABLE II.1. Adjustments to Trade of Canada Exports for Balance of Payments Use

Balance of payments - Adjustments								Total, adjusted	
Ware- housing	New- found- land	War Supplies Ltd.	UNRRA cash purchases	Freight	United States- Canada reconcil- iation	Other	Total adjust- ments		
millions of dollars									
..	- 38	55	33	..	..	- 2	94	2,393	1946
..	- 57	13	...	..	..	- 2	- 67	2,723	1947
..	- 57	...	...	..	..	4	- 57	3,030	1948
..	- 10	...	...	..	..	7	- 15	2,989	1949
..	7	- 4	3,139	1950
8	- 1	4	3,950	1951
14	- 13	2	4,339	1952
6	9	-	4,152	1953
5	22	8	3,934	1954
...	-	-	4,332	1955
...	1	- 2	4,837	1956
...	-	4	4,894	1957
...	- 1	- 9	4,890	1958
...	-	+ 7	5,151	1959
...	1	2	5,392	1960
...	1	- 14	5,889	1961
...	1	30	6,387	1962
...	-	92	7,082	1963
...	-	- 65	8,238	1964
...	-	- 22	8,745	1965
...	1	1	10,326	1966
...	-	- 82	11,338	1967
...	-	41	13,720	1968
...	-	167	15,035	1969
...	-	102	16,921	1970
...	- 229	83	-	57	17,877	1971
...	- 253	113	-	- 21	20,129	1972
...	- 315	188	5	40	25,461	1973
...	- 351	134	-	150	32,591	1974

Source: Trade of Canada Exports: for 1946-71, see *Review of Foreign Trade, 1966-1972* (Catalogue 65-501); for 1972, see *Exports Merchandise Trade, 1972-1974* (Catalogue 65-202); for 1973 and 1974 see *Exports Merchandise Trade, 1973-1975* (Catalogue 65-203). Adjusted Exports: see *The Canadian Balance of International Payments, 1972* (Catalogue 67-201) for 1946-66 and *Quarterly Estimates of the Canadian Balance of International Payments, First Quarter 1976* (Catalogue 67-001) for 1967-74.

TABLE II.2. Adjustments to Trade of Canada Imports for Balance of Payments Use

	Trade of Canada Imports	Balance of payments - Adjustments						
		Non-monetary gold	Automotive products	Ships	Civil aircraft	Defence goods	Advertising	Official valuations
millions of dollars								
1946	1,841	...	..	5	-	- 6	- 2	- 5
1947	2,543	...	..	-	-	- 3	- 2	..
1948	2,618	...	..	4	-	- 9	- 3	- 3
1949	2,714	...	..	6	-	- 2	- 4	- 3
1950	3,125	...	..	-	-	11	- 5	- 4
1951	4,005	...	..	1	-	95	- 5	- 8
1952	3,916	...	..	-	3	- 67	- 5	- 6
1953	4,248	...	..	8	3	- 48	- 6	- 6
1954	3,967	...	..	10	-	- 54	- 7	- 7
1955	4,578	...	..	15	-	- 38	- 7	- 8
1956	5,566	...	..	16	5	- 1	- 8	- 10
1957	5,488	...	..	10	11	-	- 8	- 12
1958	5,060	...	..	24	1	-	- 9	- 9
1959	5,530	...	..	13	43	4	- 9	- 9
1960	5,495	...	..	5	32	27	- 9	- 9
1961	5,781	...	..	13	- 22	- 38	- 9	- 11
1962	6,294	...	..	8	6	- 86	- 8	- 11
1963	6,578	...	..	5	22	- 5	- 7	- 11
1964	7,488	...	..	3	27	39	- 9	- 11
1965	8,633	...	..	2	10	3	- 10	- 11
1966	10,072	...	..	-	50	1	- 10	- 11
1967	10,873	...	- 129	-	29	- 2	- 10	- 11
1968	12,360	85	- 147	-	- 33	5	- 10	- 11
1969	14,130	64	- 83	-	- 11	-	- 14	- 15
1970	13,952	14	- 95	-	4	24	- 16	- 16
1971	15,618	66	- 80	-	- 19	32	- 9	- 6
1972	18,669	66	- 84	-	9	-	- 10	- 7
1973	23,325	49	- 93	-	48	-	- 10	- 9
1974P	31,692	172	- 159	-	- 80	-	- 11	- 10

Source: Trade of Canada Imports: for 1946-70, see *Review of Foreign Trade, 1966-1972* (Catalogue 65-501); for 1971 and 1972, see *Imports Merchandise Trade, 1971-1973* (Catalogue 65-203); for 1973 and 1974 see *Imports Merchandise Trade, 1973-1975*

TABLE II.2. Adjustments to Trade of Canada Imports for Balance of Payments Use

Balance of payments – Adjustments							Total, adjusted	
Foreign exchange rate spread	Warehousing	Newfoundland	Freight	United States-Canada reconciliation	Other	Total adjustments		
millions of dollars								
- 6	10	- 9	..	..	- 6	- 19	1,822	1946
- 12	25	- 9	..	..	- 7	- 8	2,535	1947
- 12	14	- 11	..	..	-	- 20	2,598	1948
- 12	-	- 1	..	..	- 2	- 18	2,696	1949
- 11	15	...	..	..	1	7	3,132	1950
...	23	...	..	..	- 10	96	4,101	1951
...	3	...	..	..	10	- 62	3,854	1952
...	14	...	..	..	- 1	- 36	4,212	1953
...	3	...	..	..	4	- 51	3,916	1954
...	...	...	..	..	3	- 35	4,543	1955
...	...	...	..	..	- 3	- 1	5,565	1956
...	...	...	..	..	- 1	-	5,488	1957
...	...	...	..	..	- 1	6	5,066	1958
...	...	...	..	..	-	42	5,572	1959
...	...	...	..	..	- 1	45	5,540	1960
...	...	...	..	..	2	- 65	5,716	1961
...	...	...	..	..	-	- 91	6,203	1962
...	...	...	..	..	- 3	1	6,579	1963
...	...	...	..	..	-	49	7,537	1964
...	...	...	..	..	-	- 6	8,627	1965
...	...	...	..	..	-	30	10,102	1966
...	...	...	..	..	22	- 101	10,772	1967
...	...	...	..	..	-	- 111	12,249	1968
...	...	...	..	..	-	- 59	14,071	1969
...	...	...	..	..	2	- 83	13,869	1970
...	...	...	- 64	- 240	16	- 304	15,314	1971
...	...	...	- 78	- 300	7	- 397	18,272	1972
...	...	...	- 99	- 486	1	- 599	22,726	1973
...	...	...	- 91	- 628	8	- 799	30,893	1974P

(Catalogue 65-203). Adjusted Imports: see *The Canadian Balance of International Payments, 1972* (Catalogue 67-201) for 1946-66 and *Quarterly Estimates of the Canadian Balance of International Payments, First Quarter 1976* (Catalogue 67-001) for 1967-74.

and imports as balance of payments adjustments. Commencing in January 1976, physical movements of gold no longer formed part of the adjustment, as these transactions, which were previously included in Special Transactions - Non-trade, were shifted from that date to the regular trade series. The remaining balance of payments adjustment is not now publishable separately. (Gold production available for export ((net non-monetary gold exports)) prior to the 1968 change in treatment was recorded as a separate item in the balance of payments.) For a more extended description see series A3.

- ✓ - Energy - Additions were made to exports in the early 1960's for natural gas exported by pipeline which had not been recorded in trade series.
- Automotive adjustments - Deductions are made from both exports and imports of automotive parts for retroactive value adjustments and for special tooling and other charges, which are also recorded among business service transactions in series A23 and B23. Export adjustments in 1967 through mid-1969, and import adjustments in 1967 and 1968, included deductions to reduce the reported values of motor vehicles to a transfer price basis.
- ✓ - Ships - Additions are made to both exports and imports in respect of the sale or purchase of ships which were not recorded on customs documents (no entry is required in respect of the import of ships of British construction and registry for use in Canada).
- ✓ - Civil aircraft - Additions were made to imports for the purchase abroad of aircraft for use as international carriers for which no import entry was required until 1966. (Aircraft transferred from international to domestic service were recorded as imports at their depreciated value and were deducted for balance of payments purposes.)
- Advertising - An estimate is deducted in respect of imports of advertising materials. Part of this material, such for example as travel promotion literature, does not involve direct outlays by Canada, and part is included in payments for advertising services.
- Official valuation - A deduction is made from the value of imports in respect of valuations for customs duty purposes which are higher than the actual amounts paid for goods; the adjustment is a notional one which is not well founded. Since 1971, the adjustment applicable to imports from the United States is incorporated in the United States reconciliation adjustment.
- Foreign exchange rate spread - A deduction was made during the period of fixed exchange rates under exchange control to reduce the values recorded on import documents by the amount of the spread between the official buying and selling rates which constituted a domestic rather than an international cost. These spreads which covered the costs of administering

exchange control as well as a commission to the banks for their services amounted to 1 cent on the United States dollar between September 16, 1939 and October 14, 1945 and to ½ cent thereafter until September 30, 1950. Thus, for example, in early 1946 exports which produced U.S. \$10 million were recorded at Cdn. \$11 million in the trade statistics, while imports costing U.S. \$10 million were recorded at Cdn. \$11.5 million. The adjustments reduced the import figure by \$0.5 million to \$11 million.

- Newfoundland - Exports and imports of goods between Canada and Newfoundland which appeared in trade series until the Union of Newfoundland with Canada in 1949 were deducted in accordance with the special treatment of Newfoundland described in a note in Part VI.
- War Supplies Ltd. receipts - Payments by the United States Government for war supplies and metals exported under the Hyde Park Agreement were recorded as special receipts in the merchandise account rather than in the primary trade data.
- United Nations Relief and Rehabilitation Administration - Foreign contributions used for the purchase of Canadian goods were recorded as special receipts in the merchandise account; a small amount was also reflected in the "other" adjustments for 1947.
- United States-Canada Trade Reconciliation Adjustment - This adjustment introduced from 1971 incorporates most of the conceptual and statistical corrections whose necessity was revealed through analysis of trade data by the United States-Canada Trade Statistics Committee (described in Part VI). The major elements of the adjustment for 1974 are detailed later in this section.
- Freight - While, in principle, the *Trade of Canada* series attempt to measure trade exclusive of all transportation charges, under the usual valuation practices of certain industries some transport costs are included in the value shown for some exports and imports on customs documents. This adjustment removes an estimate of those transportation costs, which are already covered in the freight and shipping series. A summary of the results of a 1971 survey of Canadian exporting and importing firms on their reporting practices on customs documents may be found at the end of this section.
- Other adjustments - This total covers a wide range of entries. Among other adjustments to exports, for example, were additions in the late 1940's and 1950's to adjust the value of uranium exports recorded in the primary trade data at nominal values for security considerations, and deductions in the middle 1950's to reduce to the amounts actually received from the United Kingdom the values for exports of beef which were recorded in the trade statistics at substantially higher support prices paid

to the producers by the Canadian Government. Other adjustments to imports were more diverse in character, including for example the elimination of additional non-commercial transactions, allowances for dumping duty, retroactive price adjustments, and some notional amounts in the middle 1950's in respect of commercial smuggling of tobacco. Some important purchases of military equipment which were delivered to the Canadian armed forces abroad, and therefore did not appear in Canadian import statistics are included in these adjustments on the basis of related progress payments. Similar treatment has been accorded purchases by Telesat Canada of telecommunication satellites which were launched from the United States.

✓ **Adjustments of timing** - We turn now to the second group of adjustments, those relating to the timing of trade transactions, dealing first with those shown in Chart II.1 which are now incorporated in historical *Trade of Canada* series, document receipt lags and warehousing.

The port of Montréal documentation receipt lag represents a particularly dramatic example of a statistical distortion originating from administrative procedures. It arose from a practice which extended from April 1966 until July 1967 in the port of Montréal involving a delay in the receipt by Statistics Canada of a large volume of import documents. As a result, some \$205 million of imports originally attributed to 1967 had ultimately to be transferred back to 1966. Currently published *Trade of Canada* series for aggregates reflect the correction.

The adjustment described as "warehousing" represents the difference between goods moving across the customs frontier and goods moving across the national frontier. The nature of this adjustment has been described earlier in the section dealing with changes in the structure of the trade statistics. As noted there, this adjustment became unnecessary from the beginning of 1964 when Canadian trade statistics were compiled on a "General Trade" rather than on a "Special Trade" basis. Currently published *Trade of Canada* aggregates have been adjusted to a General Trade basis retroactively to 1955. When Special Trade series are used prior to 1964 an adjustment for balance of payments purposes is required. Estimates of warehousing were made, and remain appropriate in the adjustments, in respect of imports for years prior to 1955.

✓ The adjustments made in respect of timing which are of a continuing nature include:

- **Wheat** - The Canadian Grain Commission's records of wheat clearances from exporting warehouses during the full calendar month, which escape reporting lags and better reflect destinations of Canadian-owned wheat held from time to time outside Canada,

are used to adjust *Trade of Canada* series for wheat exports. The volumes of clearances obtained from this source are combined with unit values from customs-based series to derive hybrid estimates which are substituted for original customs series.

✓ **Energy** - Exports by pipeline of petroleum and natural gas are, as described earlier, currently included in the *Trade of Canada* series with a lag of one month. In view of the rising importance of these commodities, balance of payments adjustments were introduced in 1973 back to the beginning of 1968 to assign such energy exports to the appropriate quarter.

- **Ships, civil aircraft, and military equipment** - It has been the practice in Canadian balance of payments statistics to substitute progress payments in connection with the construction of ships, civil aircraft and some military equipment, in place of the actual deliveries of the equipment. While at present very few countries follow this practice, it has been felt to be justified by a number of considerations. While legal title is not transferred until delivery, the equipment is itself usually built to specification with clear contractual liability involved. Production occurs over an extended period for whose timing progress payments more closely approximate the reality than the actual delivery. In the case of transportation equipment its very nature is moreover such that the identification of an export or import presents some difficulties and as a consequence from time to time documentation has lagged well behind the actual deliveries. Finally, the equipment itself may be described as "lumpy" and the physical delivery of, say, an ocean liner built over a period of years could contribute to an irregularity in series which if not clearly identified might create difficulty for the analyst. It will be noted that the use of progress payments in the balance of payments adjusted series eliminates the necessity of additional entries in the capital account to cover progress payments made on undelivered equipment or in the current account to cover purchases which may be delivered outside Canada, for example to the armed forces. In the case of military contracts the adjustments which are made have been confined to a relatively few types of major equipment.

- **Other adjustments** - As in the case of other adjustments of coverage and valuation, those for timing cover a wide range of entries. Among them are adjustments relating to document transmission lags, processing changes, and some progress payments. From time to time differences have been identified between the timing of actual exports of a commodity, e.g., iron ore, and the recording of them in statistical series; to the extent that the amounts are identified and significant, trade series are adjusted for use in the balance of payments. On occasion in the past there have been changes in the compilation process of *Trade of Canada* series which have altered the effective statistical length

of a particular month or quarter; adjustments have sometimes been made in balance of payments series to offset the effects of such statistical changes.

Occasional very minor revisions which have been made to *Trade of Canada* series for some years past reflecting rounding and/or marginal corrections and which are not large enough to warrant reconstruction of balance of payments adjusted series (and indeed the whole system of national accounts) are eliminated with other adjustments.

Evaluation

Many countries have experienced difficulties in the construction of trade statistics notwithstanding (or sometimes because of) their firm base in administrative procedures. For example, in Canada trade data were seriously distorted for a time by the practice adopted in the port of Montréal as described in an earlier paragraph. The original misallocation of some \$205 million of imports to 1967 rather than to 1966 represented approximately 2% of total imports in the latter year. The fact that the practice was not discovered until the early summer of 1967 demonstrates the difficulty of monitoring the operation of a massive reporting system of this nature. In the United States, studies by the Census Bureau instituted as a result of concern over growing differences between Canadian and United States data revealed that for many such shipments inland freight charges which should have been included in the value of merchandise reported to the United States authorities on the Shipper's Export Declaration were not properly reflected. By 1972 the upward correction required to the census data for exports to allow for the understatement in them of inland freight amounted to U.S. \$331 million. In the United Kingdom, authorities revealed in mid-1969 that exporters had failed to lodge export declarations on a scale estimated "on a conservative basis" at just over £ 10 million a month. These examples are good illustrations of the difficulties which have been faced by the compilers of trade statistics.

The compilation of Canadian trade statistics is, of course, a large and complex operation. It has already been noted that in 1974 it involved the scrutiny and processing of some 9 million documents and the production of statistical time series cross classified between commodities, countries, Canadian economic regions, mode of transport, etc., for over half a million cells. The administrative foundation upon which trade statistics rest and the huge volume which they embrace create the potential for many serious problems: timing, valuation, coverage and classification.

Overall studies — The statistics have been examined by interdepartmental committees in Canada (and in other countries) on a number of occasions. A major study carried out, for example, at the beginning of World War II identified a number of faults and led to a number

of improvements in the data. The findings are embodied in the discussion in Section II of Part II of *The Canadian Balance of International Payments, 1926-1948*, Catalogue 67-501. Equally important as the special investigations which have been carried out are the continuing efforts of statisticians to maintain the quality of the series in the light of changing business and administrative practices.

The most recent insights into the quality of trade measurement were gained from the work of the United States-Canada Trade Statistics Committee.⁵ This group was established by the authorities of the two countries as a result of the concern over widening discrepancies between counterpart Canadian and United States measures, and may be viewed as an extension of the work of reconciliation of the balances of payments of the two countries which is described in Part VI. The reconciliation had to take into account two types of problems. The first of these was adjustment of the two sets of series to a common conceptual basis. The second was identification of statistical deficiencies within the basic statistics of each country insofar, of course, as they were not common to both. To the extent that deficiencies in the basic Canadian data were revealed by this work they are described here with the detail for 1974. (The reconciliation having been carried out in terms of United States currency, the amounts quoted are in millions of United States dollars.)

Canada's exports to the United States in 1974, as originally published, on a customs basis, amounted to \$21,743 million. Adjustments which might be thought of as definitional or conceptual involved a net deduction of \$91 million. An addition of \$53 million was made for exports to Puerto Rico (which *Trade of Canada* data do not include with the United States), but there were net deductions of \$144 million of other sorts, e.g., the elimination of tooling charges included in the valuation of new motor vehicles. The further statistical adjustments necessary to put the total on a transaction basis involved the net addition of \$408 million, comprising:

	Millions of U.S. dollars
Addition of exports for which no documents were received	+ 300
Deduction of transportation charges improperly included with commodity values	- 60
Adjustment of customs values to transaction values	- 20
Processing or respondent errors and timing discrepancies, net	+ 188

⁵ *The Reconciliation of U.S.-Canada Trade Statistics* reports covering the years 1970 through 1974 by the U.S.-Canada Trade Statistics Committee. Published jointly by the U.S. Department of Commerce, Bureau of the Census, and by Statistics Canada.

The unusually large adjustment for errors and timing was mainly due to the timing of exports of crude petroleum and natural gas, which became more important with rising prices. As was mentioned earlier, export statistics for these commodities record the transactions of the previous month. Canada's imports from the United States in 1974, as originally published on a customs basis, amounted (again in terms of United States dollars) to \$21,739 million. The definitional and conceptual adjustments included a deduction of \$248 million for items such as tooling charges, included in automotive parts, and merchandise which was imported for periods of less than a year. There were additions of \$19 million for imports from Puerto Rico and of \$114 million for imports credited to a Central or South American country of origin but consigned to Canada from the United States. The further statistical adjustments necessary to put the total on a transactions basis involved the net deduction of \$489 million, comprising:

Millions of U.S. dollars

Adjustment of customs values to transaction values	- 404
Deduction of transportation charges improperly included with commodity values	- 72
Processing or respondent errors and timing discrepancies, net	- 13

These figures for 1974 may be broadly summarized as follows:

	Exports	Imports	Balance
millions of U.S. dollars			
Published totals	21,743	21,739	4
Definitional and conceptual adjustments, ¹ net . .	- 91	- 115	24
Statistical differences, ¹ net	+ 408	- 489	897
Adjusted totals	22,062	21,134	928

¹ Adjustment to a transactions value of trade other than automotive imports has been included with statistical differences. Note: Details do not add to totals because of rounding.

Commencing with 1971 data, balance of payments adjustments include provisions for the above factors where appropriate. In addition to the evaluations of trade statistics which are associated with such general reviews as have been described above, some other fragmentary indications of an evaluative nature are available. It should be emphasized, however, that substantial programs for the improvement of the basic trade data have been initiated but that their full effect will be realized only over a long period.

Timing — Although, as has been noted above, a number of specific adjustments are made to *Trade of*

Canada series in respect of their timing, they are necessarily incomplete and the full dimension of the problem of timing cannot at this time be determined.

Tests made in respect of Canadian exports of iron ore during 1962 and 1963 revealed that the following adjustments were necessary in order to put the *Trade of Canada* series for this commodity fully on the basis of the timing shown on the documents (regardless of when the documents were received):

Quarter	1962	1963
millions of dollars		
I	+ 3.1	+ 3.7
II	+ 5.4	- 1.5
III	- 1.4	- 3.1
IV	- 5.5	+ 1.5

Iron ore is a rather exceptional commodity because of the seasonal pattern of transportation and the prominence of the shipments at particular ports. These fragments indicated, however, a substantial time lag between the exports which followed the opening of the St. Lawrence River and the receipt at Statistics Canada of the documents relating to them.

Pending the development of computer capability and modifications of the reporting system, it is possible only to make some rough judgements based on quite arbitrary assumptions in order to assess the possible consequences of reporting lags for the balance of merchandise trade. Working with data for the decade from 1962-71, series were constructed on the assumptions, in the case of exports, that the documents received up to the month-end involved exports entered up to five days previously and that there was a further goods float in Canada of two days. Under these assumptions *Trade of Canada* series would generally lag accounting charges by seven days.⁶

The assumptions followed with respect to imports were similar except that no allowance was made for goods float in Canada, the hypothesis being that customs clearances would lead to immediate financial settlements or accounting charges. The procedures followed for the exercise do not, of course, take account of interruptions in document flows occasioned by postal or transportation strikes, weather, or other irregular influences, except to the extent that corrective action was possible within the original trade figures.

⁶ This was raised to eight days when the last day of the month was a Saturday and to nine days when it was a Sunday. A further adjustment was made in respect of Easter; if Good Friday was the last Friday of a month ending on Easter Monday or before, one additional day was added; if Easter Monday was the last day of the month, one additional day was added. It has been suggested by an expert in the field of trade statistics that the assumptions grossly understate lags which are more likely to be of the order of one month in the case of exports overseas and two weeks in the case of exports to the United States.

The process of assessment involved calculating the average calendar day value of recorded trade in respect of the two successive months concerned. This was then used to shift an appropriate number of days' trade into or out of the published totals for each month.

Forty quarterly periods were examined. Based upon the assumptions set out above, on eight occasions either positive or negative adjustments to the merchandise trade balances were indicated for three consecutive quarters; there was one further occasion where for two consecutive quarters there would be a negative adjustment; there were 14 occasions upon which an adjustment, positive or negative, was sandwiched between adjustments of a different sign.

Out of these 23 "runs", eight involved total adjustments of \$25 million or more. There were two swings in the quarterly adjustments of over \$50 million and a further 11 ranging between \$25 million and \$49 million. There were indications of marked seasonality.

Finally amongst these fragments of evaluative data, a special analysis was conducted on 1972 export documents valued at \$50,000 and over to assess the effect of delays in the receipt of export documents by Statistics Canada. The results revealed that on average only two thirds of the documents coded in a particular month were "stamped" by customs in the same month. Of the remainder, 27% related to the previous month and 5% to earlier months. Moreover, these percentages varied significantly from one month to another.

Shown below is the effect of the lag on the published values of exports of \$50,000 and over. While for each quarter the difference between the published and the corrected totals was within 5%, at lower levels of detail the differences were found to be much larger.

Period	Trade of Canada exports	Value of documents \$50,000 and over		Percentage difference
		Published	Corrected	
millions of dollars				
I	4,415	1,549	1,625	+ 4.9
II	5,343	2,041	1,990	- 2.5
III	4,490	1,923	1,983	+ 3.1
IV	5,729	2,433	2,317	- 4.8
Total	19,977	7,946	7,915	- 0.4

The significance of such statistical lags is dependent on a number of factors. To the extent that they are stable no great analytic damage may occur. To the extent however, that there are changes in the level, composition or direction of trade flows, effects on the balances may, as we have seen, be substantial. In the

case of sharp changes such as are occasioned by interruptions of flows of commodities or of documents the effect may be to shift substantial parts of the incidence from the appropriate period.

In principle, to the extent that there is some regularity in the lags, their effects may be moderated or eliminated in the techniques used in the production of the seasonally adjusted *Trade of Canada* series. These series take account not only of seasonality but also make adjustments for the working day structure of the months. Trading day variations take into account the relative importance of particular days of the week for document arrivals. An adjustment of this sort might also be helpful in making the non-seasonally adjusted data more appropriate for use within the framework of the balance of payments.

Valuation – In the description earlier of the work of the United States - Canada Trade Statistics Committee, indications were given of some of the statistical deficiencies arising from valuation problems, notably differences between values for customs duty purposes and actual transfer prices, and the inclusion inappropriately under the concepts employed in Canadian statistics of some transportation charges and elements of insurance. The growing importance of international corporations increases the likelihood that values for customs duty purposes may differ markedly from actual amounts received or paid in respect of the transactions.

There have been other problems associated with valuation. Trade conducted on the basis of contracts denominated in foreign currencies occasioned difficulties when export documents failed to clearly distinguish United States from Canadian currency, and trade data were consequently compiled without appropriate allowances for exchange premium or discount. Although no precise measures of the effects were possible, they were believed to be significant in the years prior to 1968 when revised export documentation was introduced at the request of Statistics Canada in order to identify more accurately amounts expressed in foreign currencies. And little is known about the effects of cash settlement discounts.

It will not have escaped the attention of the careful reader that problems arising both from the failure to file appropriate customs documents and from the failure to apply appropriate exchange rates occur essentially with respect to exports rather than to imports. The primary concerns of the customs authorities understandably focus on imports to which their revenue collecting functions relate. On the other hand statistical deficiencies (when transaction value-based aggregates are considered to be the objective) arise on the import side directly from the impact of the revenue collecting authorities insofar as higher values may be established for customs duty purposes.

A survey of Canadian exporting and importing firms on their reporting practices to customs authorities in 1971 was conducted jointly by the External Trade and Balance of Payments Divisions.⁷ In brief, its results were:

Declared values	Exports Imports	
	per cent	
F.o.b. (free on board) point of production, i.e., exclusive of freight, insurance and other charges	68.1	86.4
F.o.b. port of exit, i.e., the producer's price in the country of export, including his profit and packaging charges, plus inland freight and insurance to the border, air, river or ocean port	16.3	6.7
Delivery price, i.e., inclusive of freight, insurance, and other charges	15.7	6.9

The survey disclosed wide variations in the type of valuation reported on customs documentation according to the kinds of commodity traded, as well as by destinations of exports and source of imports.

An estimate has been made of internal and external transportation and associated charges included in recorded export and import totals for 1971 because of the differing practices of filing documents by Canadian exporters and importers.

Trade with	Ratio of published values to estimated f.o.b. plant values ¹ 1971	
	Exports	Imports
United States	1.013	1.006
Other countries	1.023 ²	1.009
All countries	1.016 ²	1.007

¹ Producer's price in the country of export, including his profit and packaging charges.
² Excluding wheat.

Some 1½% of export and ½% of import totals published for 1971 represented estimated transportation

⁷ See *Review of Foreign Trade: 1966-1972*, Chapter 5: Valuation practices reported by major Canadian exporters and importers in 1971, pp. 79-114, Catalogue 65-501.

and related expenses. These charges were, as expected, low for United States but larger for overseas trade.

Beginning with 1971 data, balance of payments adjustments have been made to take account of this problem.

Coverage – The problems of movements of goods without submission of documents have already been illustrated in the description of the work of the United States-Canada Trade Statistics Committee.

Linkages and Relationships

CANSIM Databank Series – These are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) – Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 1 (Goods and Services, and Transfer Payments), Item 1.1 Merchandise exports f.o.b., Merchandise imports. See, however, Appendices 5 and 6 for conceptual differences.

IMF/OECD Common Reporting System (Appendix 6) – Global Balance of Payments Summary and Regional Balance of Payments Summary: Part A (Goods and Services), 1.1 Merchandise exports and imports f.o.b. See, however, Appendices 5 and 6 for conceptual differences.

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) – Components of Exports of goods and services and of Imports of goods and services in Table 2, Gross National Expenditure, and subsidiary tables.

Financial Flow Accounts (Catalogue 13-002) – Not relevant.

Series Availability

Annually from 1926 and quarterly from 1946. Monthly data appear regularly.

Supplementary Data

– Balance of payments adjustments to Trade of Canada figures for the years 1946 through 1974 (revised) have been provided in Tables II.1 and II.2 of this volume. They have been published quarterly from 1968 on a current basis in Catalogue 67-001 (from First Quarter 1970), Tables 6 or 5, but data there are not available on a fully revised basis.

– *Indexes of Prices, Terms of Trade, and Volume of Merchandise Trade, 1946-1965* (annual) in Catalogue 67-505, Table 5.05; quarterly and annually from 1967 in Catalogue 67-201, Table 7.

- Wheat shipments by area (as used in estimates of the balance of payments), 1965 - 71 (Catalogue 67-201, 1965-70 issue Statement 4 for 1965, 1971 issue Statement 3 for 1966, and 1972 issue Statement 5 for 1967-72).
- Automotive products between Canada and the United States (as used in estimates of the balance of payments) (Catalogue 67-201, 1971 issue Statement 12 for 1965-68 and 1972 issue Statement 14 for 1969-72).
- Exports and imports of energy materials, 1968-72 (Catalogue 67-201, 1972 issue Statement 6).

Related Data

Trade of Canada publications current at time of writing:

Catalogue	Title	Frequency of publication
11-001 E	Statistics Canada Daily	Monthly
65-001	Summary of External Trade	Monthly
65-001 Supplement	The 1971-Based Price and Volume Indexes of Canada's External Trade	
65-003	Exports by Countries	Quarterly
65-004	Exports by Commodities	Monthly
65-006	Imports by Countries	Quarterly
65-007	Imports by Commodities	Monthly
65-202	Exports - Merchandise Trade	Annual
65-203	Imports - Merchandise Trade	Annual
65-501	Review of Foreign Trade	Occasional
	Bank of Canada Review	Monthly

Note: See also Historical Catalogue of Dominion Bureau of Statistics Publications, 1918-1960 (Catalogue 11-504) pp. 139-146.

Mutual Aid to NATO Countries

Codes - A2 for receipts
 B10 for payments

reflected also in the figures of government expenditures abroad which were an element of series B23, other service payments.

Summary

From 1950 through 1967 credit items under series A2 and corresponding debit items under series B10, Mutual Aid to NATO Countries, were published in global annual balance of payments statements covering the provision of mutual aid to NATO countries. The credit item was a measure of the real resources provided, while the debit item reflected the transfer. For security considerations no bilateral or quarterly detail was published.

The treatment of such military transactions introduces problems of conceptual nicety. To what extent should they be viewed as transfers and to what extent as outlays for common defence? The question was further complicated because in the earlier years a substantial element of the transactions represented transfers of existing equipment from Canada's Armed Forces and its later replacement by more up-to-date equipment. By the mid-1960's the amounts involved had become relatively small, and a growing proportion was duplicated in current estimates of Canadian military expenditures abroad.

Mutual aid to NATO countries took the form largely of transfers of military equipment, provision of aircraft training in Canada, and contributions towards the NATO military budget for infrastructure represented by fixed defence installations used by the armed forces of more than one country of the Alliance. These infrastructure payments appeared in fact twice. They were

On the basis of these considerations the two series were eliminated from balance of payments statements, but have continued to be made available annually in the form of a footnote. Removal of the series from regular published balance of payments estimates eliminated the necessity for their adjustment for use in the National Income and Expenditure Accounts.

Gold Production Available for Export

Code - A3

Concept

This series covered Canadian gold production sold either to non-residents or to Canadian monetary institutions, a concept derived from the historic role of gold in international payments arrangements. The treatment of new gold production less amounts applied to uses in the arts and industry as an export became less valid after the introduction of separate monetary and non-monetary markets for gold in 1968, and the concept is no longer applied.

Until 1949 the series was described as "net exports of non-monetary gold" even when gold was transferred to and held as part of official exchange reserves; this term continued to be in use in some other gold-producing countries.

With the development of two separate markets for gold, the series on gold production available for export was discontinued from the second quarter of 1968. Thereafter, transactions in non-monetary gold are included as elements of A1 (Merchandise exports, balance of payments basis) and B1 (Merchandise imports, balance of payments basis).

Description

Gold may be considered as merchandise, as a foreign exchange asset, or as a domestic monetary asset. Stocks of gold held by mines and by industrial enterprises engaged in manufacturing goldware are similar to other inventories held by business, i.e., merchandise. Gold in the hands of monetary authorities is the equivalent of convertible foreign exchange reserves because of the general acceptability of such gold in the settlement of international obligations. When gold is held by private enterprises and individuals, it is often difficult to tell which of its attributes is predominant, because such gold may be held as a commodity for speculative purposes, as an alternative to foreign exchange assets, or as a domestic monetary asset.

The convention generally adopted has been to treat gold held by a country's non-monetary sectors as a domestic asset, similar to merchandise, and gold held by its monetary institutions for monetary purposes as if it were a foreign asset. On this convention, transactions in gold by the country's non-monetary sectors with either non-residents or with domestic monetary institutions, are allocated to the goods and services account, and corresponding transactions in gold by the monetary sectors are allocated to the capital account.⁸

⁸ IMF *Balance of Payments Manual*, Third Edition (1961) p. 54.

This convention served the situation well over many years. Few major problems arose in its application over long periods. Some users of balance of payments statistics, however, experienced difficulty in grasping the concept, perhaps because of its inherent simplicity and perhaps because of the mystique which has surrounded gold for centuries.

The rationale for including among current account receipts new gold production passing into the possession of monetary institutions may not be fully apparent. The purchase by them is in fact a transaction between two residents of the same country and as such would not normally qualify for inclusion in a balance of international payments statement. But the historic role of gold in international payments lends to it special attributes that distinguish it from the production of other commodities in international trade. The existence of an unlimited international market at a fixed minimum price was the basis for most gold production, at least until the later 1960's. The general acceptability of gold as a means of international settlement (until the introduction of separate monetary and non-monetary markets in 1968) made gold in itself the equivalent of convertible foreign currency. The production of gold which was available if required for international settlements in effect increased the convertible foreign currency assets of the producing country even though the gold might not leave the country. A flow of newly-mined gold into the hands of monetary institutions of the producing country was accordingly for all practical purposes the equivalent of the physical export and sale of such gold for foreign exchange.

It may be helpful to outline the consequences of an alternative treatment. Had gold not been regarded as an external asset it could, for purposes of the National Accounts, have been regarded as domestic investment in fixed assets or inventories. In circumstances, however, in which the current account moved sharply against Canada, the effect of a growth in imports or a decline in exports might have been masked by the sale abroad of gold produced in earlier periods and held against that contingency. But use of such gold would, in terms of the balance of payments, have been much more akin to a capital transaction than a current one. The convention which was adopted internationally has not been universally understood or accepted but appears to have led to more meaningful data than any alternatives which were suggested.

While the concept followed in the statistics has been reasonably consistent throughout the period of official balance of payments statistics, the nature of Canada's gold transactions and their measurement were at their simplest during the decade of the 1940's and it is useful to start a description of them with this period.

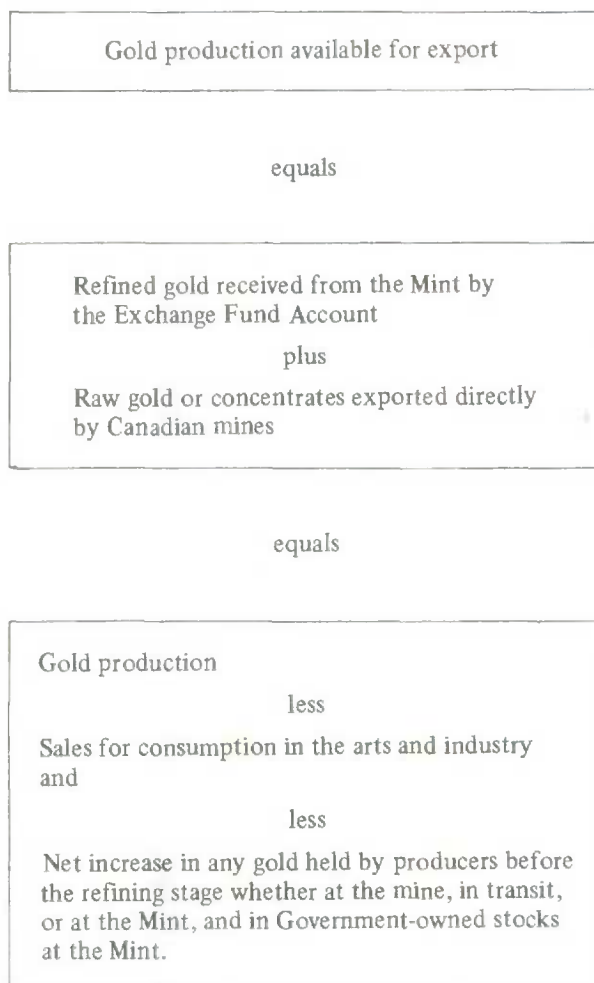
The normal practice was for Canadian mines to sell their current production to the Royal Canadian Mint.⁹ The Mint refined the gold, the mines receiving the equivalent of U.S. \$35 per fine ounce less handling, refining and assay charges. Some gold was sold by the Mint to goldsmiths in Canada for *bona fide* industrial or commercial use. A small inventory of refined gold held at the Mint awaiting disposition was maintained at a level sufficient to provide a statutory reserve of 10% required in respect of Post Office savings deposits in existence at that time. Most of the gold refined at the Mint was acquired by the Exchange Fund Account where it became part of official holdings of gold and United States dollars. Some newly-mined gold in the form of

⁹ A departure from this practice was the withholding of \$6 million of bullion by a Canadian producer in early 1948 in anticipation of a price change.

gold or quartz ores, concentrates, or precipitates, which could not economically be treated in Canada because of its nature or location, was exported to the United States for refining.

Gold production available for export was calculated as the value of gold transferred from the Department of Finance, after refining at the Mint, to the Exchange Fund Account,¹⁰ together with the value of the small amount of exports for refining in the United States. The calculation was thus as follows:

¹⁰ Beginning in December 1953 transfers which had been made previously for some years regularly each Tuesday were made when the available accumulation reached a certain level. The effect at that time was to increase the frequency of shipments and to reduce the monthly variation arising from their timing.



Although for the purposes of constructing balance of payments estimates a physical movement across a frontier may normally be taken as an indication of an international transaction (a change in ownership), this is not so with respect to gold transactions. The metal is often sold or bought internationally without actual physical movements, such transactions being reflected in

changes in gold held under earmark, e.g., gold stored in the vaults of the central bank of one country for account of residents of another. It may be moved from one country to another across frontiers without change in ownership. In 1939 and 1940 earmarked stocks of gold in Canada rose, on balance, by \$1.5 billion and the actual movements of gold into and out of earmarked

stocks, particularly around the middle and end of 1940, were very much larger than this figure suggests.¹¹ These foreign-owned stocks in Canada had, of course, no impact on Canada's balance of payments, notwithstanding the fact that they crossed its frontiers. Incorporating such transactions into the schema shown above, the source and disposition of monetary gold in Canada could be set out as follows:

Source	Disposition
Gold production available for export	Physical exports from Canada (sales for refining abroad or by the Exchange Fund Account, or removal of foreign-owned gold)
<i>plus</i>	<i>plus</i>
Physical imports from abroad (purchases by the Exchange Fund Account or foreign-owned gold for safekeeping)	Net increase in official holdings of gold
	<i>plus</i>
	Net increase in earmarked stocks of foreign-owned gold.

With very minor exceptions these schema portray the international gold transactions of Canada during the 1940's.

A description of the methodology surrounding gold transactions for the years between 1926 and 1939 appears in *The Canadian Balance of International Payments, A Study of Methods and Results*.¹² The conceptual frame was not greatly different, although the institutions and detail varied.

Changes which occurred subsequent to the 1940's added greatly to the statistical complexity but did not generally affect the conceptual basis of the series.

In 1948 the Emergency Gold Mining Assistance Act was introduced. This provided for subsidies on social grounds to high cost producers who might not otherwise have been able to continue in production.

In 1950 transactions in gold led for the first time to the acquisition by Canadian authorities of gold held abroad under earmark for Canadian account.

In October 1951 Canadian gold producers were granted access to private markets abroad in which gold sold at premium prices following a change of policy by the International Monetary Fund regarding premium sales generally. Producers selling gold to premium markets were not eligible for assistance under the Emergency Gold Mining Assistance Act.

In the latter part of 1967 and early 1968 the industrial countries co-operating in the Gold Pool used massive amounts of their gold reserves in an effort to stabilize the price in the free market. In March 1968 the Governors of the central banks of the contributing members of the Pool announced that they were stopping such sales and that they had agreed on new arrangements in respect of gold. These involved two separate markets, an official market among monetary authorities in which the price remained at U.S. \$35 an ounce, and a free market in which the price would move in response to the balance of supply and demand. Canada was not a member of the Pool, but it responded affirmatively to an invitation to co-operate in the new arrangements. Canadian producers of gold who did not wish to qualify for assistance under the Emergency Gold Mining Assistance Act remained free to sell their output in the free market at prevailing prices. Those who wished to qualify were still required to sell their output to the Mint at the Canadian dollar equivalent of U.S. \$35 an ounce. Instead of transferring gold it purchased to the Exchange Fund Account for inclusion in Canada's official reserves, however, the Mint thereafter would sell its gold in the free market, with the Bank of Canada acting as its agent.¹³

Pending the establishment of new statistical conventions, Canadian gold production available for export continued temporarily to be reflected as a current account credit. Any unsold stocks were thereafter treated as official non-monetary external assets and changes in them were reflected as capital movements. With rising prices in the free market, Canadian gold producers found it increasingly advantageous to sell their production on the open market and forego assistance from the government under the Emergency Gold Mining Assistance Act. In 1972 all gold was so sold.¹⁴

During this period a growing market for gold developed in Canada, not only in outright sales of bullion but also in gold certificates. Canadian banks in particular became significant purchasers and sellers of both Canadian and foreign gold production. Little information could be obtained about the ultimate purchasers of bullion. While the statistics continued to be based upon the assumption that gold sales to the private sector which could not be specifically identified as being Canadian-owned represented sales to non-residents, it is believed that from time to time significant amounts may have been held by residents of Canada.

By early 1973 data were developed to permit a treatment of non-monetary gold transactions which was more appropriate in the light of the altered role of gold in monetary affairs and the changed marketing of Canada's production. Accordingly from the second quarter of 1968 sales and purchases of non-monetary gold between Canadians and non-residents were included

¹¹ George S. Watts. "The Bank of Canada during the War Years." *Bank of Canada Review*, April 1973, p. 11.

¹² (Catalogue 67-D-52), Chapter X.

¹³ Bank of Canada. *Annual Report of the Governor to the Minister of Finance for the Year 1968*, p. 11.

¹⁴ Debates of the Senate, 18 April 1973, p. 557.

with other commodity transactions while resident holdings of gold in Canada, apart from those of the Exchange Fund Account, were no longer considered a foreign asset.

Although the agreement of March 1968 was terminated in November 1973, the treatment currently followed with respect to gold transactions seems to continue to be appropriate.

Area allocation — The inclusion as an export of gold production acquired by the domestic monetary authorities as part of their international reserves created a problem of area allocation. If gold sold to the monetary authorities is to be treated as an export, to what country is it to be supposed that it was exported? Although in some of the statements published since 1965 the item was not allocated regionally, in most of the Canadian balance of payments statements gold production available for export appeared by convention as an item in Canada's current account with the United States. The reason is that historically most of the gold produced in Canada had been sold in the United States where Canada has normally had balance of payments deficits on current and capital account. Moreover, Canadian gold sold to third countries had not normally been in settlement of balances with them.

Sources and Methods

The pre-war analysis of gold transactions into monetary and non-monetary movements was made by studying statistics of gold exports and imports in relation to monetary stocks. The results were consequently subject to the accuracy and comparability as to timing of the basic sources employed. Descriptions of the method followed for the period from 1926-39 appear in Chapter X of *The Canadian Balance of International Payments, A Study of Methods and Results* and in footnote 1 to the table on Canadian gold statistics published by the Bank of Canada.¹⁵

As noted in the section on description above, during the 1940's the series was made up of the refined gold received from the Mint by the Exchange Fund Account, together with raw gold or concentrates exported directly by Canadian mines.

After Canadian mines were granted access to the premium markets in October 1951 the amounts sold there were also taken into the series. The estimates were made by the Bank of Canada and were derived from a case by case examination of gold export documents, together with information supplied by some of the mines. After the first quarter of 1968 new gold production acquired by the Mint was no longer sold to the Exchange Fund Account but was disposed of in the free

market by the Bank of Canada as agent for the Mint. The Bank of Canada estimates of gold production available for export were pieced together during this period from three sources: reports from mines on their sales of gold, changes in the gold inventory at the Mint, and sales of gold by the Bank of Canada on behalf of the Mint. The mines' sales were not fully reported and estimates of values and in some cases of quantities had to be made. Changes in inventories at the Mint were valued at the average prices obtained by the Bank of Canada. With increasing amounts of gold production being sold by the mines on their own behalf, and only fragmentary reporting, accuracy of the series became increasingly suspect and early in 1972 the Bank of Canada ceased to provide estimates. For a time thereafter rough approximations were made in the Balance of Payments Division on the basis of a variety of information available. For 1972 the estimate was as follows:

	Millions of dollars
Gold production	120
Less — Use in the arts and industry	14 ¹
Gold production available for export	106

¹ At the time of writing available evidence indicates that the estimated value of gold used in the arts and industry should have been of the order of \$33 million.

It will be noted that the estimates between 1951 and 1973 were based on a number of assumptions which are not tenable. First, it was generally assumed that all private sales by the mines were to non-residents of Canada. In a few cases where gold holdings were identified as being in the hands of residents an offset was created through an entry in the capital account showing an increase in Canadian-owned external assets; this was reversed when the holding was sold. (Any unidentified holdings of Canadian residents contributed to an outward movement in errors and omissions.) Second, the gold inventory at the Mint (official holdings of non-monetary gold) was similarly treated as an external asset. Since in neither case was the gold in monetary hands (or, after 1968, eligible for monetization), the treatment represented a questionable extension of the basic concept. It was, moreover, statistically improper to calculate the value of production available for export by applying current values to both increases and decreases in the gold inventory at the Mint, although the amounts were sufficiently small that the error was hardly of statistical consequence.

After the introduction in March 1968 of the two separate markets for gold, efforts were made to develop a new methodology which would put non-monetary gold on the same basis as any other commodity. As a result of the completion of new reporting arrangements this became possible in 1973 when data were revised

¹⁵ Bank of Canada. *Statistical Summary 1950 Supplement*, p. 123.

back to the second quarter of 1968. Essentially the current account now reflects insofar as possible net (physical) exports of non-monetary gold plus net increases in identified foreign-owned holdings in Canada of non-monetary gold. These sales and purchases of non-monetary gold between Canada and the rest of the world appear as elements of merchandise exports (A1) and imports (B1) as adjusted, and are allocated by area in the normal manner.

The transition involved a statistical discontinuity of the likely order of \$75 million at the beginning of the second quarter of 1968, when Canadian-owned non-monetary gold previously considered to be a foreign asset became under the new concept a domestic asset. About two thirds of this represented accumulated holdings of non-monetary gold by the official and banking sectors and had been reflected in series D65 (Non-bank holdings of short-term funds abroad). The remainder was reflected in series D82 (Other short-term capital transactions) mainly through the errors and omissions component. If the new concept had been applicable from the beginning of time, accumulated net credits on current account would have been \$75 million lower.

Changes in official holdings of monetary gold have been included consistently in series K4 (Official monetary reserves).

Evaluation

Series covering gold production available for export for 1926 through 1939 were constructed from sources which were not entirely accurate or consistent as to timing. The source and disposition estimates prepared by the Bank of Canada (*op. cit.*) indicate the possibility of serious problems in some specific years.

From 1940 through most of 1951 the channels followed in the disposition of gold production caused no statistical problems and the series has a high level of accuracy.

There was some possibility of a deterioration in the sources over the succeeding years, and a marked deterioration beginning in the latter months of 1967.

The new series covering sales and purchases of non-monetary gold between Canada and other countries constructed in 1973 has been bridged back to the second quarter of 1968. (An associated discontinuity has been described above.) It is believed to be superior in concept and measurement to the earlier series, but is subject to the general weakness applicable to the derivation of flow series involving components of changes in stocks subject to wide price fluctuations.

Linkages and Relationships

CANSIM Databank Series – These are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) – Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 1 (Goods and Services, and Transfer Payments), Item A (Goods and services), 2 Non-monetary gold.

Tables II(a) and (b) Non-monetary Gold.

IMF/OECD Common Reporting System (Appendix 6) – Global Balance of Payments Summary and Regional Balance of Payments Summary, Item A (Goods and services), 2 Non-monetary gold.

Table II(b) Non-monetary Gold.

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) – Component of Exports of goods and services in Table 2, Gross National Expenditure, and subsidiary tables.

Financial Flow Accounts (Catalogue 13-002) – Not relevant.

Series Availability

Annually from 1926 and quarterly from 1946, through first quarter of 1968. (Comparable data through 1972 were published in contemporary reports.)

Supplementary Data

Net exports of non-monetary gold (new gold production available for export) were compiled by the Bank of Canada on a monthly basis from 1936 through 1969. The series may be found *inter alia* in *Trade of Canada: Summary of Foreign Trade* (Catalogue 65-001) and the *Canada Year Book*.

Related Data

– **Canadian gold production** – Statistics of Canadian gold production are published in *Placer Gold Mines, Gold Quartz Mines and Copper-Gold-Silver Mines*.¹⁶ It should be noted that value data for 1971 and earlier years reflect the Canadian dollar equivalent of production at the Mint's purchasing price. As

¹⁶ Catalogue 26-209 (earlier titles, *Gold, Quartz and Copper-Gold-Silver Mines* and *Gold Mining Industry*).

described on earlier pages, Canadian mines have had access to the free market for gold for many years. Only those producers wishing to avail themselves of subsidies in respect of high cost production under the Emergency Gold Mining Assistance Act were required to sell their gold to the Mint. To the extent that higher prices were realized by other producers or by the Mint itself, the values for production are low relative to their balance of payments effects.

- **Canadian gold consumption – Jewellery and Silverware Industry**, Catalogue 47-211 contains series showing the cost of works of fine gold, gold alloys, and gold-filled wire and stock as well as waste and scrap for remelting and refining, consumed by the jewellery and silverware industry. In 1974 the figure for the first three groupings was \$76.3 million. Waste and scrap for remelting and refining, of which gold probably made up an important part, amounted to a further \$7.5 million.

In 1967 and 1968 there were special issues of Canadian gold coin totalling \$3.9 million and \$2.9 million respectively, and more recently the Royal Canadian Mint produced a number of \$100 Canadian gold coins commemorating the 1976 Olympics held in Canada. Apart from these gold coinage operations, the Mint also produces gold coins for foreign governments and gold medals for official and private use.

- **Canadian gold statistics: source and disposition** – Estimates of the source and disposition of Canadian gold, in quantitative terms, were made by the Bank of Canada for the period 1926 through 1968. They will be found in Supplements to the *Bank of Canada Statistical Summary*.
- **Gold in Trade of Canada Statistics** – Gold in a primary or refined state has been excluded from statistics of trade since 1939. From 1952, the standard of exclusion in use has been that suggested by the International Monetary Fund and the United Nations Statistical Office: all gold and gold products in which the value of the gold is 80% or more of the total value. The only exceptions to this rule are the inclusion under appropriate commodity codes of imports of dental gold alloys (code 882-99), exports of collections of coins at least 100 years old (code 946-49), imports of collections of coins (code 946-40), and exports of unissued coin manufactured for a foreign government (code 961-69).

Since 1960, records of physical movements of gold have been published regularly in *Trade of Canada*

Section VII "Special Transactions – Non-trade". This category contains transactions which do not have an international financial implication or which, for various reasons, are better considered in economic analysis separately from merchandise trade. The value of these transactions was not included in published totals of Canadian trade but series with the following codes were compiled separately because they had independent interest.

Commodity code ¹	Description
990-05	Gold unrefined and precipitates
990-15	Gold, refined, exported by Canadian mines
990-25	Gold, refined, n.e.s.
990-45	Gold coin

¹ *The Export Commodity Classification*, Vol. 1 (Catalogue 12-521 revised 1 January 1974). *The Import Commodity Classification*, Vol. 1 (Catalogue 12-524 revised 1 January 1974).
Note: With the exception of code 990-15, the codes applied to both exports and imports.

Beginning in January 1976, however, the above series were discontinued and the normal *Trade of Canada* statistics included series with the following codes.

Commodity code	Description
256-10	Gold in ores and concentrates
455-61	Gold
455-68	Gold alloys
961-61	Gold coins

Further adjustments are required for balance of payments, as described under the merchandise trade series A1 and B1.

It is usually possible from examination of individual customs documents covering movements of gold to identify Canadian bullion as distinct from bullion of foreign origin or Canadian-owned as distinct from foreign-owned bullion.

- **Gold in Returns to the International Monetary Fund** – Appendix 6 reproduces Canada's balance of payments return to the International Monetary Fund and to the Organisation for Economic Co-operation and Development for the year 1969. Table II(b) provides data in respect of non-monetary gold in terms of fine ounces and values.

Travel Expenditures

Codes – A4 Travel receipts

B4 Travel payments

Concept

These series cover receipts and payments arising out of travel between Canada and the rest of the world.

Description

Receipts on travel account are defined to include all expenditures by non-residents incidental to travel in Canada. Among these are international fare payments by non-residents to Canadian carriers, and expenditures in Canada for lodging, food, entertainment, local transportation and all other purchases by travellers of goods and services (including gifts). The series thus include any purchases of goods to be exported by travellers.

Payments on travel account are correspondingly defined to include all expenditures by residents of Canada incidental to travel abroad. Among these are international fare payments by residents to non-resident carriers, and expenditures abroad for lodging, food, entertainment, local transportation and all other purchases by travellers of goods and services (including gifts). The series thus include any purchases of goods to be imported for personal use by travellers.

It should be noted that the series cover persons travelling for pleasure, holiday, vacation, health and other purposes, persons visiting friends or relatives, businessmen, officials and delegates to conventions, conferences or seminars, students, shoppers, commuters and seasonal residents, seasonal and temporary workers, cruise passengers, crews or persons engaged in the operation of plane and truck transport, persons travelling in transit who clear Canada customs or immigration, diplomats, and military personnel travelling on temporary duty for less than one year, and their dependents. The series accordingly extend well beyond tourism *per se*.

A useful summary of factors influencing Canada's international travel account will be found in Section V of *Travel Between Canada and Other Countries 1971 Historical Supplement*, Catalogue 66-201.

The series do not conform precisely to the concepts recommended by the International Monetary Fund,¹⁷ as certain data were not available on a historical basis. Under those concepts the following items which are included in the Canadian series for international travel should be shown in other series:

Receipts	IMF concept
Expenditures of foreign crews and other carrier personnel, except those engaged in ocean or lake transportation	Other transportation
Personal expenditures of foreign migrant workers and commuters	Other services
Payments to Canadian carriers except for local transportation	Other transportation

¹⁷ IMF *Balance of Payments Manual*, Third Edition (1961), p. 83.

Payments

Expenditures abroad by resident crews and other carrier personnel, except those engaged in ocean or lake transportation

Personal expenditures of Canadian migrant workers and commuters

Payments to foreign carriers except for local transportation

IMF concept

Other transportation

Other services

Other transportation

Sources and Methods

Estimates of travel expenditures have always presented great difficulty. There are basically three methods by which they can be made.

The currency or exchange method involves the use of banking data on transactions in foreign exchange for the stated purpose of travel, as well as currency imports and exports by banks. This is not a practical approach in the Canadian situation where United States currency is exchanged with reasonable ease in many parts of Canada, and may be re-exported for travel (or other) purposes, without passing through the banking system. Moreover the amount of foreign currency "float" in Canada in tills or other private holdings (which may represent either receipts from non-residents or unexpended balances) is believed to be large and at times volatile. Even at the height of exchange control restrictions on travel during the forties, repeated efforts in Canada to produce travel estimates by the currency approach proved unsatisfactory.

An alternative, descriptively titled the "bed check" method, is possible for receipts. It involves identification through registers maintained at hotels and other places of lodging of "bed nights" of foreign travellers, and the application to them of expenditure averages. This method has not been used in Canada¹⁸ where administrative procedures related to registers appear to be of less official concern than, for example, in Europe, and where there has been typically a high proportion of very short-term travel and a good deal of visiting friends or relatives. Paralleling the bed check method are surveys of a consumer expenditure type covering travel expenditures abroad of residents. A household survey of this type carried out for the first time in 1971, the Canadian Travel Survey, was designed primarily to measure domestic travel, and data derived incidentally for international travel proved of limited value.

¹⁸ On occasion, however, the Statistics Canada publication, *Traveller Accommodation Statistics* (Catalogue 63-204, formerly *Hotels*) has provided light on potentials for international travel receipts which has led to the lowering of some unrealistic industry perceptions.

The international travel series used in Canada are basically of a "frontier-check" type, involving collection at the border of numbers of border crossings together with some information on lengths of stay. Expenditure surveys mainly by questionnaires are then used to derive a variety of averages which are applied to particular segments of travel.

The complexity of this operation is often not appreciated. In the course of a year more than 3,500 individual expenditure averages are derived and matched carefully against a corresponding number of volume cells.

From time to time special "auto-exit" surveys have been undertaken by federal or provincial tourist agencies in association with Statistics Canada. These rather expensive projects avoid some of the potential problems inherent in the methodology used on a continuing basis, and make it possible to obtain more extended detail of marketing interest.

Estimates of international travel receipts and expenditures are made in the International Travel Section of the Financial Flows and Multinational Enterprises Division of Statistics Canada. A more detailed description of the sources and methods employed by the Section will be found in Appendix 9.

A particularly interesting aspect of these estimates is that the Canada-United States components are derived from a co-operative effort of the statistical authorities in Canada and the United States, with each country assuming responsibility for those elements which it can most effectively and economically produce. The estimates are accordingly fully compatible.

Evaluation

It has already been noted that estimates of international travel receipts and payments present great difficulty. In 1974 crossings of the Canadian border by residents and non-residents exceeded 71 million. Some of these trips involved virtually no international expenditure, while others involved very large amounts. The effort to measure accurately and effectively these vast flows without impeding them represents a major challenge.

There may, of course, be problems in the identification of travellers and it seems clear that a relatively large number of immigrants may have arrived in Canada at times under the guise of foreign visitors. It is reasonable to assume, however, that their numbers and the volume of their funds involved would be small in relation to the vast flow of *bona fide* travel.

Whatever weaknesses may exist in measures of international travel receipts and payments arise from the two basic groups of elements, the counts or volume, and the expenditures or price, each of which presents problems.

Border counts are carried out by port officers. The responsible departments have always been most sympathetic and co-operative in endeavouring to meet statistical needs. The fact remains, however, that for port officials the statistical needs have generally represented a burden only indirectly related to their *raison d'être*. At times changes in administrative procedures in response to over-riding needs to speed the flow of traffic have led to distortions in the numbers, and occasionally there have been difficulties related to the use of counts as performance indicators of work load.

As the detailed descriptions in Appendix 9 indicate, the expenditure surveys are subject to double hazards. The same pressures on port officials which may impair border counts may also impinge on the systematic distribution of questionnaires. Moreover there is no way of ensuring in the voluntary surveys used that respondents are representative of all travellers.

On several occasions major examinations of these problems have been undertaken interdepartmentally and have led to intensified efforts to improve the measures.

Some validation is possible from the series of special "auto-exit" surveys carried out for the tourist industry. These may ensure a statistically proper sample although the possibility remains of bias in the responses themselves. On the whole, these studies have yielded results at the aggregative level which were reasonably close to those of the general methodology.

While the global estimates are considered to be reasonably reliable, the level of accuracy declines sharply for bilateral data, particularly for the smaller areas.

The international travel account as a whole requires continuing scrutiny as do most major elements of the balance of payments.

Linkages and Relationships

CANSIM Databank Series — These are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) — Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 1 (Goods and Services, and Transfer Payments), Item 5 Travel.

IMF/OECD Common Reporting System (Appendix 6) — Global Balance of Payments Summary and Regional Balance of Payments Summary, Part A (Goods and Services), Item 5 Travel. (For conformity to concept see section on description.)

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) — Components of Exports of goods and services and of Imports of goods and

services in Table 2, Gross National Expenditure, and subsidiary tables.

Financial Flow Accounts (Catalogue 13-002) --
Not relevant.

Series Availability

Annually from 1926 and quarterly from 1946.

Codes -- A15 Interest and dividend receipts
B15 Interest and dividend payments

Concept

These series cover the principal receipts and payments of investment income between Canada and the rest of the world. Some other elements are covered in the miscellaneous income components of series A23 and B23, Other service receipts and payments.

Description

Receipts of interest which are covered in this series include interest on bonds and debentures held directly by residents of Canada, interest on intergovernmental loans and advances, and the income on Canada's net official monetary assets. Receipts of dividends cover those received by Canadian shareholders of foreign corporations and in addition the net profits earned by unincorporated branches abroad of Canadian companies apart from banks and insurance companies.

Excluded from this series but included in the miscellaneous income component of A23, Other service receipts, are interest on export credits, bank deposits, treasury bills and other short-term claims on non-residents, the net revenues from non-residents of Canadian insurance companies, and the revenues of Canadian banks from non-residents.

Payments which are covered in this series include interest on bonds and debentures held directly by non-residents of Canada, dividends paid directly to foreign shareholders of Canadian corporations, and the net profits earned in Canada by unincorporated branches of foreign companies apart from insurance companies.

Excluded from this series, but included in the miscellaneous income component of B23, Other service payments, are interest on bank deposits, treasury bills, commercial and finance paper and other short-term claims on residents of Canada, interest on bank loans, mortgages, and all other forms of long-term debt apart from bonds and debentures, the net revenues in Canada

Supplementary Data

See Appendix 9.

Mutual Aid to NATO Countries

Code -- B10

Note -- This series is covered with code A2.

Interest and Dividends

of foreign insurance companies and the net expenses abroad of Canadian banks. Also covered in series B23 are rentals and payments of investment income arising from estates, trusts, management and safekeeping accounts, and other assets under administration by Canadian financial intermediaries for the account of non-residents.

All the amounts, whether receipts or payments, are recorded net after deduction of withholding tax where applicable.

This somewhat curious distribution of investment income between two sets of series represents for the most part the influence of institutional and statistical factors rather than of concept. It has been retained to preserve the historical continuity of long standing series. The hard core of the interest and dividends account was established many years ago when the income on internationally held short-term claims was relatively unimportant because of both the small volume of such claims and the low rates of interest applying to them. The investment income estimates were accordingly related almost directly to estimates of foreign long-term investment in Canada and of Canadian long-term investment abroad. These elements of Canada's international investment position were indeed developed in part as a foundation for estimates of investment income for use in the balance of payments. The receipts series for interest and dividends were subsequently extended to include interest on intergovernmental loans and advances, and the income on Canada's net official monetary assets. As they became of significance, items of investment income which were not formally based on the investment position records were included in the basket category now represented by series A23 and B23, other services, where since 1946 they have been identified as a separate sub-component, miscellaneous income. Further elaboration of the individual elements may best be left until the discussions of sources and methods under the appropriate series.

It may be useful here to set out the rather special case of branch profits. While the branch form of organization may have an accounting structure as fully articulated and sophisticated as that of a subsidiary company, typically the accounting arrangements are much more

primitive. Even where the branch has an independent set of accounts the financial relationship between it and its home office may frequently be reflected in a single control account. When under such circumstances the home office determines that excess funds should be transferred from the branch, the remittance will simply be charged against the control account. Since the balance in this account will have originated from many sources, for example the provision of goods, services or financial resources to the branch, as well as the profits generated within it, there is neither need nor means of identifying the "source" of the specific remittance. The convention adopted by balance of payments statisticians internationally has been to regard the full measure of after-tax earnings of the branch as having been paid to the home office, as indeed may be deemed to have occurred both because the branch itself has no legal identity as such and because the earnings stand to the credit of the home office in the control account. To the extent that the funds are not withdrawn within the period, an investment has been made in the branch by the home office and this is reflected in an appropriate entry in the direct investment series of the capital account.

While branch profits generally are treated with dividends as similar income transfers, an exception is made in Canadian statistics in respect of branch operations in the fields of banking and insurance. In the case of these institutions a substantial volume of management and investment services is typically supplied by the home office, but for a variety of reasons these services are often not fully articulated within the accounting systems. Accordingly the revenues have a rather special meaning. To the extent that services rendered to their foreign insurance operations by home offices have not been reflected in their accounts, revenues derived from the operations cover a mix of service and entrepreneurial income. The same situation applies in the case of banks, but here the numbers have an even more special meaning for very substantial interest costs may be paid by the head office to residents of Canada for the funds employed outside Canada. With the revenues largely on one side of the border but the expenditures against them on the other, receipts accruing to Canada from these operations can hardly be thought of as profits. It is for reasons such as these that insurance and banking have been treated differently from other branch operations.

With the single exception of branch profits, investment income appears in the balance of payments on a payments basis, i.e., it is recorded when the amount is paid or placed to the credit of the payee. In the Canadian balance of payments as currently constructed, the undistributed earnings accruing to foreign shareholders whether direct or portfolio are not reflected. A good case can be developed that their incorporation, at least insofar as direct investments are concerned, would represent a useful extension of the balance of payments, and it may be noted that this is the concept adopted by

the International Monetary Fund. A discussion of measures of undistributed earnings will be found in a separate note in Part VII.

In the absence of full measures of retained earnings a question arises as to the treatment which should be accorded stock dividends. The convention which has been followed in Canada for many years is that stock dividends paid by wholly-owned subsidiaries to their parent companies should be reflected as investment income in the current account of the balance of payments, with offsetting transactions under direct investment in the capital account. Thus it is assumed that the decision to capitalize earnings of a wholly-owned subsidiary is tantamount to the remittance of the funds to the parent and a decision by the parent company to re-invest them on a permanent basis in the subsidiary. Purists may at times argue that no international transaction has occurred. This perception is, however, a rather legalistic one and there are many types of transactions articulated elsewhere within the balance of payments where receipts and payments are offset or short-circuited within the country.

It may be useful to elaborate briefly here on two sets of relationships, those between income transfers and earnings, and those between data for income transfers and for the values of investment.

Transfers of income internationally are not on the whole as closely related to the pattern of earnings as is often expected. Companies with wide public ownership, conscious of the attraction for their shareholders of regular income, tend to establish dividend policies which are relatively stable, generally showing comparatively smaller variations in pay-outs than in earnings.¹⁹ But companies with wide public ownership represent only one part of foreign investment in Canada, and not far short of one half of all the dividend payments made to non-residents are paid by wholly-owned subsidiaries of foreign companies. To these a wide range of influences apply. While the distribution of earnings to public shareholders represents a final disposition of the resources of an enterprise, the payment of a dividend by a wholly-owned subsidiary to its parent company represents merely a transfer within the enterprise to which they remain available unless and until they are distributed to its ultimate owners. In these circumstances, decisions with respect to the payment of dividends are likely to be determined in the light of the financial needs of the various parts of the enterprise, of conditions in money, capital and exchange markets, and of the interaction of the tax systems in the host and home countries. All these considerations may be either current or prospective. At times special influences such as guidelines and similar balance of payments intervention in Canada or elsewhere may affect the pattern of distributions.

¹⁹ John Lintner. *Distribution of Incomes of Corporations Among Dividends, Retained Earnings, and Taxes*. American Economic Review, Vol. XLVI, May 1956.

Moreover, the transfer of the resources generated by earnings may under some combinations of conditions be more advantageously accomplished through capital transfers between subsidiaries and parents. When a parent company investment is represented in part by debt of a subsidiary, the distinction between a dividend payment on the one hand, and a repayment of debt with a simultaneous increase in undistributed earnings on the other hand, has only limited significance. (This it will be noted is a further argument for the desirability of inclusion in the current account of the balance of payments of earnings accruing to foreign direct investors rather than the part of them which is formally transferred as investment income.)

Income transfers will usually involve a shift, immediately or ultimately, in liquid resources. In general, the liquidity of a company, apart from the effects of debt transactions, will be determined by its earnings, by such non-cash charges to its earnings as depreciation and depletion, and by its requirements for the financing of capital expenditures and net increases of inventories. With the interplay of this set of variables, a moderation in economic activity may in some circumstances lead to larger amounts being available for transfer.

Transfers reflected as interest and dividends do not for a number of reasons correspond precisely in coverage with specific series on non-resident investment in Canada which are described in Part IV. Among them is the fact that the estimates of non-resident investment in Canada do not include the extensions abroad of these enterprises. On the other hand, interest and dividend payments may reflect the transfer abroad of earnings generated originally by a foreign subsidiary. Moreover, interest on long-term indebtedness other than bonds and debentures is an element of miscellaneous income in series B23 rather than of interest and dividend payments.

Sources and Methods

Receipts of interest on intergovernmental loans and advances, and the income on Canada's net official monetary assets are derived from official accounting records. The income on loans and advances is particularly straightforward, with perhaps two exceptions. No allowance is made in the balance of payments in respect of the interest foregone under the concessionary rates applicable to the "soft" development loan programme described under series D41 in Part III. Nor is any entry recorded in respect of deferrals of interest under the terms of the 1946 loan to the United Kingdom.²⁰

The measurement of income on Canada's net official monetary holdings is somewhat more complicated, but comprises the following:

²⁰ See also comments under series D45 in Part III and in the note on the "basic" balance in Part VI.

Exchange Fund Account:

- amortized discount on foreign treasury bills and interest received or accrued on other foreign investments;
- interest earned on net holdings of Special Drawing Rights in excess of total allocations;
- interest earned on loans to the International Monetary Fund under the General Arrangements to Borrow or the Oil Facility;
- transfer charges received on loans to the International Monetary Fund;
- trading profits on transactions in foreign securities (since investments held by the Exchange Fund Account are believed to be largely short-term, gains or losses on transactions in them have been considered to be equivalent to adjustments in effective investment yields).

Bank of Canada:

- amortized discount on foreign treasury bills and interest received or accrued on other foreign investments; less
- interest on money employed liabilities related to Canada's official monetary assets.

Minister of Finance:

- dividends received from the International Monetary Fund; and
- interest on positions with the International Monetary Fund; less
- service charges on use by Canada of IMF resources; less
- interest paid to non-residents on drawings under lines of credit; and less
- charges paid to non-residents on standby lines of credit.

Estimates of interest receipts on Canadian portfolio holdings of foreign bonds are constructed on the basis of the estimated holdings described in Part IV. Interest on issues of which Canadian holdings are large, normally those originally placed in Canada, are calculated explicitly. Interest on the remainder of the holdings is then calculated, using arbitrarily established coupon rates. Interest accruing on other investments abroad is derived from item IV(a)(1) of the schedule BP-21, Report of transactions between Canada and other countries.²¹ (The part of this interest which cannot be identified specifically as portfolio has been included with receipts of dividends on direct investment, to preserve historical continuity with series antedating the separation of interest and dividends.)

²¹ All the schedules referred to in this section are reproduced in Part V.

TABLE II.3. Published Detail of Interest and Dividends

No.	Catalogue	Issue	Years	Table	Receipts									
					Interest				Dividends					
					Total	By area ¹	By area ²	By area, ² direct and portfolio	Total	By area ¹	By area ²	By area, ² direct and portfolio		
1	67-D-52	1939	1927-37P	12 ³										
2			1926-37P	XXVI										
3			1926-37P	XXVII										
4			1928/33/36	XXVIII	•					•				
5	67-501	1926-48	1927/38/46	31 ³										
6			1938/46	32 ³										
7			1938/46	33 ³										
8			1938/47	34 ³	•				•	•			•	
9			1926-48	XXVII										
10			1938-48	XXVIII	•			•		•		•		
11	67-505	1946-65	1946-65P	5.06										
12			1947-65PQ	5.07	•									
13			1952-65PQ	5.07	•	•								
14			1947-51Q	5.08										
15			1951	5.08										
16			1952-65PQ	5.08										
17			1947-65PQ	5.09						•				
18			1952-65PQ	5.09						•	•			
19			1947-51Q	5.10										
20			1951	5.10										
21			1952-65PQ	5.10										
22			SY 1939-64	5.11										
23			SY 1938-64	5.11										
24			1958/60/62/64	5.13										
25			SY 1938-64	5.15										
26			SY 1938-64	5.16										
27			SY 1955-64	5.16										
28	67-201	various ⁴	1965-74P	8	•				•		•			
29			1965-74PQ	9 ⁵	•				•					
30			1965-74P	10										
31			1964/66	12 ⁶										
32	67-202	1926-67	1946-68	XXXI-XXXIV										
33			1926-68	XXXV										
34			SY 1938-66	XXXVII										
35			1926/33/36/38-68	XXXVIII	•			•		•		•		
36			1946-68	XXXIX						•				
37			1968-70	1946-70	1926-70	34-37								
38	1926-70	38												
39	1928/33/36/38-70	40			•			•		•		•		
40	1946-70	41								•			•	
41	1971-73	1960-73	1960-73	34-37										
42			1960-73	38										
43			1960-73	40	•			•		•		•		
44			1960-73	41						•			•	

¹ United States, United Kingdom, Rest of Sterling area, Other OECD in Europe, Other countries.

² United States, United Kingdom, Other countries.

³ Designated as a statement rather than a table.

⁴ To time of writing, issues for 1965-70, 1971, 1972 and 1973 and 1974.

TABLE II.3. Published Detail of Interest and Dividends

Payments												Interest and dividends		No.	
Interest					Dividends							Receipts	Payments		
Total	By area ¹	By area ²	By area, ² class of issuer	By area, ² currency of payment	Total	Total industrial	By area ¹	By area ²	By area, ² industrial	By area, ² direct and portfolio - Industrial	United States-controlled companies	By area ²			
												Direct	Portfolio		
•			•												1
•		•			•			•							2
															3
															4
•			•		•				•						5
											•				6
•		•			•			•							7
															8
															9
															10
												•	•		11
															12
•					•										13
•	•				•										14
•	•				•										15
															16
															17
					•		•								18
					•		•								19
					•	•									20
					•										21
					•				•						22
					•					•					23
			•		•						•				24
				•											25
															26
															27
•		•			•			•							28
•					•										29
					•						•	•	•		30
					•										31
•		•			•			•							32
											•				33
															34
															35
															36
•		•			•			•							37
															38
															39
															40
•		•			•			•							41
															42
															43
															44

⁵ For current figures see Table 6 in Catalogue 67 - 001.

⁶ Issue for 1965 - 70 only.

Note: Series are annual except for those marked Q (Quarterly).

SY designates Selected Years.

Dividends received on Canadian direct investments abroad are derived from item IV(a)(2) of the schedule BP-21, and net profits of unincorporated branches abroad are derived from items IV(c) and (d). Dividend receipts on Canadian portfolio holdings of foreign stocks are based on the estimates of holdings described in Part IV. Benchmark estimates of receipts are constructed from time to time by applying identified dividend rates to holdings of specific issues, with appropriate allowances for incomplete coverage and for withholding taxes. This estimate is projected on the basis of identified changes in dividend rates and in holdings based upon the series for international security transactions described under D35, D37, and D38 in Part III.

Quarterly estimates of receipts are pieced together from a number of sources. Interest on intergovernmental loans and the income on Canada's net official monetary assets are, of course, available from official records. The estimation quarterly of interest receipts on Canadian portfolio holdings of foreign bonds parallels that for annual estimates. Interest receipts for the major direct investment enterprises are available from item IV(a)(1) of the schedule BP-21A, Report of transactions between Canada and other countries. Similarly the dividends received on major Canadian direct investments abroad appear in item IV(a)(2) of the schedule BP-21A, while net profits of unincorporated branches abroad are projected from items IV(c) and (d) of the schedule BP-21, Report of transactions between Canada and other countries. Quarterly distributions of dividend receipts on portfolio holdings of foreign securities are constructed in the same manner as the annual estimates, using a sample of the larger holdings of issues as the basis of the quarterly pattern.

Turning to payments, the interest on foreign holdings of Canadian bonds and debentures is projected from benchmarks established at irregular intervals. These are constructed in great detail using all the individual issue data employed in the estimates of foreign holdings of these securities described in Part IV. The benchmark estimates are made by geographic area, currency, and quarter of payment, with allowances for tax withheld. The weighted average interest rates on identified holdings in each category of bonds are applied to the unidentified "trading adjustments", and for the quarterly benchmark estimates the resulting interest adjustment is distributed evenly over the four quarters. Quarterly projections reflect the impact of exchange rate variations, specific new issues and retirements, and the estimated effects of trading in outstanding securities. (Interest paid on bonds and debentures held by principal owners is treated as direct investment income in subsidiary detail but, in contrast to the treatment on the receipts side, is not shown in any series as dividends. The amount involved on the payments side is small.) Item IV(b)(2) of the schedule BP-21 is not used directly but plays a role in estimates of miscellaneous income payments in series B23.

The annual estimates of dividend payments comprise a number of elements. Item IV(b)(1) of the schedule BP-21 provides data for dividends paid to non-residents by foreign-controlled enterprises in Canada and by those Canadian-controlled enterprises which are covered by the survey; the treatment of stock dividends has been described earlier. Corresponding information in respect of other enterprises is obtained from the application of publicly announced dividend rates to the investment position records described in Part IV, from schedule BP-52, Geographical distribution of ownership of capital or, where this is not used from schedule BP-23 Payment of dividends. From time to time a full benchmark estimate of dividend payments to non-residents by Canadian-controlled companies is constructed on the basis of the investment position records, and the results are used to determine and project the payments by the smaller companies which are not covered explicitly each year. Items I(c),(g) and II(c) of the schedule BP-22, Report on investment in Canada of non-Canadian corporations, are used to derive the net profits in Canada of unincorporated branches which are included with dividend payments.

As in the case of receipts, the series are after deduction of applicable withholding or other taxes in Canada.

Quarterly data in respect of enterprises wholly-owned abroad are projected on the basis of items IV(b)(1) of schedule BP-21A, Report of transactions between Canada and other countries, and items I(c),(g) and II(c) of the schedule BP-22A, Report on investment in Canada of non-Canadian corporations, supplemented in some cases with profit data reported to the Business Finance Division on other schedules. Quarterly data in respect of publicly-owned Canadian companies are constructed from the application of announced dividend rates to a sample drawn from the investment position records. Rough allowances are made for the impact on this sample of trade in outstanding issues.

Evaluation

Receipts by Canada of interest on intergovernmental loans and of income on net official monetary assets are based on accounting records and are complete and accurate. Estimates of income on portfolio holdings of bonds are much weaker, particularly in the case of receipts. This weakness originates in the estimates of holdings whose construction is described in detail in Part IV. Estimates of dividend receipts and payments are believed to be reasonably accurate. Some weaknesses undoubtedly exist in the series for portfolio holdings both of bonds and stocks arising from the use of international nominees or other intermediaries, although rough allowances for them are made in the miscellaneous income components of series A23 and B23. For further details the reader is referred to the notes on those series

and to the description of the miscellaneous investment components of Canada's international investment position in Part IV.

Linkages and Relationships

CANSIM Databank Series – These are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) – Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 1 (Goods and Services, and Transfer Payments), Item 6 Investment income covers in addition to series A15 and B15 the miscellaneous income components of series A23 and B23.

IMF/OECD Common Reporting System (Appendix 6) – Global Balance of Payments Summary and Regional Balance of Payments Summary, Part A (Goods and Services), Item 6 Investment income covers in

Freight and Shipping

Codes – A21 Freight and shipping receipts
✓ B21 Freight and shipping payments

Concept

These series measure the transactions of Canadian-operated carriers with non-residents and the transactions by Canadian residents with non-resident operated carriers arising from an international exchange of services pertaining to the movement of commodities. The term "carrier" includes ocean ships, lake vessels, aircraft, rail, trucks and pipelines.

Description

Since Canada's exports and imports are in principle recorded f.o.b. (free on board) place of lading, international charges in respect of freight and shipping on trade are recorded separately in these series.

Receipts arise from the activities of Canadian-operated carriers transporting exports (both inland and beyond the borders of Canada) and foreign-owned goods both in transit in Canada and between foreign ports, from chartering vessels to non-residents, and from the expenditures in Canada of foreign carriers (other than airlines).

Payments arise from the transportation by non-resident carriers of imports to Canada (including inland freight charges in other countries) and of Canadian commodities (in particular oil and natural gas) in transit through the United States or in Canada, expenditures abroad by Canadian carriers (other than airlines), and

addition to series A15 and B15 the miscellaneous income components of series A23 and B23.

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) – Components of Exports of goods and services and of Imports of goods and services in Table 2, Gross National Expenditure, and subsidiary tables.

Financial Flow Accounts (Catalogue 13-002) – Not relevant.

Series Availability

Annually from 1926 and quarterly from 1946.

Supplementary Data

See Table II.3.

payments made to non-residents for chartering vessels.

The structure of Canada's freight and shipping account has undergone rather more change over the years than is immediately apparent. The carriage of Canada's trade by ships under Canadian registry has declined considerably in the postwar period. The effects of this development on continued Canadian participation in international shipping activities have been counter-balanced to some extent by the chartering of foreign vessels.

The fact, however, that Canada's foreign trade is now carried to a larger extent by foreign operated carriers has led to ocean freight transportation payments being well above receipts. Heavy reliance on non-resident operated tankers to carry crude petroleum imports is particularly important. The imbalance on ocean freight transportation is further exacerbated by the charter payments which Canadian operators must pay in order to participate in the ocean shipping business. For some years, inland freight payments on imports from the United States were higher than receipts of inland freight on Canadian exports to the United States. This development reflected the larger proportion of manufactured products included in Canada's imports than in its exports as well as the larger distances over which United States goods often had to be carried before reaching the Canadian border. At the time of writing the balance on account of inland freight with the United States had swung into a net receipts position, reflecting no doubt the development of surpluses with that country in respect of merchandise trade.

Covered elsewhere in the balance of payments for statistical reasons and to preserve historical continuity

are passenger fares, international airline expenditures and some railway expenditures such as rental of freight cars. Passenger fares form an integral part of travel expenditures, while the latter two items are included with other service transactions. As they do not represent international transactions, freight receipts on imports transported by Canadian carriers do not appear as a credit in the balance of payments.

Sources and Methods

Measurement of international transactions on freight and shipping account pose special difficulties for the statistician. These arise in part from the need to mesh the measures with those covering merchandise transactions, and in part from the wide range of modes of transport and types of transportation arrangements. The descriptions of sources and methods which follow are confined largely to those employed at the time of writing. Descriptions of earlier methodology have been published in some detail, most comprehensively in the following publications to which the interested reader is referred:

- *The Canadian Balance of International Payments, A Study of Methods and Results*, Catalogue 67-D-52, pp. 70-96. Chapter XII, Freight and Ocean Shipping Transactions.
- *The Canadian Balance of International Payments, 1926 to 1948*, Catalogue 67-501, pp. 115-122. Part II, Chapter IV, The Freight and Shipping Item.
- *The Canadian Balance of International Payments in the Postwar Years, 1946-1952*, Catalogue 67-502, pp. 79 and 80. Freight and Shipping Transactions.

The description which follows of current sources and methods employed in the freight and shipping account indicates the basic structure and content of this account and appears in the order found in statistical presentations of subsidiary detail. The material deals first with receipts, and then turns to payments.

Receipts

Gross earnings of Canadian ocean shipping operators on exports, including charter income - Earnings on the carriage of exports are obtained from line 3 on the annual survey BP-25, Report of cargo, earnings and expenses of ocean vessels operated by Canadian companies,²² and from question B.2 on the annual survey BP-26, Report of imports of crude petroleum and products and other shipping operations. These items cover total freight earnings (prepaid and collect) on cargo outward from Canada. Data on income from

²² All the schedules referred to in this section are reproduced in Part V.

vessel charters to non-residents are obtained from line 4 of the BP-25²³ and from question B.5 of the BP-26. Provision is also made on the BP-20, line 8, for income from the charter of lake vessels to non-residents.

Receipts of Canadian ocean shipping operators from shipping between foreign ports - This item is also compiled from the BP-25 and BP-26, using line 6 of the former and question B.7 of the latter schedule.

Receipts from expenditures in Canada by foreign shipping operators - This item is made up of several elements. Data covering port expenses of non-resident operated ocean vessels are derived from line 3 on the annual survey BP-24, Report of cargo, earnings and expenses of ocean vessels operated by non-resident interests, and question A.5 on the annual survey BP-26, Report on payments of crude petroleum and products and other shipping operations. The data supplied by the Canadian shipping agents, acting on behalf of non-resident-operated ocean vessels, cover expenses such as crew wages and advances, harbour charges, pilotage, towage, stevedoring (inward and outward when paid by vessels), agency fees, repairs, and on payments to rail and water carriers on through-traffic (if an amount corresponding to the on-payments has automatically been included in inward freight earnings). Expenditures in Canada by United States operators of lake vessels are projected from a benchmark revised at infrequent intervals. Data on sales of marine fuels and lubricants to foreign vessel operators are obtained from question C.2 on the BP-26 survey. Other elements in this item include toll revenues of the St. Lawrence and the Welland Canal Authority earned from foreign carriers, obtained directly from the Authority, and an estimate of receipts for the use of canals other than the St. Lawrence Seaway system.

Inland freight on exports - This element is made up of separate components in respect of inland freight arising from exports by rail, road, pipelines and lake vessels to the United States, exports from Newfoundland to the United States and inland freight on exports to overseas countries.

Inland freight receipts on exports carried by rail to the United States is obtained on an annual basis directly from the Canadian railways. Railway companies report their earnings on freight and express traffic waybilled from Canada to the United States and Mexico, i.e., the amount received from the United States carriers as final destination carriers of the cargo, on export traffic southbound to the border. From the total reported, an estimate is deducted in respect of overseas exports by rail via the United States.

²³ In earlier BP-25 questionnaires this item was included with freight earnings in line 3.

Receipts in respect of the road transportation of exports to the United States are estimated on the basis of a calculated percentage rate which takes into account rail transportation and other relevant factors. This rate is applied to the value of exports by road to the United States as published in Exports - Merchandise Trade²⁴ to derive an estimate of trucking receipts. At the time of writing the trucking rate in respect of the road transportation of exports to the United States is estimated to be about two thirds of the rail rate. In view of the diversity of the operations of this industry, which consists of a large number of operators, and as a survey of this industry is carried out by the Transportation and Communications Division of Statistics Canada, no specific survey is carried out by the Balance of Payments Division. The balance of payments series are based on these calculations, which are compared to the results of the survey referred to above.

A separate calculation is made in respect of inland freight receipts on exports from Newfoundland to the United States. Estimated freight rates are applied to selected commodity exports from Newfoundland as obtained from records of the External Trade Division of Statistics Canada.

Earnings of Canadian pipeline companies for line usage related to exports of Canadian oil to the United States are obtained annually directly from Canadian pipeline companies. Inland freight on natural gas exported by pipeline is reflected in the value of the exports as the gas pipeline companies, unlike the oil pipeline companies, generally own the gas that is transported.

Receipts by resident operators of lake vessels on cargo carried from Canadian to United States ports are obtained from the annual survey BP-20, Great Lakes-St. Lawrence Seaway shipping transactions. Earnings on the carriage of iron ore is derived from line 4 while earnings on the carriage of other commodities is obtained from line 2.

Inland freight receipts on exports overseas are based on details of exports through selected ports as supplied by the External Trade Division. Estimated rates are applied to these exports apart from wheat, as wheat exports are generally valued at the port of exit. A weighted average rate is then calculated and applied to aggregate values of exports overseas other than wheat, distributed geographically for use in bilateral balance of payments estimates.

Provision is also made for receipts from inland freight not otherwise provided for and for omissions in series derived by surveys or constructed through the use of indicators so that a suitable degree of correspondence

²⁴ Catalogue 65-202. For years prior to 1973 these data were published in *Exports by Modes of Transport*, Catalogue 65-206.

between total receipts for inland freight and the appropriate movement of commodities is preserved.

Intransit revenue - This item covers the operations of United States railways in Canada and the earnings of Canadian lake vessel operators from the carriage of United States grain exports via Canada. The operations of United States railways in Canada is comprised of two principal components. The two main Canadian railways supply annually by letter data on revenue earned from United States carriers for service on lines in Canada in respect of traffic originating at and destined to United States points. The second component, obtained annually by letter from United States railroads, covers their expenditures in Canada and their earnings on lines and other operations in Canada. The expenditures in Canada cover wages of employees domiciled in Canada, rents, taxes, and materials purchased in or imported into Canada (including freight, customs duties, etc.). United States railroads also report revenues arising from local Canadian freight traffic, from the transportation within Canada of imported goods, and rents and other income accruing from Canadian sources apart from the transportation of exports or of imports up to the Canadian border.²⁵ From the total of their expenditures in Canada, the revenues of the United States railways from their lines and other operations in Canada are deducted, producing a net figure for intransit rail revenues. (Canada also derives income from expenditures of United States trucking companies carrying goods intransit through southern Ontario. Amounts covering the expenditures of the individual truck drivers are included in travel receipts and license fees are included in other current receipts.)

The second element included in intransit revenues is the earnings of Canadian operated lake vessels on the intransit carriage via Canada of United States grain exports destined for overseas countries. Freight rates on this type of traffic are calculated from data on the annual BP-20 survey, Great Lakes-St. Lawrence shipping transactions. These rates are applied to volume data in respect of cargoes of grain originating from United States Great Lakes ports and unloaded at Canadian Atlantic and Great Lakes ports which are contained in *Shipping Report: Part I, International Seaborne Shipping (by Country)*, Catalogue 54-202, published by the Transportation and Communications Division of Statistics Canada. Any imports of Canadian grain for domestic consumption are deducted from the above volume data before the rates are applied.

Air freight - Earnings by Canadian airlines on freight carried abroad are obtained annually by letter.

We turn now to the construction of the estimates of payments on account of freight and shipping.

²⁵ Charges for the transportation within Canada of exports are, of course, met in the final instance by non-residents, while charges for the transportation in the United States of goods en route to Canada are included as Canadian payments for inland freight on imports.

Payments

Gross payments on Canadian imports to foreign ocean shipping operators – This series is made up of several components. Data in respect of ocean freight on imports of crude petroleum, petroleum oils and gasoline are derived from question A.2 on the annual survey BP-26, Report on imports of crude petroleum and products and other shipping operations. Included in this item are payments for the charter of vessels which are used to import the above commodities. Freight on other imports is derived from line 2 of the annual survey BP-24, Report of cargo, earnings and expenses of ocean vessels operated by non-resident interests. The line covers total (prepaid and collect) inward freight earnings of non-resident vessel operators. The above surveys are so designed as to be non-duplicative. Data for freight on Canadian imports unloaded at United States ports are obtained from United States statistical authorities.

Vessel charters and other payments – This series includes mainly charter payments but also covers small amounts of canal payments and demurrage charges. Payments for the charter of ocean vessels are obtained from line 5 of the BP-25 and question B.6 of the BP-26. As noted above, payments for the charter of tankers used to carry imports of crude petroleum and products are included with gross payments to foreign ocean shipping operators, and excluded from this item. Data on the charter of lake vessels are obtained from line 7 of the BP-20, supplemented by a small estimate for coastal charters or charter payments by Canadian coastal shipping firms. Canal payments covering the United States portion of the total revenue (27%) applicable to the Montréal-Lake Ontario section of the St. Lawrence Seaway is obtained directly from the St. Lawrence Seaway Authority. Estimates for payments of demurrage when required are also covered in the item.

Expenditures abroad by Canadian shipping operators – Expenditures abroad by Canadian ocean vessel operators is obtained from line 8 of the annual survey BP-25, Report of cargo, earnings and expenditures of ocean vessels operated by Canadian companies, and question B.8 of the annual survey BP-26, Report on imports of crude petroleum and products and other shipping operations. These cover payments made in foreign countries by the Canadian operators and include crew wages and advances, harbour charges, canal dues, pilotage, towage, wharfage, stevedoring (inward and outward when paid by vessels), agency fees, fuel and supplies, repairs and onward payments to rail, water and other carriers in respect of through traffic.

Expenditures in United States ports by Canadian operators of Lake vessels are derived from line 9 of the BP-20, Great Lakes-St. Lawrence Seaway transactions. Included are crew wages and other ship expenses.

Inland freight on imports – This element of the freight and shipping account is made up of separate

components in respect of payments of inland freight arising from imports from the United States by rail, truck, and vessels operating on the Great Lakes, and inland freight on imports from overseas countries. Inland freight payments on imports by rail from the United States are obtained on an annual basis directly from the Canadian and United States railways. The Canadian railways, as final destination carriers of the cargo, report the amount accruing to United States carriers on freight and express traffic carried from United States and Mexican points up to the Canadian border. United States railways operating in Canada report the revenues accruing to railways in the United States and Mexico on Canadian imports carried up to the border. To the figures supplied by the railways, there is added an estimate of rail freight within the United States on coal imported into Canada by water. Volume data for imports by water of anthracite and bituminous coal are obtained from the Department of Energy, Mines and Resources, to which are applied freight rates derived from special investigations. Similar calculations are made for the handling and storage charges in United States ports in respect of these coal imports, which are added to the rail freight on coal imported into Canada by water. Payments to foreign operated vessels for the carriage of cargo originating from Great Lakes ports in the United States and unloaded at Canadian Atlantic and Great Lakes ports are calculated. Estimated freight rates are applied to volume data contained in *Shipping Report: Part I, International Seaborne Shipping (by Country)*, Catalogue 54-202, published by the Transportation and Communications Division of Statistics Canada.

Payments to United States carriers for the road transportation of imports to Canada is based partly upon a United States source. In adjusting the value of United States exports to Canada as reported by the United States Bureau of the Census, the Bureau of Economic Analysis adds an estimate for inland freight not recorded in the census series. From the total the figure for inland rail freight is deducted, including the calculation of rail freight on coal imports by water described above. The remainder is regarded as a measure of payments to the United States for inland freight on imports by United States trucks.

Inland freight payments on overseas imports is roughly estimated from an occasional examination of a sample of invoices supporting import documents.

Intransit payments – There are currently two components in this item. Canadian pipeline companies supply annually by letter figures for payments to United States pipeline affiliates in respect of intransit petroleum movements. The Interprovincial Pipe Line Limited reports its payments in respect of the movement of Canadian petroleum through the United States, and the Montréal Pipe Line Co. Ltd. reports payments from Canada in respect of movements of oil through the Portland Pipe Line Corporation.

TABLE II.4. Evaluation of Statistical Quality of the Freight and Shipping Account, by Area

	Between Canada and	
	United States	Overseas countries
Receipts		
Canadian ocean shipping operators:		
Gross earnings on exports (including charter income) . . .	Good	Good
Shipping between foreign ports	Good	Good
Expenditures in Canada by foreign shipping operators . . .	Good	Good
Inland freight on exports	Good to weak	Adequate
Intransit revenue	Good	Adequate
Air freight	Good	Good
Payments		
Gross payments on imports to foreign ocean shipping operators	Good	Good
Vessel charters and other payments	Good	Good
Expenditures abroad by Canadian shipping operators	Good	Good
Inland freight on imports	Good to weak	Weak
Intransit payments	Good	...
Air freight	Good	Good

The other element of intransit payments relates to movements of natural gas by pipeline. TransCanada PipeLines Limited reports quarterly its payments to its United States affiliate, Great Lakes Gas Transmission Company, for the intransit movement of Canadian natural gas through the United States.

Air freight – Freight and express revenues received for the carriage of commodities to Canada, whether prepaid or collect, are obtained annually from non-Canadian airlines operating in Canada, on line 2 of BP-58, Report by non-Canadian airlines operating in Canada. Excluded are revenues from traffic originating in Canada and from intransit traffic.

Quarterly series – Quarterly series are projected or interpolated, except for those components in respect of which quarterly inputs are available on the same basis as the annual series.

Evaluation

The complexity of the measurement of international freight and shipping transactions will have become apparent to the reader who has struggled through the immediately preceding sources and methods section.

A serious problem exists in ensuring the compatibility of data for trade and related transportation. This problem has been described in series A1 and B1, merchandise exports and imports on a balance of payments basis.

Some other elements of the series pose special problems. One such area is trucking, due to the diversity of types of operators and the nature of the operations.

An evaluation of the statistical quality of the published component series, made by those engaged in the subject matter area, is given in Table II.4.

Linkages and Relationships

CANSIM Databank Series – These are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) – Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 1 (Goods and Services, and Transfer Payments), Item 3 Freight and insurance on international shipments and Item 4 Other transportation.

IMF/OECD Common Reporting System (Appendix 6) – Global Balance of Payments Summary and Regional Balance of Payments Summary, Part A (Goods and Services), Annex 1, Inland freight on merchandise,

Item 3 Freight and insurance on international account, and Item 4 Other transportation.

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) – Components of Exports of goods and services and of Imports of goods and services in Table 2, Gross National Expenditure, and subsidiary tables.

Financial Flow Accounts (Catalogue 13-002) – Not relevant.

Series Availability

Annually from 1926 and quarterly from 1946.

Supplementary Data

Detail of freight and shipping transactions, United States, United Kingdom and other countries:

Receipts	Payments
Canadian ocean shipping operators:	Gross payments on imports to foreign ocean shipping operators
Gross earnings on exports (including charter income)	Vessel charters and other payments
Shipping between foreign ports	Expenditures abroad by Canadian shipping operators
Expenditures in Canadian ports by foreign shipping operators	Inland freight on imports
Inland freight on exports	Intransit revenue
Intransit revenue	Air freight
Air freight	

Source: For 1969 see Catalogue 67-201 (1973 and 1974), Table 12. For 1970-75 see Catalogue 67-201 (1975 and 1976), Table 12.

In earlier publications, the following detail of freight and shipping transactions was published.

Receipts	Payments
Canadian ocean shipping operators:	Freight payments on imports via Canadian ports by foreign shipping operators
Gross earnings on exports (including charter income)	

Receipts	Payments
Canadian ocean shipping operators - Concluded: Shipping between foreign ports	Expenditures abroad of Canadian shipping operators (including charter payments)
Expenditures in Canadian ports by foreign shipping operators	Inland freight on imports: Rail freight in United States
Inland freight on exports: By rail to United States Other inland freight	Other inland freight Intransit payments Air freight
Intransit revenue	
Air freight	

Source: For 1946-64 Catalogue 67-505, Tables 5.17 and 5.18. 1965 and 1966 Catalogue 67-201 (1965-70), Table 13. 1967-72P Catalogue 67-201 (1972) Table 12.

In the more recently published component detail of freight and shipping receipts, intransit revenue has been enlarged to include Canadian receipts for the intransit carriage of United States grain exports; this item was included under other inland freight receipts in earlier detail. Canal receipts were shifted from other inland freight to expenditures in Canada by foreign shipping operators.

On freight and shipping payments, a category for charter payments and other payments was created. These data were previously included with expenditures abroad of Canadian shipping operators (including charter payments). Ocean freight on imports via the United States has been shifted from other inland freight to gross payments on imports to foreign ocean shipping operators.

Relationship to Conceptual Framework of the International Monetary Fund and Returns to IMF

The series do not conform precisely to the concepts recommended by the International Monetary Fund.²⁶ Canadian trade series are in principle recorded

²⁶ IMF *Balance of Payments Manual*, Third Edition (1961), pp. 38, 83 and 79.

Codes - A22 War services receipts
B22 War services payments

Note

These series, confined to the period from 1940 through 1947, reflect transactions arising mainly out of the War of 1939-45. Expenditures in countries other

f.o.b. place of lading rather than customs frontier. The freight and shipping account accordingly includes receipts by Canadian carriers for all freight within Canada on exports and payments to non-residents for all inland freight abroad on imports; these have no counterpart in the freight and transportation accounts of the IMF. Neither expenditures in Canada of foreign crews and other carrier personnel (except those engaged in ocean or lake transportation) nor payments to Canadian carriers for non-local passenger transportation are identifiable separately; they are included with travel receipts in series A4 rather than with other transportation. Similarly expenditures abroad by resident crews (except those engaged in ocean or lake transportation) and payments to foreign carriers for non-local passenger transportation are not identifiable separately and appear as travel payments in series B4 rather than as other transportation. Insurance, expenditures in Canada of foreign airlines and expenditures abroad of Canadian airlines are included with the business service element of other services in series A23 and B23 rather than as other transportation.

The series for freight and shipping which appear in the balance of payments cover three of the components in the returns made to the IMF and OECD (Appendix 6). The following data for 1974 make up the totals for series A21 and B21 as published in Catalogue 67-001, First Quarter 1976.

Table and item	Receipts millions of dollars	Payments millions of dollars
Annex 1 Inland freight on merchandise . . .	972	791
A.3.1 Freight on international shipments	562	842
A.4.2 Other transportation	278	414
Total	1,812	2,047

The published component detail which make up these aggregates can be readily identified in Table 12 of Catalogue 67-201 (1975 and 1976).

War Services

than the United States were sometimes shown under the title Canadian Overseas Expenditures.

Data for the years 1946 and 1947, for the United States, United Kingdom and other countries, may be found on page 182 of *The Canadian Balance of International Payments, a Compendium of Statistics from 1946*

to 1965, Catalogue 67-505. For the period 1940 through 1945, data are contained in *The Canadian Balance of International Payments, 1926 to 1948*, Catalogue 67-D-52. This shows receipts separately for the United Kingdom and other Commonwealth countries only, and

shows total payments with separate details, for the United Kingdom and other countries.

In more summary historical estimates, the series are included with A23 and B23, other services. The sources are as described thereunder.

Other Services

Codes – A23 Other service receipts

B23 Other service payments

Concept

These series measure Canada's international receipts and payments in respect of transactions by governments, not included elsewhere, of miscellaneous income and of business services and other transactions.

Description

These transactions may most easily be described under their three principal components. Following the descriptions, the relationships to the transactions categories adopted by the International Monetary Fund are set out.

Government transactions, not included elsewhere – These series record international transactions of a current nature arising from government activities which are not covered elsewhere in the balance of payments. On the receipts side the data cover mainly expenditures of foreign governments in Canada, while on the payments side they cover expenditures abroad by Canadian governments.

Among the receipts are the costs of foreign diplomatic and commercial representation in Canada, military expenditures on bases and defence installations and the maintenance of foreign military personnel in Canada, other foreign governmental expenses in Canada, international postal revenues, taxes (apart from withholding taxes deducted at source on Canadian income) paid to Canadian governments, and assessments paid by foreign countries to the International Civil Aviation Organization. The item also covers military and civilian pensions paid to residents of Canada by foreign governments prior to 1952, which since that time have been included as an element of series A33.

Some elements of the series are directly related to Canadian aid expenditures abroad which are covered in series B37. Included are expenditures made on these programs within Canada for services other than administration. (Two examples would be the expenditures within Canada of foreign students financed under aid programs, and any amounts paid under such programs to

Canadian teachers and experts serving abroad which were not spent there.) This treatment makes it possible to reflect in series B37 for official contributions the full measure of Canadian government aid provided directly abroad. Some part of these receipts might alternatively be allocated to international travel, A4, but A23 has been chosen in preference because of the special character of the transactions. A receipt of a rather unusual nature included in series A23 was settlements received by Canada in the postwar period on account of military relief supplied to European countries at the close of World War II. Extension of this aid had been included with official contributions, and the cash settlements subsequently negotiated, which were not large, were recorded simply as government revenue.

Receipts from governments which are covered elsewhere in the balance of payments include sales of defence equipment and materials (A1), travel of government officials (A4), interest (A15), military and civilian pensions paid to residents of Canada by foreign governments commencing in 1952 (A33), and, of course, capital transactions.

Among payments are the costs of Canadian diplomatic and commercial representation abroad and other Canadian government activities abroad, including maintenance and support of defence forces outside Canada, international postal payments, contributions towards NATO budgets, and assessments for Canada's memberships in international organizations such as the United Nations, WHO, FAO, UNESCO, the OECD, etc.

Payments by government which are covered elsewhere include purchases of defence equipment and materials (B1), travel of government officials (B4), interest on government bonds (B15), military and civilian pensions (B33), and official contributions (B37), as well, of course, as various capital transactions.

Miscellaneous income – Miscellaneous income includes all those receipts and payments of earnings on investment which are not included in the series for receipts of interest and dividends (A15) or for payments of interest and dividends (B15). It has already been noted in the description for these series that the somewhat curious distribution of investment income between two series represents for the most part the influence of institutional and statistical factors rather than of concept.

Included among receipts are the following:

- Net revenues (by area) from transactions of Canadian chartered banks with non-residents (including their foreign branches, agencies and subsidiaries).
- Interest on private non-bank holdings of foreign exchange and other short-term claims abroad.
- Interest on export credits either financed or guaranteed directly or indirectly by the Government of Canada.
- Net revenues of Canadian insurance companies from insurance operations abroad.

Included among payments are those representing:

- Net expenses (by area) paid to non-residents by head offices and Canadian branches of Canadian chartered banks.
- Interest paid on such long-term debt as intercompany and bank loans, mortgages, etc., and on short-term debt such as intercompany and bank loans, money market instruments, etc.
- Income remitted to non-residents on assets (including real estate) in management, safe custody and agency accounts, including estates and trusts.
- Net revenues of foreign insurance companies from operations in Canada.

The estimates in respect of transactions with non-residents by the head offices and branches in Canada of Canadian chartered banks are constructed by estimating the earnings on the funds made available to non-residents,

and the interest and other expenses paid to them, as described in the later section on sources and methods. A substantial volume of management and investment services is typically supplied by head offices, but for a variety of reasons these services may not be fully articulated within the accounting systems. Accordingly the revenue and expense series have a rather special meaning and, although appropriate for use in the balance of payments, their net balance *per se* has relatively little significance for the banks. When, as has been the case for many years, residents of Canada are large holders of foreign currency deposits with banks in Canada, and these funds are employed in part or in whole abroad by the banks, it will be clear that the revenues from non-residents which appear in the balance of payments have a significant domestic offset in the interest costs paid by the banks to residents. Moreover, insofar as the estimates make no explicit allowance for the services provided by head offices in connection with the employment of funds abroad, a part of the revenue may be considered to represent payment for services rather than interest income.

Most of the other forms of miscellaneous income which have been listed above require no explanation. An exception exists in respect of the revenues of insurance companies which, as in the case of the banking operations, contain elements of services.

It should be noted that the series for miscellaneous income cannot be directly related to the elements of Canada's international investment position. However, the following table indicates for each item of miscellaneous income the category of assets or liabilities in Canada's international investment position in which the underlying claims are recorded.

Receipts of miscellaneous income

Related assets in Canada's international investment position

- ✓ Net revenues from transactions of the Canadian chartered banks
- Interest on other short-term claims abroad
- Interest on export credits
- Net revenues of Canadian insurance operations

- Other Canadian short-term holdings of foreign exchange
- Other Canadian short-term holdings of foreign exchange
- Short-term receivables, n.i.e.
- Miscellaneous investment
- Not applicable - There is no allowance in the investment position for the investments abroad of Canadian insurance companies as these are largely financed by the equity of foreign policyholders and the applicable reserves.

Payments of miscellaneous income

Net expenses of Canadian chartered banks

Interest

Income on assets under administration

Net revenues of foreign insurance operations

Business services and other transactions — The range of items covered in these groups of transactions is extensive but may be classified broadly as business, professional and personal services provided by or to Canadian residents. Included are:

- Business service receipts and payments of Canadian companies
 - Management and administrative services
 - Consulting and other professional services
 - Insurance premiums and other insurance transactions
 - Scientific research and product development
 - Commissions
 - Advertising and sales promotion
 - Royalties, patents, copyrights, trademarks
 - Equipment rentals
 - Franchises and other similar rights
 - Film rental payments
 - Special tooling and other automotive payments
 - Other services (including retroactive price adjustments, particularly on automobiles, which are treated as services).

Receipts and payments of Canadian railways and airlines abroad, and of foreign railways²⁷ and airlines in Canada, covering such items as use of railroads and rentals of freight cars, wages and salaries, operation and maintenance of buildings and offices, purchases of fuel and oil, aircraft services, fees and taxes, advertising, agency expenditures, and communications. (Inclusion in this account of local expenditures of international air carriers is not consistent with the inclusion of corresponding expenditures of

Related liabilities in Canada's international investment position

Other Canadian short-term holdings of foreign exchange (net asset item)

Direct investment

Other portfolio investment

Miscellaneous investment

Non-resident holdings of Canadian dollars

Short-term payables, n.i.e. — Finance company obligations

Short-term payables, n.i.e. — Other

Miscellaneous investment

Direct investment

ocean and lake carriers in freight and shipping series ((A21 and B21)). Expenditures of this sort first became prominent during the war years when they were centred largely in operations in Newfoundland and Labrador in connection with the North Atlantic staging route. The special intransit character of this traffic, and the fact that data could not be readily isolated from other military receipts, made appropriate their allocation to other services where they have since been retained, for reasons of comparability.)

- Other service transactions

Commissions paid to agents

Net earnings in the United States of Canadian resident commuters

Other insurance transactions

Miscellaneous services, including transactions relating to trade union operations, telecommunications, transportation of migrants, gross earnings of migrant labour, cost-sharing arrangements in respect of power developments on the St. Lawrence River, lotteries,²⁸ expenditures on conservation within Canada by Ducks Unlimited from funds raised in the United States and miscellaneous engineering and other professional services rendered by individual consultants and small firms; a further provision is made rather arbitrarily to cover personal and other transactions related to the entertainment and sports industries, subscriptions to newspapers and periodicals, payments for newspaper features and articles, membership fees of professional societies, education by correspondence and in foreign schools, and payments to foreign correspondents.

²⁷ Mainly for equipment rental as most other receipts including intransit revenues are covered in the estimate of intransit revenues in series A21.

²⁸ The logic of including lottery receipts and payments with services, contrary to international practice, is not clear but may perhaps reflect a perception that the net charge to Canada is a cost of intermediation.

Some of the largest components, particularly on the payments side, are transactions between branches, subsidiaries and other direct investment affiliates and their foreign head offices. In the early stages of investment, significant elements of the outlays represent fees for design, engineering, consulting and other services for industrial techniques and processes, and in some cases, rental of special equipment and machinery. Subsequently in the operational phase, there are appreciable fees for royalties and management and apportionments of head office expenses such as management and administration, advertising and research. There exists, however, a considerable diversity in accounting practices. A significant number of subsidiary companies in Canada are not specifically charged for the services supplied to them by their foreign parent companies.²⁹ The series for investment income and for business services are influenced by the extent to which these practices may change.

There is also a wide variety of receipts and payments between persons and between unaffiliated enterprises for commercial, financial and professional services. Included are items such as licensing fees for manufacturing patents, processes and trademarks, franchises, authors' and composers' royalties, copyrights, royalties for master recordings, syndicated features and cartoons, commissions, and fees for legal, accounting, management, consulting and other professional services. When appropriate other special transactions are also included, for example, settlements on contract cancellation.

For a more extended description see John W. Popkin: *Non-merchandise Transactions between Canada and the United States*,³⁰

Sources and Methods

Government transactions, not included elsewhere – Estimates of receipts from the transactions of foreign governments in Canada are based upon a variety of sources. Data covering expenditures in Canada of the United States Government are provided on a quarterly basis by the United States statistical authorities. Information about the expenditures of other countries is fragmentary and on the whole not well founded, although during the period of exchange control data became available from records of exchange transactions, and on one occasion subsequently a number of foreign governments furnished estimates of their representational costs in Canada on a voluntary basis to improve the measures.

²⁹ Typically, Canadian subsidiaries are not charged for management and administrative services. In the special survey carried out for 1969 almost three quarters of the reporting units which were United States controlled showed no payments for them and only about 5% paid more than \$100,000. *The Canadian Balance of International Payments, 1965-70*, p. 24, Catalogue 67-201.

³⁰ Canadian - American Committee, June 1963.

Among other small elements of the receipts total are expenditures within Canada under training programs provided as a part of Canada's development aid, and receipts from the disposition of Canadian government-owned assets abroad. These are obtained from administrative sources. Tax receipts of Canada generated from operations outside Canada of Canadian corporations (which are described at greater length in Part VII in the note on residency, non-resident Canadian companies and other special situations) are derived from a selection of the returns described in Part V for the specific companies involved. Data from provincial governments non-resident land transfer tax is obtained from the provinces.

On the payments side the larger items are obtained from administrative records. The Department of Supply and Services provides a special analysis monthly of defence expenditures abroad, together with a record of all foreign cheque issues in amounts of \$100,000 or more. Payments for contributions to and assessments of international organizations are obtained monthly from the Department of External Affairs. Figures for international postal settlements are supplied annually by the Post Office Department. Figures for receipts and payments associated with the headquarters of the International Civil Aviation Organization are obtained annually from that organization. For other government expenditures, data are extracted from annual reports on the Public Accounts of the federal and provincial governments, supplemented where necessary by correspondence.

Quarterly series are constructed using the information supplied on a quarterly or monthly basis, together with allocations or projections of those items available only from annual sources.

Miscellaneous income – The miscellaneous income series are derived from many sources, some of a primary and some of a secondary nature. While the series are made up from the separate estimation of a number of components, the component detail is not currently considered to be of such a quality as to stand as series in themselves, and for this reason is not made available.

Estimates of banking revenues and expenses are based on approximate average levels of holdings of particular assets and liabilities (constructed by averaging holdings at the beginning and end of each month). Data are available from the Inspector General of Banks covering the net revenues at foreign branches. A selection of interest rates is applied to the estimated remainder of other claims. Those rates used are necessarily judgemental insofar as their construction from the global reports made available to the Inspector General of Banks involves assumptions with respect to their application to the range of geographic components covered. Rates published by the Morgan Guaranty Trust Company of New York³¹ are also used as indicators in the selection.

³¹ *World Financial Markets*, Monthly.

Interest rates on private non-bank holdings of foreign exchange are calculated by applying the Morgan Guaranty source rates to the averages of opening and closing balances of deposits held directly abroad and of estimated short-term loans to residents by foreign banking institutions. When there are significant holdings by Canadian residents of foreign treasury bills a direct estimate of the income receipts is made. Interest on government-financed export credits is available from administrative records and an estimate is made for the component which is privately financed. Income remitted to Canada on foreign assets held by Canadian trust and loan companies in management, safe custody and agency accounts, estates and trusts and holding companies is recorded in line IV(a) of the BP-29, Report by trust and mortgage loan companies in Canada on transactions with non-residents.³²

Estimates in respect of insurance company transfers present considerable difficulty but are a derivative of the annual returns made by insurance companies on BP-27, Movement of funds between Canadian insurance companies and their branches, agencies, bank accounts, and other companies or persons outside Canada, and Schedule BP-28, Movement of funds between British and foreign insurance companies doing business in Canada and head or other offices, companies or persons outside Canada. A description of the rather involved processes by which estimates for miscellaneous income are constructed will be found in the appropriate section of Part V. The annual estimates are spread evenly over the four quarters.

Interest payments on intercompany and bank loans, both short and long term, are derived largely from line IV(b)(3) of the BP-21, Report of transactions between Canada and other countries, or line II(b)(1) of BP-22, Report on investment in Canada of non-Canadian corporations, supplemented by an allowance based largely on the BP-51, Geographical distribution of ownership of capital, or the BP-52, Geographical distribution of capital of Canadian companies, in respect of those enterprises which are not called upon to report on the BP-21 or BP-22. (The identification on line IV(b)(2) of BP-21 of interest paid on bonds and debentures is to ensure that such interest, which is estimated independently as described under series B15, is not double counted, and to facilitate examination of possible inconsistencies of classification.)

Interest payments on mortgages held by non-residents on Canadian real estate are imputed from the estimates of holdings which are an element in miscellaneous investments as described in Part IV. Estimates of interest on short-term commercial and finance paper and similar liabilities are made by applying rates for 90-day finance company paper to quarter-end holdings. Estimates of rent are derived from lines IV(b)(4) and II(b)(2) respectively of the BP-21 and BP-22.

Income remitted to non-residents on assets under administration in management, safe custody and agency accounts (including estates and trusts), is derived in part from line III(a) of the BP-29, Report by trust and mortgage loan companies in Canada on transactions with non-residents. The reported figure is grossed up to allow for fiduciary fees which may have been deducted in Canada, a corresponding amount being added to business service receipts. Further estimates of income payments are made in respect of the estimated holdings through other intermediaries in Canada of Canadian bonds and stocks as included in the total estimate of these holdings within miscellaneous investments in Canada described in Part IV.

Quarterly series are constructed using the information available on a quarterly or monthly basis, together with allocations or projections of those items available only from annual sources.

Business services and other transactions – Business service receipts and payments of Canadian companies, the principal types of which have been listed in the Descriptions section above, are with one exception derived largely from lines IV(a)(3) and IV(b)(5) of BP-21, Report of transactions between Canada and other countries, lines II(a)(1) and (b)(3) of BP-22, Report on investment in Canada of non-Canadian corporations, and line IV(b) of BP-29, Report by trust and mortgage loan companies on transactions with non-residents. From time to time special supplements are used with these annual surveys in order to elicit component detail; the supplement used in respect of 1973 is reproduced in Part V. The information on payments to non-residents which is required annually from many companies under the Corporations and Labour Unions Returns Act is examined and where appropriate the coverage or definitions of balance of payments surveys is extended or additional allowances are made in the general provisions for receipts and payments which are not the subject of regular surveys. An analysis of the information collected under the Corporations and Labour Unions Returns Act and the figures used in estimates of the balance of payments will be found in Appendix 8. A further small amount is included in business service receipts in respect of the fees charged to non-residents for the services provided by Canadian trust companies, as described under sources and methods of the estimates of miscellaneous income.

Business service receipts and payments of Canadian railways and airlines abroad, and of foreign railways and airlines in Canada, are obtained by correspondence or from line 1 of BP-58, Report of non-Canadian airlines operating in Canada.

International receipts and payments related to broadcasting operations are obtained from an annual survey carried out by the Transportation and Communications Division of Statistics Canada.

³² All the schedules referred to in this section are reproduced in Part V.

There remain a large number of other service transactions which are not for the most part a product of regular survey operations. Among these many transactions are commissions paid to agents. The estimates are based upon the application to aggregate trade series of fixed factors determined on the basis of discussions with trade sources. Lower factors are applied to trade with the United States than with other countries in consideration of the larger volumes of transactions which occur between affiliates and are presumed not to involve agents. The factors used at the time of writing were established in 1971. Subsequent investigations have not indicated any need to change these factors. On trade with the United States the factors are 0.3% on exports, which constitutes a payment for Canada, and 0.5% on imports, a receipt for Canada. On trade with other countries the factors are 0.5% on exports and 1% on imports.

Numbers of Canadian resident commuters employed in the United States, which are one of the bases for a calculation of their estimated net earnings, are estimated with the assistance of officials of the Department of Manpower and Immigration and United States sources. To the number of those employed in the automotive industry there is applied the published average weekly earnings of employees of that industry in the United States less an allowance of 20% to give an approximation of "take home pay". In the case of employees in other industries the average earnings are assumed to be 80% of those of automotive workers, recognizing the relatively higher wages in the latter industry. Some of the net earnings are, of course, used in the United States for lunches, transportation, etc. These amounts appear as Canadian expenditures in the travel account.

The "other" insurance which is included in business service and other transactions covers premium and claim transactions. Data are derived largely from the BP-27, Movement of funds between Canadian insurance companies and their branches, agencies, bank accounts, and other companies or persons outside Canada, and BP-28, Movement of funds between British and foreign insurance companies doing business in Canada and head or other offices, companies or persons outside Canada. Further details will be found in Part V.

The estimates for other miscellaneous services cover, as has been noted in the description above, a wide range of transactions and make use of a correspondingly wide range of sources and indicators. Transactions related to trade union operations are derived from the information filed under Part II of the Corporations and Labour Unions Returns Act as published in the Annual Reports, Catalogue 71 - 202. The basic legislation does not capture all the relevant international transactions and estimates are made for those which are not required to be reported.

Receipts and payments for telecommunications are obtained from Teleglobe Canada (formerly Canadian

Overseas Telecommunications Corporation). Transportation costs of migrants are estimated on the basis of their indicated numbers. Cost-sharing receipts and payments in respect of power developments on the St. Lawrence are obtained from Ontario Hydro. Estimates of international transactions in connection with lotteries are made on the basis of announced winnings of residents of Canada from major international lotteries; amounts are shown gross. The remaining miscellaneous, engineering and other professional services rendered by individual consultants and small firms are based upon an occasional survey. Finally, the provision for personal and other transactions related to the entertainment and sports industries, subscriptions to newspapers and periodicals, payment for newspaper features and articles, membership fees of professional societies, education by correspondence and in foreign schools, and payments to foreign correspondents is based on fragmentary information, some of it going back to benchmarks established during the period of exchange control. Other parts have been up-dated from time to time through specific projects such as analysis of information produced by the Audit Bureau of Circulations.

The quarterly pattern of business services and other transactions is not precise.

The business service receipts and payments of Canadian companies are, with a few exceptions, distributed proportionately to quarterly profits before taxes as used in the National Income and Expenditure Accounts of the United States and Canada, respectively. The exceptions are retroactive price adjustments which are available on a quarterly basis, and the receipts and payments of railways and airlines which are spread evenly over the year.

Turning to other service transactions, the allocation of agents' commissions is determined by the quarterly values of exports and imports, while the net earnings in the United States on Canadian resident commuters are distributed proportionately to factory sales of automobiles in the United States (reported by United States sources), and the other items are for the most part spread evenly over the year.

Evaluation

It will be apparent that the quality of the measures of individual components of this mixed bag of transactions varies immensely. The quality of the series has also varied over time. During the period of exchange control discrete transactions are believed to have been well covered, although the measurement of the transactions associated with trade and embraced within trade settlements - commissions, transportation and insurance - presented the same problems which existed prior and subsequent to the period of control. When exchange control was terminated the methodology in respect of discrete services reverted to that in effect previously,

with, however, the added insight acquired during the period of control. Later the extension of investment in such forms as holdings of foreign currencies, real estate, etc., and the widening spread geographically of transactions with Canada gave increased importance to the difficult measurement of miscellaneous income. Considerable systematic work has been done on the estimates in the late 1960's and early 1970's, but while parts are well validated others remain to a considerable extent judgemental.

Government transactions, not included elsewhere – The measures of Canadian payments abroad, based for the most part on government accounting records, are reasonably complete and accurate. This is also true of United States Government expenditures in Canada. Receipts from the activities of other foreign governments are not so well founded and may be subject to relatively large errors for some areas.

Miscellaneous income – Estimates of revenues and expenditures of the Canadian chartered banks are based upon a variety of assumptions as to the structure of yields on particular types and loci of claims which render them subject to the possibility of considerable error. Estimates of the income on private non-bank holdings of foreign exchange and other short-term claims abroad are also subject to the possibility of considerable error, arising mainly from possible weakness in the levels of holdings which are dependent on geographical classifications established by foreign banks. The same weakness may apply to estimation of Canadian payments of interest on bank loans. The net receipts of interest on export credits are for the most part well founded in accounting records. The revenues of insurance companies are based upon a series of assumptions underlying the process described in considerable detail in Part V (BP-27 and BP-28) and must be regarded as approximations only. Interest payments on intercompany debt and on money market instruments are believed to be relatively complete. Estimates of the income on assets under administration in Canada are of variable quality; while the elements reported by Canadian trust companies should be accurate, those in respect of other fiduciary agents are less well founded. The existence of the miscellaneous income series itself reflects the fact that the elements are for the most part less precisely measurable than those covered in series for interest and dividends.

Business services and other transactions – Estimates of business services and other transactions may be treated for purposes of comment on their quality in the two broad groups shown in the description section. Business service receipts and payments of Canadian companies are based largely upon direct surveys. In the case of payments, there is some corroborating information from the returns under the Corporations and Labour Unions Returns Act as described in Appendix 8. Work on the reconciliation of measures of the current account

between Canada and the United States, which is described in Part VI, did not suggest significant faults in the measures of those services, as most of the adjustments in respect of services required for the reconciliation were occasioned by classification differences or occurred in the other accounts.

The second group of service transactions is much less well founded as indicated in the description of sources and methods above, although the elements are generally consistent with such other evidence or indicators as are available.

Linkages and Relationships

CANSIM Databank Series – These are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) – Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 1 (Goods and Services, and Transfer Payments), Items 7 Government, not included elsewhere, and 8 Other services.

IMF/OECD Common Reporting System (Appendix 6) – Global Balance of Payments Summary and Regional Balance of Payments Summary: Part A (Goods and Services), Items 7 Government, not included elsewhere, and 8 Other services.

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) – Components of Exports of goods and services and of Imports of goods and services in Table 2, Gross National Expenditure, and subsidiary tables.

Minor revisions to data for inheritances and migrants' funds for 1937 through 1945, and pension receipts from 1952 through 1960, have not yet been incorporated as transfers in the national accounts and are included with services (see Appendix 3).

Financial Flow Accounts (Catalogue 13-002) – Not relevant.

Series Availability

Annually from 1926 and quarterly from 1946, but pension receipts are included from 1926 through 1951.

Supplementary Data

Some detail of other service receipts and payments annually for the years 1926 through 1937, with data for the United States, the United Kingdom and other countries, will be found in lines 6 through 13 for the current account in Tables 40 through 51 of *The Canadian Balance of International Payments, A Study of Methods and Results*, Catalogue 67-D-52. Details at a global level only

are available for 1938 and for 1946 in Statements 35 and 36 of *The Canadian Balance of International Payments, 1926-1948*, Catalogue 67-501. All these data include some components which have since been re-allocated to transfers either as inheritances and migrants' funds or as personal and institutional remittances. In certain years there have been minor revisions at aggregative levels which are not reflected in the detail.

The basic subclassifications of other service receipts and payments currently in use extend back to 1946. Table 5.20 in *The Canadian Balance of International Payments, A Compendium of Statistics from 1946 to 1965*, Catalogue 67-505 includes annual data for the United States, the United Kingdom and other countries in the following form.

Receipts	Payments
Government transactions	Official contributions
Personal and institutional remittances	Government transactions, n.o.p.
Miscellaneous income	Personal and institutional remittances
Business services and other transactions	Miscellaneous income Business services and other transactions.

These totals will, it should be noted, include some items properly classifiable to transfers. Official contributions now appear in series B37. Receipts of government pensions beginning with 1952, payments of pensions, and all personal and institutional remittances back to 1926, are currently published in series A33 and B33 as appropriate. The detail of series A23 may be derived by making the appropriate adjustments based upon series B37, A33 and B33 as reflected historically in Table 32 of *The Canadian Balance of International Payments, 1972*, Catalogue 67-201. It may be noted that the series also include for 1946 and 1947 military transactions

arising mainly out of the War of 1939-45 sometimes shown separately as series A22 and B22, which are footnoted in Table 5.20 of the "Compendium".

Detail for the current coverage of series A23 and B23 for the United States, the United Kingdom and other countries will be found for 1965 in Table 14 of the annual report for 1965-70 (Catalogue 67-201), for 1966, for 1967 and 1968, and for 1969 through 1974P in Table 13 of the reports (Catalogue 67-201) for 1971, 1972, and 1973 and 1974 respectively.

The corresponding detail at a global level has been published since 1972 on a quarterly basis beginning with the year 1970, Catalogue 67-001, Table 7.

Special surveys of business service receipts and payments were carried out for the years 1969 and 1973. Extended detail was published respectively in *The Canadian Balance of International Payments, 1965-70* and *1973 and 1974*, Catalogue 67-201.

Related Data

The annual returns under the Corporations and Labour Unions Returns Act (CALURA) include some 30 categories of payments in the field of income and services made to non-residents by reporting corporations. These data are published in the Annual Reports, Part I - Corporations, Catalogue 61-210. A description of their relationship to balance of payments estimates is included in Appendix 8.

Relationship to Conceptual Framework of the International Monetary Fund and Returns to the IMF

The series correspond broadly in total to those for the categories of government, not included elsewhere, and of other services used by the International Monetary Fund.³³ They do not however, conform precisely to the concepts and definitions; the principal differences are set out below.

³³ IMF *Balance of Payments Manual*, Third Edition (1961).

Receipts	Treatment in Canadian data	Treatment conceptually under IMF
Insurance element of freight and shipping	Other services (A23)	Freight and insurance on international shipments ¹
Expenditures in Canada of foreign airlines	Other services (A23)	Other transportation ¹
Pensions (ending in 1951)	Other services (A23)	Central government transfers ¹
Lotteries♦	Other services (A23)	Private transfers ¹
Miscellaneous income receipts	Other services (A23)	Investment income ²
Personal expenditures of foreign migrant workers and commuters	Travel (A4)	Other services ¹

See footnote(s) on following page.

Payments	Treatment in Canadian data	Treatment conceptually under IMF
Insurance element of freight and shipping	Other services (B23)	Freight and insurance on international shipments ¹
Expenditures abroad of Canadian airlines	Other services (B23)	Other transportation ¹
Miscellaneous income payments	Other services (B23)	Investment income ²
Lotteries♦	Other services (B23)	Private transfers ¹
Personal expenditures of Canadian migrant workers and commuters	Travel (B4)	Other services ¹
Withholding tax payments	Service payments (B27)	Payments should be gross ³

¹ Not so reflected in Canada's returns to IMF.

² Miscellaneous income includes some services (see text).

³ Withholding tax entries are based on timing of government receipts and no distribution of origin is available. IMF allocates them in published statements for Canada to income payments on direct investment.

Withholding Tax Payments

Code - B27 Service payments: withholding tax.

Note - This series is covered with code A38.

Inheritances and Migrants' Funds

Codes - A30 Inheritances and immigrants' funds receipts

B30 Inheritances and emigrants' funds payments

Concept

These series and the three sets which follow all cover transfers, the counterparts of international transactions which lack a *quid pro quo*. Inheritances and migrants' transfers are grouped in a single category because, unlike the other transfers, they represent for the most part the transfer of accumulations of capital. Within the framework of national accounting they are frequently for this reason described as capital transfers. They must, however, be clearly distinguished from the capital movements which appear in the balance of payments, and where indeed their counterpart entries will frequently be found. If entries representing transfers, whether of a current or a capital nature, were recorded in the capital rather than the current account, the capital account would not on balance reflect any net acquisition or disposition of international claims associated with the transfer.

Series A30 and B30 cover migrants' transfers and transfers arising from inheritances by Canadian residents from non-residents and payments to non-residents of inheritances from Canadians. Canadian nationals who have been resident abroad are included in the series for immigrants' transfers upon resuming Canadian residency.

Description

Measurements of both inheritances and migrants' transfers, as used in the Canadian balance of international payments, are not fully in accord with the international conceptual framework, which calls for the inclusion of both real and financial capital which may be effectively transferred. As will be noted below, the measures used in practice are more restricted.

In the case of migrants' transfers an attempt is made to measure the funds of migrants transferred at the time of migration and those intended to be transferred at a later date. Thus, in the case of immigrants to Canada, the measure sought is the total of cash and similar claims brought with them at the time of migration, and the amounts which they intend to transfer at a later date. This rather simple measure may not fit tidily into the statistical frame. Notes and specie will likely appear in due course in the financial settlements ultimately reflected in banking transactions, as will the similar transfers which may be made later. The contra entry under transfers is accordingly necessary to explain the change. Personal and household effects which are imported will have been classified as non-trade transactions, as described under series A1 and B1, and since they are excluded from balance of payments estimates, no entry in respect of them is required under transfers. In principle there is no reason why such movements of physical goods should

not be articulated in the accounts but the valuations which attach to them are at best judgemental and the commercial significance attributed to trade series would be impaired by their inclusion.

More difficult problems arise in the case of assets which immigrants may intend to retain outside Canada. These clearly become a part of Canada's external assets, but they may or may not be so measured. To the extent they take a form which is measured from abroad (e.g., holdings of United States portfolio securities determined on the basis of the benchmarks described in Part IV, or holdings of deposits in countries from which data on liabilities to Canadians are obtained), and are recognized there by a change of address, they will be captured statistically. In the example of securities they will be reflected only as a change in the investment position, while in the case of deposits they will appear both in the balance of payments as a capital movement and in the investment position as a change in claims on non-residents. But there will be many cases which will not be captured at all at the time of migration, e.g., holdings of unregistered securities or of real estate. And the subsequent disposition of any assets retained abroad with repatriation of the proceeds to Canada will appear as a capital inflow and be reflected as a reduction in external assets only if this occurs through a channel covered by the Canadian reporting frame, e.g., a Canadian broker, but not otherwise. Somewhat parallel problems arise where immigrants may have acquired Canadian assets of significance prior to immigration.

The handling of inheritances is much the same as for migrants' transfers and the same problems with respect to the retention of assets apply.

Sources and Methods

Estimates of migrants' transfers into Canada are produced under arrangements with the Canada Department of Manpower and Immigration. The numbers of legal immigrants and their countries of last permanent residence are, of course, directly available from administrative records. Among the information obtained by officials of the Department of Manpower and Immigration from arriving immigrants are the amount of money to be transferred to Canada, and the money in possession. From these, the total of funds transferred or to be transferred to Canada is estimated. (An allowance for the deferral of transfers is included in series D50.)

Estimates of transfers by returning Canadians are derived by applying arbitrary per capita average values to numbers indicated by trade data in respect of imports of their personal effects.

Estimates of emigrants' transfers are constructed in the case of migration to the United States and the United Kingdom from numbers supplied by the authorities in those countries. To these numbers are applied

estimates of per capita transfers based upon data revealed during the period of exchange control adjusted subsequently for the general growth of personal assets. A rough estimate of emigration to other countries is produced periodically by analysis of Canadian census results, and a per capita figure for transfers is also applied to it. This figure is much smaller than in the case of emigration to the United States and the United Kingdom.

Estimates of inheritances are also benchmarked largely from data going back to the period of exchange control. Again, the series are modified to make allowance for the general growth of personal assets as well as for the effects of migration. Other data which may contribute to the final estimate include the remittances from Canada representing withdrawals of capital from estates and trusts reported on line III(b) of BP-29, Report by trust and mortgage loan companies in Canada on transactions with non-residents.³⁴ Special enquiries may also be made of the executors or beneficiaries in the case of major international inheritances occasionally reported by press sources.

Evaluation

As the sources indicate, the estimation of both inheritances and migrants' transfers presents considerable difficulty. Data in respect of inheritances and of emigrants' transfers are extremely limited, and data reported by immigrants may not always be accurate.

Linkages and Relationships

CANSIM Databank Series – These series are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) – Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 1 (Goods and Services, and Transfer Payments), component of Item 9.2 Other private transfer payments.

IMF/OECD Common Reporting System (Appendix 6) – Global Balance of Payments Summary and Regional Balance of Payments Summary, Part B (Transfer Payments) Items 9.1 Migrants' remittances and component of 9.2 Other private transfer payments.

National Income and Expenditure Accounts (Catalogue 13-201) – Components of Capital finance account – non-residents (Table 26), and of Current transactions with non-residents – reconciliation with Canadian balance of international payments (Table 60).

Minor revisions to data for inheritances and migrants' funds for 1937 through 1945 have not been incorporated as transfers in the national accounts and are included with services (see Appendix 3).

³⁴ Reproduced in Part V.

Financial Flow Accounts (Catalogue 13-002) – Net purchases of existing and intangible assets (category 1800) of Rest of World (sector XIII).

Series Availability

Annually from 1926, quarterly from 1946.

Personal and Institutional Remittances

Codes – A33 Personal and institutional remittances receipts

B33 Personal and institutional remittances payments

Concept

These series cover most private transfers other than inheritances and migrants' funds, and government transfers other than official contributions.

Description

Among receipts included under personal and institutional remittances are pensions paid by the United States and United Kingdom Governments to Canadian residents (from 1952), pensions paid by international trade unions, indemnification and restitution payments by the Government of Germany, estate taxes received by Canada, personal remittances such as gifts and alimony, and institutional remittances for relief, charitable, religious, educational or research purposes.

Payments include pension payments made by governments in Canada to non-residents (old age security, Canada and Quebec pension plans, veterans' pensions and federal government superannuation benefits), and the types of personal and institutional remittances abroad described above for receipts.

These remittances will include not only such items as gifts recognizing anniversary occasions, but also remittances for the support of relatives. In the case of payments, they tend to be largest to some countries from which emigration to Canada has been significant and where the retention of close family ties has been customary.

As in the case of inheritances and migrants' funds, the series do not cover gifts in kind. Such private donations and gifts, as has been noted under series A1 and B1, are classified in the trade statistics as "Special Transactions – Non-trade" and are excluded throughout the balance of payments.

Sources and Methods

The transactions covered in the series to which governments in Canada or abroad are a party are obtained mainly from administrative records. Personal remittances are based upon a benchmark established during the period

of exchange control which has been projected on the basis of reviews of family expenditure surveys, related statistical counterpart data prepared in some European countries, and international post office money order settlements.

Institutional remittances to Canada are estimated on the basis of press reports and the examination of annual reports of grant-receiving institutions and of foreign foundations. Institutional payments abroad are based largely upon surveys carried out for the Canadian International Development Agency³⁵ and on other data supplied by major donor groups.

Evaluation

The elements of personal and institutional remittances represented by transactions to which governments are a party and institutional transfers are believed to be relatively complete and accurate. Personal remittances which may occur through many channels, including the transmittal of cash through the mails, are at best of an indicative nature.

No amounts have been included for lottery transactions, which are included with series A23 and B23.

Linkages and Relationships

CANSIM Databank Series – These series are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) – Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 1 (Goods and Services, and Transfer Payments), component of Items 9 Private transfer payments and 10 Central government.

IMF/OECD Common Reporting System (Appendix 6) – Global Balance of Payments Summary and Regional Balance of Payments Summary, Part B (Transfer Payments) component of Items 9.2 Other private transfer payments and, in respect of pension payments, 10 Central government.

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) – Components of Income and Outlay Account – Non-resident (Tables 24 and 25, annual) and of Sources of gross saving (Table 8, quarterly).

³⁵ *Directory of Canadian Non-governmental Organizations Engaged in International Development Assistance*. Canadian Council for International Co-operation, Ottawa.

Pension receipts from 1952 through 1960 have not yet been incorporated as transfers in the national accounts and are included with services (see Appendix 3).

Financial Flow Accounts (Catalogue 13-002) – Not relevant.

Series Availability

Annually from 1926, quarterly from 1946, but pension receipts are excluded from 1926 through 1951 (see series A23).

Official Contributions

Code – B37 Official contributions

Concept

This series reflects the provision by Canada to developing countries of technical and economic assistance, other than in the form of loans, through the Canadian International Development Agency, including assistance funded by the government provided through Canadian non-governmental organizations and the International Development Research Centre.

Description

Canada gives official assistance to more than 70 countries. Parts are on a long-term programmed basis, parts on a project-by-project basis. Some are bilateral programs, while others represent participation in a variety of multilateral programs over the years. Projects have ranged from long-term economic development to the relief and resettlement of refugees and to the succor of victims of natural disaster and famine, often taking the form of contributions of Canadian agricultural produce. Transfers may be financial or may take the form of the provision from Canada of goods and services.

While the institutional arrangements for Canada's official contributions have varied over the years, the activities are now largely concentrated under the aegis of the Canadian International Development Agency. They currently include such programs as international development assistance, international food aid, grants to international organizations for multilateral assistance programs (such as the United Nations Development Program, World Food Program, United Nations Fund for Population Activities and United Nations Children's Fund), contributions for overseas projects of Canadian non-governmental organizations, and contributions to Canadian firms for feasibility and related studies to establish or expand operations in developing countries. The International Development Assistance Program itself has many regional and activity subdivisions.

International food aid programs include both bilateral and multilateral food grants including those to the United Nations Relief and Works Agency.

Not included in the series for official contributions are the administrative costs of the Canadian International Development Agency.

It will be clear from the description of the programs that large parts of official contributions take the form of expenditures in Canada. Since the full measure of Canada's direct aid abroad is recorded as a transfer payment to the rest of the world, the provision of goods or services by Canada as a part of this aid appears in receipts. Exports of goods as part of official aid are included in the series for merchandise exports (A1). Other receipts are included with the government transactions element of other services (A23). Among them are expenditures in Canada by foreign trainees (and associated payments to Canadian educational institutions), portions of the pay of Canadian experts serving abroad which are believed to be applied in Canada for payments of their taxes, insurance, pension contributions, etc., the grants to Canadian firms for feasibility studies, and expenditures excluding administration within Canada by the International Development Research Centre.

In accordance with the conventions applied throughout the balance of payments, contributions through multilateral agencies are attributed regionally to the residual ("other") category.

During the wartime period the Canadian gift in 1942 of \$1 billion to the United Kingdom was followed by large contributions under mutual aid, military relief and to the United Nations Relief and Rehabilitation Administration, all treated as official contributions. (The provision of military relief led to some untidiness when, much later, settlements were negotiated with a number of recipient European countries. The amounts transferred to Canada were relatively small and it was not considered appropriate either to transfer the original charges from official contributions to the capital account or to establish a receipts category of official contributions to cover the settlements. The amounts were included with miscellaneous government receipts in series A23.) Later Canada contributed to a number of multilateral plans under the aegis of the United Nations through its Special Fund, Expanded Program for Technical Assistance and Children's Fund (United Nations International Children's Emergency Fund), as well as to bilateral programs such as those developed under the Colombo Plan or in response to disasters.

The series reflect some contributions reflecting the cancellation of debt. In 1967 there was a remission by Canada of the principal and interest on loans extended to India for the purchase of Canadian wheat and flour.

Similar transactions occurred in 1973 and 1975 when a development loan and an export credit, respectively, originally to Pakistan were forgiven, and in 1976 when a development loan to Bangladesh was forgiven. These transactions were articulated by recording the forgiveness of principal as official contributions and showing simultaneous repayments in series D45 or D49 as appropriate.

Series for official contributions do not include Canada's mutual aid to NATO countries, which has been described under series A2.

Sources and Methods

The series for official contributions is currently derived from details of expenditure provided monthly by the Canadian International Development Agency in respect of its various programs, supplemented with additional detail from the International Development Research Centre of their expenditures in the development field.

Estimates of the amounts to be recorded as receipts are also based, insofar as is possible, on these sources, although the component representing the amounts spent in Canada for taxes, insurance and pension contributions by Canadian experts serving abroad is necessarily judgemental.

Evaluation

See Sources and Methods above.

Codes – A38 Transfer receipts: withholding tax
B27 Service payments: withholding tax

Concept

These series cover receipts by the government of Canada of taxes withheld on certain service payments and income distributions to non-residents.

Specific payments on which withholding taxes are levied are estimated net of such. These series are a measure of such taxes, and appear as both receipts and payments in the current account. The payment series appears explicitly as a component of imports of services, and the receipts series appears explicitly among transfer receipts.

Description

In 1933 withholding taxes were introduced in Canada with respect to certain payments to non-residents. The types of income subject to the tax have varied over the years, and there have also been a variety of rates.

Linkages and Relationships

CANSIM Databank Series – These series are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) – Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 1 (Goods and Services, and Transfer Payments), component of Item 10.1 Central government intergovernmental transfer payments.

IMF/OECD Common Reporting System (Appendix 6) – Global Balance of Payments Summary and Regional Balance of Payments Summary, Part B (Transfer Payments), component of Item 10 Central government which includes also pension payments.

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) – Components of Income and outlay account – non-resident (Table 24, annual) and of Sources of gross saving (Table 8, quarterly).

Financial Flow Accounts (Catalogue 13-002) – Not relevant.

Series Availability

Annually from 1942, quarterly from 1946 (including wartime grants).

Withholding Tax

Exemptions have been provided both for payments of certain types of income and for payments to certain classes of recipient. Tax treaties have led to a variety of differing arrangements with individual countries.

In Canada, as in the United States, balance of payments series have historically been constructed net, or after deduction, of taxes withheld. This treatment is not in accord with the concepts recommended by the International Monetary Fund.³⁶ Explicit series covering withholding taxes received by the Government of Canada on account of non-residents were introduced into both sides of the current account with the report for the first quarter of 1972, at which time series back to the introduction in Canada in 1933 of withholding taxes on payments to non-residents were provided to establish historical continuity. The entries appear on the receipt side among transfers, and on the payments side among imports of services. As a result of this treatment,

³⁶ IMF *Balance of Payments Manual*, Third Edition (1961), paragraph 250.

imports and exports of goods and services which appear in balance of payments statements can be used directly in the national income and expenditure accounts.

It will be noted that symmetry is not achieved in respect of these transactions in either the balance of payments or the income and expenditure accounts, since withholding taxes on Canadian income abroad are not articulated within them.

The series are obtained from an analysis of Government revenues rather than by direct correlation to the payments to non-residents from which they have been deducted. This treatment avoids the problems arising from differences in timing between the payments to non-residents and the recording of tax revenues in the government's accounts. The series are not distributed bilaterally, and accordingly no problem with respect to Canada-United States comparisons is engendered by the treatment.

Sources and Methods

The data are derived from the financial records of the Government of Canada. Monthly data as recorded in the government's accounts are attributed to the previous month to take account of remittance and accounting lags.

Evaluation

The series should be complete and accurate insofar as Government receipts are concerned, but timing problems are involved. A relatively small part³⁷ of withholding tax receipts is generated by payments made by Canadian corporations which are not regarded as residents of Canada for national accounting purposes (see the note on residency, non-resident Canadian companies and other special situations in Part VI); such

³⁷ There were some periods prior to the sixties when identifiable receipts of this type were, however, large. Identifiable receipts are included in series A23, other services, rather than A38.

receipts are not conceptually taxes on Canadian factors of production. For both the foregoing reasons a precise correlation of withholding tax receipts and income and service payments is not possible. Allocations of specific components within the national income and expenditure accounts are based on less than fully satisfactory data.

Linkages and Relationships

CANSIM Databank Series – These series are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) – Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 1 (Goods and Services, and Transfer Payments), components of credit Item 10.2 Central government transfer payments, and of debit Item 6.3 Investment income, other.

IMF/OECD Reporting System (Appendix 6) – Global Balance of Payments Summary and Regional Balance of Payments Summary, component of credit Item 10 Transfer payments, central government and a special inserted debit item.

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) – Components of Income and outlay account – non-resident: Outlay in Table 25 for receipts entry, and of Imports of goods and services in Table 2, Gross National Expenditure, and subsidiary tables.

Financial Flow Accounts (Catalogue 13-002) – Not relevant.

Series Availability

Annually from 1926 and quarterly from 1946 (presentation introduced first quarter of 1972).

PART III

THE CAPITAL ACCOUNT — OFFICIAL MONETARY RESERVES

Series in the Standard Balance of Payments Presentation

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Codes – D21 Foreign direct investment in Canada

D25 Canadian direct investment abroad

Concept

These series cover flows of capital giving rise to changes in net capital invested by controlling groups of non-residents in direct investment enterprises in Canada, and of Canadian residents in direct investment enterprises abroad.

Direct investment is investment motivated by a desire to create or expand some type of permanent interest in a particular enterprise; it normally implies, if not the actual exercise of control, a degree of potential control. Enterprises in which there is direct investment are typically classified as “direct investment enterprises”. This classification is assigned when the proportion of voting stock held exceeds a particular level (under most conditions 50%). “Direct investment enterprises” need not be incorporated and therefore include branch operations of non-resident companies in Canada and branches of Canadian companies abroad.

The transactions recorded here are restricted to those of a long-term character with principal owners only, rather than with all residents of the controlling country. Estimates used in the balance of payments series do not reflect accretions of undistributed earnings which are discussed in Part VII.

Description

The concept of direct investment adopted by the International Monetary Fund¹ is

“... investment made to create or expand some kind of permanent interest in an enterprise; it implies a degree of control over its management. In the case of portfolio investment, on the other hand, the investor has no intention of playing a major role in the direction of policies of the enterprise; he is influenced by such considerations as marketability, income yield, possibilities for capital appreciation, tax advantages, exchange rate prospects, and safety of principal. Borderline cases exist between direct and portfolio investment, but a large part of all investment can in practice be distinguished as belonging to one or the other category. . . .

“Most direct investment is made to expand an enterprise beyond the national boundaries of its home country, either by establishing factories and sales organizations abroad or by producing or procuring goods abroad for import into the home country or export to third countries. It is charac-

teristic of direct investment that the investor possesses managerial control over the enterprise in which the investment is made and that he also makes available to it his technical knowledge (know-how). For such reasons, some of the obstacles that usually stand in the way of international flows of private capital are absent in the case of direct investment.

“Direct investment is distinguished as a separate category because it constitutes a significant part of the international flow of capital and has a behaviour that is rather different from that of other types of capital movements. Since it is intended to create or expand a permanent interest in a business, direct investment is usually made in accordance with programs that cannot readily be modified in the short run, although changes of interest rates in the capital market may influence the degree to which the investor invites the participation of local capital. Once direct investment flows have taken place, they are not likely to be reversed, except through depreciation of assets or the liquidation of the investment. Direct investment is therefore less likely to vary in the short run with interest and exchange rates than are most other types of capital movements, although surplus funds of direct investment companies may move in response to these factors. Moreover, short-term fluctuations in direct investment may arise from changes in inventories, from payments of taxes to the country in which the investment is made, or from the accumulation and distribution of profits.

“From the point of view of the country of location, resident direct investment enterprises may be defined to include the following categories:

- (a) Branches of foreign enterprises, incorporated or unincorporated, i.e., including branches of foreign sole proprietorships and partnerships.
- (b) Other unincorporated enterprises operating separately in the compiling country but owned by non-residents or in which non-residents are controlling partners.
- (c) Incorporated enterprises (such as subsidiaries) operating in the compiling country, in whose policies non-residents exercise an important voice. In the absence of other information, the representation of specific groups of non-residents on the board of directors, or the ownership of 25% of the voting stock by a closely organized group of non-residents may be taken as evidence of direct control. When there is no evidence of direct control in local hands, ownership of 50% of the voting stock by residents of one foreign country or of 75% by all non-residents may be taken as evidence of direct foreign control. . . .

¹ IMF *Balance of Payments Manual*, Third Edition (1961) paragraphs 367 - 374.

(d) Commercial real estate owned by non-residents, if this category of direct investment enterprise does not take any of the forms mentioned above.

"The foreign investment in resident direct investment enterprises consists of two types of capital, direct investment capital and other capital. Direct investment capital is the (net) amount invested by the foreigners that have a material influence on the policies of the enterprise; it includes all investment in resident branches. "Other capital" in resident direct investment enterprises is the amount of capital invested in these enterprises by other foreigners."

Although the statistical results do not differ greatly, many countries in practice apply slightly different criteria to measures of direct investment. In Canada these are derived from the basic organization of the statistical records of international investment, extending back to the early work in the field. These records cover each company in which any foreign capital is invested directly or indirectly.

Each enterprise² and in turn each company is classified primarily according to country or area of control. The concept of control needs to be carefully examined before conclusions are drawn from the data. In general an enterprise is considered to be foreign controlled if 50% or more of its voting stock is known to be held in one country outside Canada. The group is modified by the addition or deletion, as appropriate, of concerns where it is believed that because of the distribution of the stock effective control is held with less than 50% of the voting stock. (Since complete knowledge of the share owners may not be available, the classification of borderline cases involves a measure of judgement based upon all the known factors which could be relevant.) The enterprise includes all the corporations over which the group itself is in a position to exercise control. The concept which has been adopted is, therefore, one of potential control through stock ownership, and the degree, if any, of local autonomy permitted in practice by the owners is not relevant.

There are a few significant cases where direct investment flows are with an intermediate operating enterprise in a country other than the country of control, i.e., in such case the direct investment is recorded as being from a country other than the country of control.

In order to maintain the integrity of this system which is based on corporate entities, commercial real estate as specified in the IMF category (d) above has, in the Canadian estimates, been reflected in series D50,

² Enterprises are defined broadly as firms or aggregations of firms under common control or management. See p. 8 *Standard Industrial Classification Manual, Revised 1970* (Catalogue 12-501).

Other long-term capital transactions, rather than as direct investment.

A further exception to the strict application of the IMF definition is made in respect of companies established for the purpose of making portfolio investments in Canada. These have not been treated as foreign controlled regardless of their ownership, since they do not in fact give rise to any measure of "management" or "control" over Canadian industry. Thus mutual or closed end investment funds established in Canada by United States interests have been classified as portfolio rather than direct, despite the fact that the management and practically all the capital involved were of United States origin, because the funds' investments were widely diversified and had no entrepreneurial association.

There are, of course, concerns wholly or substantially owned beneficially by Canadians, whose operations may in fact be controlled by foreigners through processes other than investment, e.g., licensing, franchises, exclusive supply contracts, captive markets, etc., but these are not included in statistics of foreign direct investment.

Foreign direct investment enterprises range from unincorporated branches of foreign corporations operating in Canada, through wholly or partially-owned Canadian subsidiaries of foreign corporations, to Canadian private or public companies which have no parent concern but whose stock ownership is held substantially in a country outside Canada. (To achieve various statistical advantages, including co-ordination with other inputs employed in the construction of balance of payments series, more weight is placed on the institutional structure than legal jurisdiction. Accordingly, Canadian data treat as Canadian subsidiaries some companies incorporated outside Canada substantially for the purpose of engaging in business in Canada; figures for foreign investment in Canadian subsidiaries are consequently higher, and figures for foreign investment in branches lower, than would be the case if the basis of country of incorporation were followed strictly.)

Because direct investment flows are defined to be those to or from the principal owners, they normally are to or from the country of control. There are, however, a few significant cases when they are to or from an intermediate operating subsidiary in a country other than that of ultimate control. In such cases the direct investment is recorded as being from the intermediate country.

The distinction between long- and short-term capital in Canadian balance of payments and investment position data covering this field is based on probable behaviour rather than on strict form. Respondents are asked to classify as long term those claims which are intended or likely to remain outstanding for more than one year from the date incurred. This concept has proved more meaningful than adherence to the strict

*What is difference between branch plant
subsidiary*

term of claims because demand obligations or open account claims are frequently applied in parent company-subsidary accounting to capital having an essentially long-term function. In general, therefore, the definitions adopted approximate the "normal" capital employed. Short-term claims and changes in them which are excluded from direct investment under these definitions are included in other categories of capital movements.

While the series for direct investment flows do not cover the accrual to foreign owners of undistributed earnings - for which estimates are not available on a current basis - they do include stock dividends paid to parent companies by wholly-owned subsidiaries as described under series A15 and B15.

It will be noted that series covering the book value of direct investment in Canada used in the year-end estimates of Canada's international investment position differ in concept from the series for direct investment flows used in the capital account of the balance of payments. As described in Part IV, the former cover the total book value of long-term investments, including undistributed earnings in Canada by all residents of the country to which the direct investment is assigned. On the other hand direct investment series in the balance of payments cover flows of a long-term nature with principal owners only, and do not reflect the accretion to them of undistributed earnings. Some of the links between the movements of capital which appear as net direct investment flows from the United States and the changes in the recorded book value of United States direct investments in Canada are included in the supplementary material published annually.

Capital movements for direct investment include a great variety of transactions, large and small, inwards and outwards, recurring and non-recurring. They include funds to finance capital formation involving the use of host country labour, machinery and equipment. They include the financing of machinery and equipment which may need to be imported, ranging from small components to massive installations of custom built equipment. They include the acquisition or disposition of existing assets, such as land, or buildings, or going concerns. They include the provision of basic working capital necessary to finance normal inventory investment, receivables from customers, etc. While some direct investors are supplying additional capital to finance expansion, others find that the funds generated from earnings, depreciation, etc., are greater than their foreseeable needs in the host country leading to significant returns of capital. The supplementary material published annually with respect to the United States shows the gross flows of direct investment capital to and from United States direct investments in Canada.

It is never possible to measure precisely the part of direct investment flows devoted to new capital formation or investment in a physical sense. While some transfers

occur specifically for the purpose of acquiring existing concerns, property, etc., others represent only an additional source of financing for active companies which are constantly shifting the nature of their financial liabilities from one form or source to another, in accordance with changing circumstances. A further comment on the relationship of capital flows to new investment may be found in Part VII.

Sources and Methods

The basic data input to the annual series for D21 Foreign direct investment in Canada, is the schedule BP-21, Report of transactions between Canada and other countries,³ specifically lines I (a) and (d). This is supplemented by data covering foreign branches in Canada from lines I (a), (c), (e) and (g) of schedule BP-22, Report on investment in Canada of non-Canadian corporations.

The estimates are, however, by no means a direct product of these surveys, and many *pro forma* schedules are generated to reflect direct investment flows which would not otherwise be covered. These include, for example, capital flows associated with the establishment of new Canadian companies which are not immediately embraced within the full reporting system, or the reverse process of repatriation of proceeds of liquidations where the enterprise has gone out of existence before the completion of the survey. Particularly important, too, are cases where direct investment flows take place but the subject enterprise is not a party to them - takeovers of existing enterprises. The subject enterprise may indeed not be aware of the terms underlying a shift in its ownership.

This process involves careful scrutiny of individual schedules, not only those already cited but also schedules BP-23, Payment of dividends, for stock dividends, BP-51 and BP-52, Geographical distribution of ownership of capital of Canadian companies, and BP-57 and BP-58, Investment in Canada by non-Canadian firms, for evidence or confirmation of flows not covered on the BP-21 or BP-22.

Finally, a small amount is taken into the annual estimates to allow for direct investment flows which remain unidentified at the time of the estimate. In 1974 this amounted to \$26 million in the total estimate of \$725 million for net inflows for direct investment in Canada.

Some special interest may attach to the construction of quarterly estimates. Those companies which typically exhibit significant direct investment flows report them on schedules BP-21A and BP-22A, on a basis consistent with the correspondingly numbered

³ All the schedules referred to in this section are reproduced in Part V.

annual schedules. These data inputs are supplemented by estimates in respect of specific projects, takeovers, etc., triggered by reports in press, financial and similar services. The amounts of the flows may be estimated from these sources and reference to the bureau's data files, or on occasion by direct enquiry to the parties to the transactions. The aggregates represent all the information available in respect of the quarterly pattern of flows. Since the quarterly coverage is partial, an estimate is then made on the basis of past experience (excluding extraordinary transactions) of the likely net under-coverage by quarterly sources, and it is added into the totals. Thus, for example, in 1974, the quarterly data covered \$412 million to which there was added \$313 million for which no accurate quarterly distribution was available to arrive at the currently published total of \$725 million. In the construction of the estimates no seasonality is normally imputed to the data available on an annual basis, and the estimate is simply divided by four. (An exception has been made rather arbitrarily in periods of intensive exchange speculation on the assumption that there is some acceleration or lag, as appropriate, in the "normal" flow of direct investment capital.) This practice while rather unsophisticated probably causes little serious difficulty for users as the dividing line between flows in long- and in short-term forms is necessarily imprecise, and any irregularity which is excluded from the long-term flows appears as short-term through the quarterly balancing item. But it may be noted that the estimates remain subject to the criticism that they may reflect undue irregularity between the fourth and first quarters.

Although the quarterly estimates as originally produced reflect press reports and other unconfirmed data sources, tempered by the experience of the statisticians responsible for the area, within final annual estimates these will have been confirmed or corrected by direct sources and the quarterly patterns correspondingly revised if necessary. The role of the secondary data is confined therefore to preliminary estimates and to the establishment of quarterly distributions.

Sources and methods applicable to series D25, Canadian direct investment abroad, closely parallel those for series D21 above, and are not repeated in full detail.

The basic data inputs come again from the schedule BP-21, but in this case the relevant entries appear as item II(a). As in the case of series D21 a number of other sources are exploited, and schedules BP-59, Capital invested abroad by Canadian enterprises and BP-60, Canadian investment in non-Canadian corporations are examined. The net outflow of \$775 million published for 1974 includes an allowance of \$6 million made for flows which remain unidentified.

Quarterly estimates are based in the first instance on Part II of BP-21A, Report of transactions between Canada and other countries, supplemented by press and

other intelligence. As in the case of foreign direct investment in Canada, quarterly coverage is partial and a projection of undercoverage is made on the basis of past experience. In 1974 the identified quarterly data covered \$590 million, to this was added \$185 million for which no accurate quarterly distribution was available, to yield the published total of \$775 million.

Evaluation

It is difficult to evaluate the accuracy of the direct investment flow series. While surveys of the book values of foreign investment are made independently, they are derived from substantially the same survey universes. The interrelationship of the surveys, however, provides some safeguard against reporting errors. Two further elements of information are available.

In the examination of counterpart United States and Canadian balance of payments measures described in Part VI, it was discovered that the Canadian data for United States direct investment in Canada for the eight years 1965 through 1972, with one exception, showed net receipts not identified anywhere in United States data. Over the period, unexplained differences averaged about \$80 million per annum. A special United States study for 1966 suggested, however, an understatement in their regular estimate for that year of the order of \$190 million. The year 1966 had shown the widest unexplained balance between the two countries, amounting to more than \$250 million, and the shortfall in the original United States measure may accordingly have been atypical, but the basis of a satisfying evaluation is lacking. A more recent internal study comparing the United States and Canadian series for net direct investment flows into Canada for 1974 showed an unexplained difference of only \$13 million. This was equal to about 2% of each country's estimate. The close similarity of the series totals was a matter of coincidence, given the conceptual differences between them, and the small unexplained difference may be similarly fortuitous.

In the case of Canadian direct investment in the United States, Canadian data show inexplicably larger capital outflows from Canada in all but one of the eight years 1965 through 1972, averaging about \$45 million. The result of the 1974 study on Foreign Direct Investment in the United States undertaken by the United States Department of Commerce also shows less direct investment from Canada than that recorded by Canadian sources.

Some comforting evidence is available in respect of the allowance made in the estimates for foreign direct investment in Canada for flows not identified. This allowance is required because, although enterprises covered in the surveys are identified from a variety of sources, there is inevitably some lag in the process and some possibility of omissions. Following the introduction of the Corporations and Labour Unions Returns Act in 1962, a special analysis was made of the returns

received under it with the basic investment position records. As a result some 400 additional companies involving foreign investment of about \$170 million were incorporated in these records. It was judged that the accumulated allowances for which provision had been made in the flow estimates were adequate to finance these holdings.

As this volume was being completed, however, problems were encountered in the figures produced by the methodology which had, in general, served reasonably well over several decades. The annual estimate for the net flow of foreign direct investment into Canada in 1974, placed originally at \$435 million, had been raised by two-thirds at the time of writing to \$725 million.

Publication	Flows identified		Additional allowance	Published total
	Quarterly	Annually only		
millions of dollars				
IV Q 1974	238	-	197	435
II Q 1975	276	294	15	585
II Q 1976	412	287	26	725

The projected flow for 1975 was raised from \$425 million to \$630 million.

Early estimates are based largely on quarterly source data with allowance determined by past experience for flows not so measured. Quarterly coverage has been under continuous review to capture all large respondents as well as large erratic flows arising from such causes as takeovers. Yet recent estimates have called for disturbingly large revisions.

At this stage it is possible only to speculate on causes of the difficulty. Although it is not consistent with the particularly rapid emergence of the problem, one hypothesis that may offer a partial explanation is that structural change and maturation have altered the balance between the surveyed component and the allowance incorporated in the early estimate. The larger enterprises covered quarterly have shown rising outflow/inflow ratios for some years and are currently responsible for a significantly reduced proportion of the final net estimate of foreign direct investment in Canada. Their outward flows include, but are not wholly explained by, recent repatriations of foreign direct investment. In the wider perspective it may be noted that a greater part of the growth of foreign-controlled enterprises in Canada than formerly now appears to originate in existing enterprises. These may have available internally generated sources of financing and perhaps, too, greater access to financing in Canadian and international capital markets than do new entrants. Analysis of available data relating to direct investment and corporate financing suggests there has been a reduction in the contribution of direct investment flows as a proportion of corporate financial requirements. The total of foreign direct investment in Canada attributable to smaller enterprises has increased as, on average, more of these enterprises have brought in small amounts of direct investment. There is no evidence, however, of a cyclical or secular trend to a reduced rate

of capital formation in Canada by foreign-controlled enterprises, although the composition of such investment appears to have altered. It is conceivable that administrative influences such as tax reform, foreign investment review, energy policy, and the prices and incomes program may also have influenced the size and the timing of recent flows.

In view of the changing environment, it is not surprising that early estimation of net flows of foreign direct investment capital into Canada should have become more difficult compared with the situation when changes in direct investment inflows were more directly associated with expenditures on specific major new projects. The data are still under examination, and it may be that the results, for recent years, will prove to have been a temporary phenomenon. While more complete quarterly survey coverage would appear to be one possible remedy, this would add to costs and would not be consistent with the objective of reducing and simplifying respondent burdens.

Linkages and Relationships

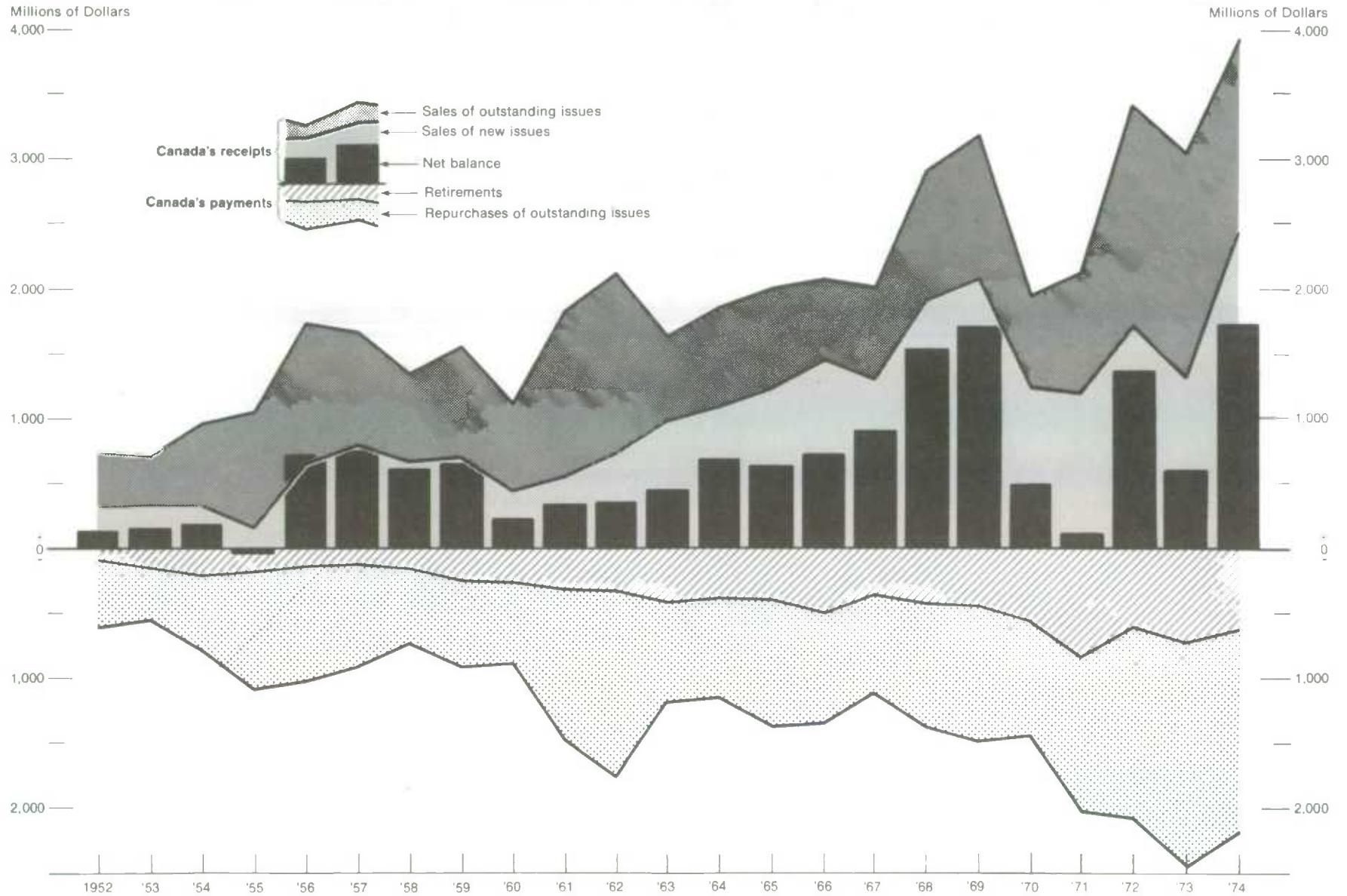
CANSIM Databank Series - These are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) - Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 2 (Movements of Capital and Monetary Gold), Item 11.1 Direct investment (liabilities) for D21 and Direct investment (assets) for D25.

IMF/OECD Common Reporting System (Appendix 6) - Global Balance of Payments Summary and Regional Balance of Payments Summary, Item C (Capital and monetary gold), 11.1 Direct investment (liabilities) for D21, Direct investment (assets) for D25.

Chart III.1

Gross Transactions between Canada and Other Countries in Portfolio Holdings of Canadian Securities



Special Report for United Nations on international flow of long-term capital and central government transfer payments, Part 2 (Changes in foreign liabilities and transfer payments received) Item A1 Private non-monetary sector's liabilities: Direct investment for D21 and Part 1 (Changes in foreign assets and transfer payments made) Item A1 Private non-monetary sector's assets: Direct investment for D25.

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) – Not relevant.

Financial Flow Accounts (Catalogue 13-002) – Components in Rest of World (sector XIII) of Claims on associated enterprises – corporate (assets category 2512 for D21 and liability category 3512 with sign reversed for D25).

Portfolio Transactions in Canadian Securities

- Codes – D30 Outstanding bonds
- D31 Outstanding stocks
- D32 New issues
- D33 Retirements

Concept

These series cover international movements of capital relating to trading, new issues, and retirements of portfolio holdings of long-term Canadian securities.

Description

The object of these series is to cover international transactions in portfolio holdings of long-term Canadian securities. The principle which guides their construction is the recording of transactions effecting changes in ownership of securities between residents of one country and another. They are accordingly designed, insofar as is possible, to capture transactions which may be carried out by resident investors whether with or without the intermediation of Canadian security houses.

International security transactions frequently involve foreign exchange transactions or other movements of funds from one country to another, but also include purchases and sales whose settlement may be netted out through trading accounts and direct exchanges of securities between residents and non-residents under special offers.

Neither the physical location of the security, the currency in which the transaction may be consummated, nor the currency in which the security may be denominated is of prime relevance for the series.

Series Availability

Annually 1927 through 1939 and from 1946, and quarterly from 1950.

Supplementary Data

Gross inflows and outflows for United States direct investment in Canada (series D21), and other capital movements affecting the total value of investment in Canada by United States residents in United States-controlled enterprises, annually with some industry detail:

Catalogue		
67-505	1946 - 57	Table 6.1
67-201	1958	(1965 - 70) Table 18
“	1959 - 68	(1971) Table 17
“	1964 - 70	(1972) Table 17.

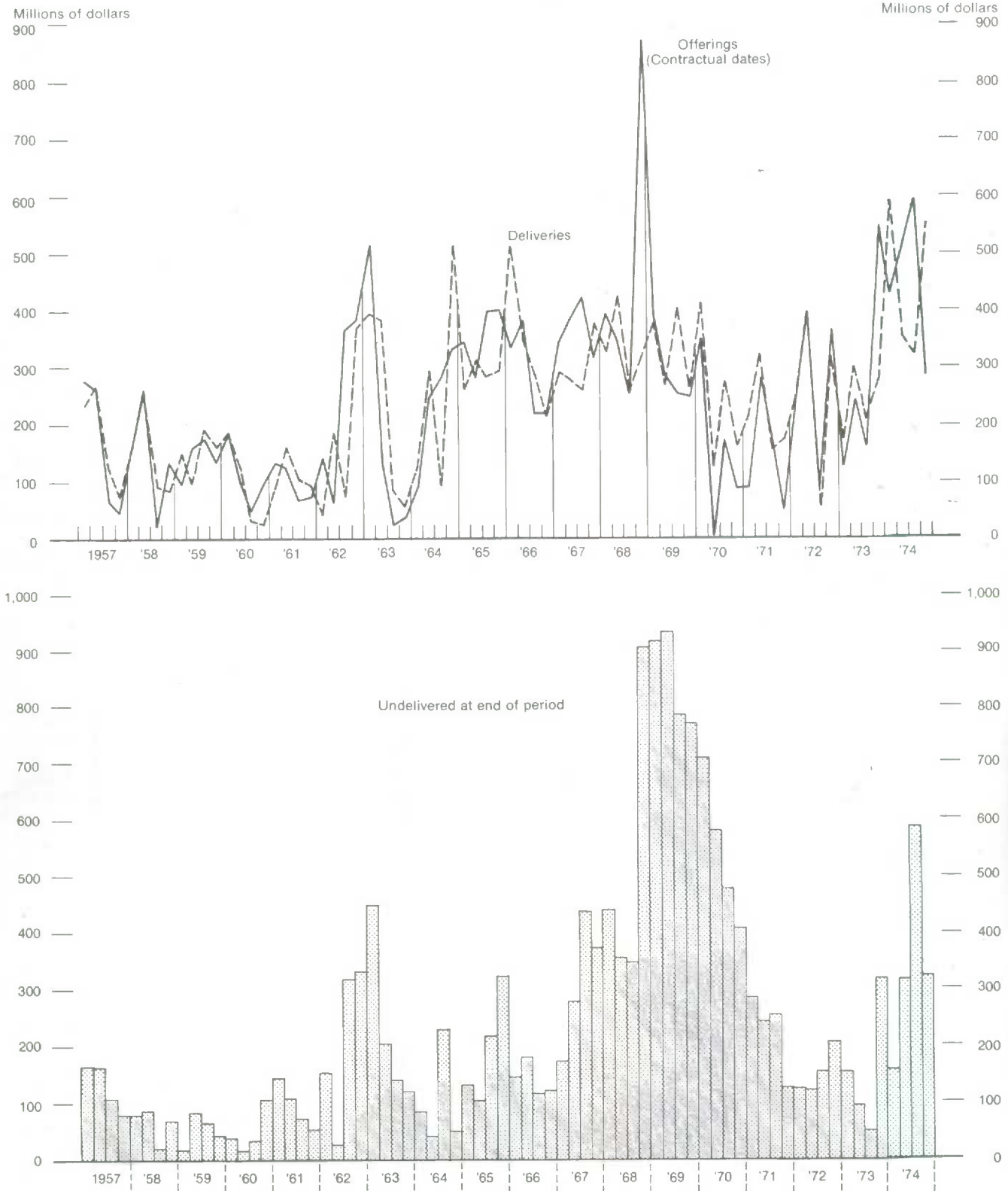
As with all the other series in the group from D21 through D52 the transactions are confined to those occurring in long-term forms. The definitions which are used therefore limit the series either to equities or to obligations having an original term of more than one year. It should be emphasized, however, that short-term capital movements may take place in long-term forms (and vice versa). This will more frequently be the case in respect of transactions in portfolio holdings of long-term securities than in respect of other types of flows. A long-term bond may be acquired and held for only a short time influenced either by a view originally held of future market trends or by a subsequent reaction to changing conditions.

An exception to the general rule that the series cover transactions in long-term securities was applied to “buy-back” transactions under sale and repurchase agreements. From 1963, any such transactions which were based upon Government of Canada direct issues with an original term over one year were excluded from the series and treated as short-term money market transactions. In recent years few such transactions were reported, and their separate identification was abandoned in 1974, although the general treatment remains the same.

Other transactions which are excluded are those related to non-resident participation in Canadian short-term money markets, transactions in mortgages or export finance paper, and types of security transactions which represent direct investment of capital by the principal owners of an enterprise, e.g., subscriptions by parent companies for new stock offered to shareholders by companies with some public ownership or the acquisition by a non-resident of a major block of outstanding equity of a Canadian enterprise. These latter transactions are more appropriately recorded as direct investment.

Chart III.2

Sales of New Issues of Canadian Bonds and Debentures to Residents of the United States



Although not reflected in the summary series used in balance of payments statements, additional detail by type of issuer is available in subsidiary statements or publications:

Government of Canada	direct issues guaranteed issues
Provincial governments	direct issues guaranteed issues
Municipal governments and institutions	
Corporations	bonds and debentures common and preference stocks

(Corporate issues guaranteed by a government are classified as government guaranteed issues.)

In the case of new issues and of retirements separate series are available for issues denominated in Canadian and in other currencies.

Transactions in the securities of Canadian companies which are treated for statistical purposes as non-residents of Canada, as described in the note in Part VI, are treated as transactions in foreign securities.

Values used in the construction of the series are net amounts received by, or paid on account of, residents of Canada. Thus for transactions executed in Canada, sales are recorded on the basis of amounts debited to non-resident purchasers - the cost of the securities plus commissions and taxes, if any, in Canada; purchases are recorded at the amounts credited to non-resident sellers - the proceeds of the sales less commissions and taxes, if any, in Canada. For transactions executed outside Canada the amounts recorded in respect of sales are the proceeds less commissions and any taxes paid outside Canada; purchases include commissions and taxes, if any, paid outside Canada. It will be noted from the foregoing that the series are distorted by reason of commissions, taxes and issue expenses which might, if available separately, more appropriately appear as current account transactions.

The series may differ widely, of course, from the changes to which they give rise in the geographical ownership of the par or nominal values of obligations or of the underlying book values of equities traded. In addition to the factors already cited and to variations in exchange rates, the existence of premiums and discounts on new issues and retirements, and of variations of prices for all securities in secondary market trading, come into play. The values used in the series tend, however, to correspond to the carrying values generally reflected in the accounts of investors.

It has been found convenient to divide the series into three main components: trade in outstanding issues, new issues, and retirements. While trade in

outstanding securities may lead to net capital movements and to changes in Canada's international investment position, it does not ordinarily affect the resources at the disposition of the issuer. New issues, on the other hand, add to the resources of the issuer and retirements reduce them. There is, however, a link between trading in outstanding issues and the two "terminal" series, new issues and retirements. An issue originally marketed abroad and shown as a new issue sold to non-residents may, through subsequent trading in secondary markets, be repatriated, and its ultimate retirement would then be a domestic rather than an international transaction. The distinction between the three broad series, trade in outstanding issues, new issues, and retirements, is not easily drawn at the margin when an international border is involved.

Outstanding securities include issues that have already been distributed at wholesale to a selling group as well as after-trading in rights and warrants, and all transactions in mutual fund shares.

New issues are securities that have not yet been distributed wholesale by the underwriting group or purchasing syndicate, i.e., securities which are in a state of primary distribution. They include new refunding and conversion issues as well as sales of issues not previously available to the public, where proceeds from these sales represent an additional source of funds to the issuing enterprise. (As already indicated, however, rights, warrants and all mutual fund shares are treated as outstanding securities.) The series represents the proceeds of all new issues sold to non-residents and is not confined to issues underwritten abroad. Like other series it is, of course, expressed in terms of Canadian currency. But it is not necessary for the proceeds to be converted into Canadian dollars. The transaction is measured when title to the securities is beneficially acquired by a non-resident against payment of a consideration to a resident.

Retirements of securities occur variously at maturity, through the exercise of call provisions in advance of maturity, or through repurchase by the debtor for sinking fund or other purposes.

Although full detail of the difference between the proceeds of new issues of Canadian securities sold to non-residents and the accompanying growth in Canada's external liabilities is not available, an occasional general analysis has been made. For example, in 1974 the total proceeds of new issues of Canadian securities sold to residents of the United States was \$1,816 million. This included \$10 million from the sale of Canadian stocks, \$102 million from the sale of Canadian bonds and debentures payable in Canadian funds, and \$1,704 million from the sale of Canadian bonds and debentures payable in United States funds only. The par value of the latter series was about U.S. \$1,765 million from which there was deducted identified discounts, underwriting commissions and other

expenses abroad of about \$23 million net, and \$38 million for the exchange difference between the United States and Canadian dollars.

Delivery or settlement dates for security transactions are normally a few days after the contract dates. In general, series are produced on a settlements basis which accords more appropriately in balance of payments estimates with corresponding financial settlements than does the contract basis.

A greater lag will normally occur between the establishment of the terms of a new issue and the actual delivery and settlement of it. Typically the terms in these cases will be set by the underwriters before the selling group begins to enter into contracts.

The provision in respect of some large issues for deferred deliveries may be of considerable significance for analysis. Primary balance of payments series are constructed on a delivery basis, but since the terms may have been established many months or even years previously a supplementary series is provided in respect of new issues of Canadian bonds sold to United States residents on an offerings rather than a delivery basis. Over the 18-year period from 1957 through 1974 quarter-end undelivered balances on sales contracts ranged between \$14 million and \$933 million as shown in Chart III.2. It is not surprising therefore that capital flows, and contemporary security and exchange market conditions may be at variance with expectations.

United States "Income Accumulating Funds" — The organization in 1954 and the years following of a group of rather special Canadian diversified management investment companies introduced a new and important factor into trade in outstanding securities between Canada and the United States which persisted for a decade. The essential purpose of these funds was to provide a medium for portfolio investment in Canada which was attractive to United States investors by reason of important tax advantages they were able to offer. Although technically the funds took the form of Canadian corporations controlled by residents of the United States, they were treated in Canadian balance of payments statistics from 1954 through 1964 as non-resident, representing collectively United States portfolio investors. A description of their operations and an analysis of their transactions was published in *The Canadian Balance of International Payments, 1963, 1964 and 1965 and International Investment Position*, Catalogue 67-201, pp. 44-47. The foreign investment through them in Canadian bonds and stocks was segregated in the estimates of foreign long-term investment in Canada published in *Canada's International Investment Position, 1926-1967*, Catalogue 67-202, Table IV. (Since there were minor amounts of non-United States investment in the funds, the figures for United States investment in Canadian long-term securities through them which appear in the investment position are

slightly smaller than their total holdings of Canadian long-term securities.)

Sources and Methods

Trade in outstanding Canadian securities — The sources and methods used in the construction of estimates of trade in outstanding Canadian securities between Canada and other countries may be dealt with in four periods.

In the earliest years, until 1933, the estimates were very primitive. Indeed for the definitive estimates in the revision incorporated in *The Canadian Balance of International Payments, 1926 to 1948*, Catalogue 67-501, the estimate for trade in outstanding securities (both Canadian and foreign) was derived as the residual of direct estimates of the current account transactions and of capital transactions other than those in outstanding securities. The data incorporated in the historical tables published after 1971, which have attempted to match detail currently published, make use of more fragmentary data which were developed earlier for the period.

Commencing with 1933 a regular monthly survey of security dealers was introduced. No description of it is included at this point, as the basic principles and structure were similar to those of the survey used since 1952, which is described below (although the latter has been extended and refined considerably over the ensuing years).

With the introduction of exchange control following the outbreak of war in 1939, alternative measures became available from the records of the Foreign Exchange Control Board. This source provided the net amounts of foreign exchange received or paid out as well as transfers to or from Canadian residents of Canadian dollars under permitted security transactions. It also provided details of transactions which had been subject to special arrangements, such as the making of a direct investment abroad with the proceeds of the sale outside Canada of domestic securities having some years to maturity. The exchange control data established relatively good measures of the net transactions in outstanding Canadian and foreign securities but did not provide for switching between them, or yield distributions by type of issuer or geographic region. On the other hand coverage was more complete than in the case of the monthly survey. The two reporting systems developed a marked divergence from the middle 1940's a substantial part of which undoubtedly reflected the omission by respondents to the monthly survey of large sales of Canadian dollar issues of the Government of Canada. Accordingly, during the period of exchange control, figures derived from it were used as the control totals. From 1946 through 1951 results of the monthly surveys were used to provide control totals for trade in outstanding foreign securities and an adjustment for switching between Canadian and foreign securities was made to the exchange control derived total for trade in

outstanding Canadian securities on the assumption that this was where most of the discrepancy occurred. The monthly reports were also used as an indicator in making geographic allocations.

With the termination of exchange control near the end of 1951 the monthly survey process was re-examined in the light of the experience with the two sources. The respondent coverage and the definitions were extended and the survey, together with supplementary information from other surveys, became again the basic source for the series.

The basic schedule is BP-30, Security transactions with non-residents.⁴ It is obtained monthly from members of the Investment Dealers' Association of Canada, of the Canadian Bankers' Association, of the principal Canadian stock exchanges, other foreign investment houses operating in Canada, and a number of investors in Canada who regularly engage directly in transactions with dealers or brokers abroad, e.g., trust companies, investment funds, pension funds and some non-financial corporations.

The components of the return which are embraced within the series for trade in outstanding Canadian securities are as follows:

Bonds

Bonds, debentures, notes, etc., with an original term over one year:

- 01 Government of Canada direct
- 02 Government of Canada guaranteed
- 03 Provincial government direct
- 04 Provincial government guaranteed
- 05 Municipal
- 06 Railway, not guaranteed by government
- 07 Other (including corporate)

Stocks

- 16 Outstanding common and preference stocks (including rights).

Although information from the BP-30 provides the overwhelming part of the series for trade in outstanding Canadian securities it is supplemented from a number of other sources, mainly annual.

Some transactions in outstanding Canadian securities are recorded on the BP-21 and BP-21A reports on Transactions between Canada and other countries, which are the basic questionnaires sent to corporations having significant international transactions; relevant entries which may be reported in items I(b) or (e) of these questionnaires are taken into the series.

⁴ Unless otherwise indicated all the schedules referred to in this section are reproduced in Part V.

Some further Canadian security transactions are identified from schedule BP-28, Movements of funds between British and foreign insurance companies doing business in Canada and head or other offices or persons outside Canada; the use of this particular questionnaire is rather complex and is described in considerable detail in Part V.

Additional transactions are also covered from the BP-29, Report by trust and mortgage loan companies in Canada on transactions with non-residents, specifically items III(d), (e); IV(d) and (e); respondents to the schedule BP-29 who have a significant volume of international transactions in Canadian securities to report do so monthly on the schedule BP-30 and are relieved of reporting them on the BP-29.

The examination of changes in the ownership of the capital structure of Canadian companies recorded in schedules BP-51, 52 and 53 may also reveal transactions in outstanding securities which may not otherwise have been reported.

Finally, indications of major transactions in outstanding securities may become available from public sources. The reports of respondents are examined and where necessary further inquiries are made, leading in some cases to the inclusion in the series of additional transactions.

The statement below shows for the year 1974 the statistical sources of series D30 and D31 covering trade in outstanding Canadian securities. The sources quoted above which are not reflected in the table yielded no significant balances in the year chosen. The table demonstrates the overwhelming importance of the BP-30 as a statistical source of the series. At the same time it demonstrates the need to look beyond it. While the primary input of data on the BP-30 constituted 98.3% of the gross transactions, the other sources covering 1.7% more than doubled the net balance.

Statistical source	Sales	Purchases	Net sales
	millions of Cdn. dollars		
Monthly:			
BP-30	1,479.0	1,514.1	- 35.1
BP-30 revisions	2.8	33.7	- 30.9
Quarterly:			
BP-30 revisions	4.9	9.5	- 4.6
Annual:			
BP-29	0.5	1.1	- 0.6
Total	1,487.2	1,558.4	- 71.2

In 1974 virtually all of the balance of trade in outstanding issues was available on a quarterly basis because, as shown in the statement, the transactions derived from annual sources were small and largely in balance. It is the practice to distribute evenly over the four quarters transactions whose timing is not identifiable.

New issues — As in the case of trade in outstanding Canadian issues, the sources and methods used in the construction of estimates of sales to non-residents of new issues fall into several periods, in this case those with and those without exchange control.

During the period of exchange control, from late 1939 until late 1951, the administrative records of the Foreign Exchange Control Board covering international transactions yielded data on new issues placed abroad. These were the base of the statistical series. (Throughout this period acquisitions by non-residents of small portions of new issues offered in Canada as derived from the monthly reports now designated as BP-30 were included with trade in outstanding securities.)

For the years prior to 1940 and subsequent to 1951 the new issues series were painstakingly created by meshing together information from many sources. The principal issues placed abroad are widely known through prospectuses, "tombstone" announcements,⁵ company reports, summaries prepared by dealers and institutions, the press and other commercially available financial information services. A component representing the acquisition in the Canadian market by non-residents of portions of Canadian new issues offered in Canada is available from the BP-30 (lines 28 through 32). Acquisitions by foreign insurance companies of new Canadian issues are reported on the BP-28 (line C1). The BP-55 obtains from Canadian provinces and many Canadian municipalities new issues sold by them to non-residents. Other survey questionnaires which yield some data on new issues include the BP-21, BP-21C, BP-51 and BP-52. Another source is the publicly available listings of holdings of securities by major foreign insurance companies which are not covered on the BP-28 and by some other major foreign financial institutions, mainly investment funds. The appearance in these lists of new issues leads to an examination of the records, and if necessary to enquiries to determine whether they should be taken into the series.

A new issue offered in foreign markets is normally assumed to have been placed with non-residents unless there is evidence on a BP-30 or from some other source that the purchaser was a resident. A special problem is believed to exist with respect to the transactions of Canadian chartered banks. These institutions have on occasion held not insignificant amounts of Canadian

⁵ Formal announcements, normally found in the financial press, of sales of new issues, which specify their terms, the members of the underwriting syndicate, etc.

securities denominated in currencies other than Canadian. In an effort to ensure that acquisitions by Canadian chartered banks had not been included with sales to non-residents of new issues a special supplement C to the schedule BP-30 was developed.⁶ It sought to obtain information on purchases from or sales to residents of Canada for head office or Canadian branch account (not for account of customers) of securities payable optionally or solely in currencies other than Canadian. The response was not wholly satisfactory for the purpose.

A special type of new issue is the participation by non-residents in offerings to existing shareholders of Canadian corporations. Where such offerings are announced the first step is to determine from what countries subscriptions by shareholders will be accepted. The investment position records described in Part IV are then examined to ascertain the latest known geographical distribution of present shareholders. To the extent that these shareholders are eligible to subscribe to the new issue, it is generally assumed that they exercise their rights to do so. In a few major cases a special analysis of subscriptions has been requested from the issuer.

The final series for the proceeds of sale to non-residents of new issues of Canadian securities accordingly emerges from the collation of material from many sources. These overlap in varying degree. Tabulation has not been generally carried out in such a manner as to facilitate the assignment of quantitative weights to the respective sources. It has, however, been possible to produce some detail which is shown below for 1974.

⁶ This schedule is not reproduced in Part V.

Statistical source	Millions of Cdn. dollars
BP-30	120.8
BP-28	40.2
BP-55	1,676.8
Bank of Canada series for gross new issues in currencies other than Canadian	2,298.0 ¹
Other schedules . . . . .	. . .
Other public sources . . . . .	. . .
Less:	
Duplication . . . . .	. . .
Unduplicated total	2,437
Represented by issues denominated in:	
Canadian currency	546
Other currencies	1,891

¹ This series is not used directly but is shown here as an approximation of issues known in the market.

The timing of deliveries on most new issues is available because of the sources employed. In 1974 of total new issues aggregating \$2,437 million, it was possible to assign to an appropriate quarter all of this amount.

Retirements – During the period of exchange control the administrative records of the Foreign Exchange Control Board covering international transactions yielded data on the retirement of foreign held Canadian securities.

For the years prior to 1940 and subsequent to 1951 the retirements series have had to be constructed. The basic source has been the investment position records described in Part IV. Basically these records reflect all the currently known information concerning the non-resident ownership of individual Canadian issues, and in addition, for each category, an estimate of the net effect of trading in outstanding issues which has not been reflected in the individual issue data.

At the beginning of each year a tabulation is made from these records showing for each quarter of the year the estimated amounts of all maturities of non-resident-held issues. An arbitrary adjustment (which may be either positive or negative) is made in respect of the estimated balances of foreign-held securities not identified by issue. (Further detail of this adjustment will be found in Part IV under the description of estimates of Canada's liabilities – government bonds.) As the year progresses a careful watch is kept of publicly announced calls of securities for retirement in advance of maturity. Where the records indicate that part or all of the issue is owned by non-residents the amounts are taken into the series.

The repurchase by a debtor of its own securities is treated as a retirement.

A number of adjustments which call for the application of some judgement may then be required. Where there are indications of extensive international trading immediately prior to the redemption date, adjustment for it may be made to the figures derived from the basic investment position records. Where issues have a convertible feature which is attractive immediately prior to redemption, account is also taken of probable conversions.

Serial or other partial retirements are allocated proportionately on the basis of the total holdings of the issue.

Additional information on retirements will be revealed on the BP-21C quarterly or the BP-21 annually. Indications of other retirements, which may require investigation, may be revealed on schedules BP-51, BP-52 or BP-55.

Wherever possible the transactions are allocated to the proper quarter and if necessary special inquiries

are made to determine this when the amounts involved are large. Thus, for the year 1974 out of total retirements of foreign-held securities amounting to \$626 million it was possible to allocate to an appropriate quarter all but \$5.1 million. This figure was spread evenly over the year.

Evaluation

It is difficult to evaluate effectively the various series relating to portfolio holdings of Canadian securities. They will, of course, be deficient to the extent that there are respondent errors or that there are gaps in the reporting network. There are some broker dealers whose international transactions are not believed to be statistically significant and which are, therefore, not required to report on a regular basis. A considerable effort has been made to identify major financial institutions, mainly investment and pension funds, which carry out transactions directly with foreign security offices, and to embrace them within the reporting system, but it is clear that there must be some situations of importance involving private investors which are not covered.

Data may be affected by difficulties experienced by respondents in correctly classifying the securities involved or the parties to the transactions, e.g., some part of new Canadian issues offered abroad may be taken up by Canadian residents who are not identified as such. The BP-30 questionnaire provides some general guidance on these points, and special instructions regarding classification of selected securities and investors have been provided from time to time to respondents. The classification of such financial institutions as insurance companies, whose transactions may sometimes be related to resident and sometimes to non-resident activities, presents great difficulties for respondents. And it would be optimistic indeed to hope that nominees acting for non-resident investors are always so identified by respondents as to preserve the fundamental principle of changes in beneficial ownership.

Attempts have been made from time to time to relate the data covered by Canadian sources with corresponding data produced by statistical authorities in the United States. These studies are described in greater length in the note in Part VI. The results have not been encouraging, but there is no basis as yet for attributing weakness to the statistical series of one country or the other.

The description earlier in this section has noted that valuations employed in the series are conceptually unsatisfactory in their treatment of commissions and issue expenses.

Linkages and Relationships

CANSIM Databank Series – These are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) – Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 2 (Movements of Capital and Monetary Gold), as follows:

Item

- 11.3 Private long-term investment: Other common stocks, for D31 and common stock components of D32 and D33.
- 11.5 Private long-term investment: Other securities, for Government of Canada guaranteed, provincial government guaranteed and corporate bond and debenture components of D30, D32 and D33.
- 13.1 Local government: Issues abroad, for provincial government direct and municipal government components of D32.
- 13.2 Local government: Other securities, for provincial government direct and municipal government components of D30 and D33.
- 14.1 Central government: Long-term issues abroad, for Government of Canada direct component of D32.
- 14.2 Central government: Other long-term securities, for Government of Canada direct components of D30 and D33.

IMF/OECD Common Reporting System (Appendix 6) – Global Balance of Payments Summary and Regional Balance of Payments Summary, Item C (Capital and monetary gold), as follows:

Item

- 11.2 Private long-term: Other common stocks, for D31 and common stock components of D32 and D33.
- 11.3 Private long-term: Other securities, for Government of Canada guaranteed, provincial government guaranteed and corporate bond and debenture components of D30, D32 and D33.
- 13.1 Local government: Long-term liabilities, for provincial government direct and municipal government components of D30, D32 and D33.
- 14.1 Central government: Long-term issues abroad, for Government of Canada direct components of D32 and D33.
- 14.2 Central government: Other long-term securities, for Government of Canada direct component of D30.

Special Report for United Nations on international flow of long-term capital and central government transfer payments, Part 2 (Changes in foreign liabilities and transfer payments made) Item A2 for bonds, debentures and stocks issued by corporations, provincial and municipal governments, or guaranteed by governments, in D30 through D33, and component of Item C2 for Government of Canada direct issues in D30, D32 and D33.

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) – Not relevant.

Financial Flow Accounts (Catalogue 13-002) – Bonds (category 2420) and Stocks (category 2520) of Rest of World (sector XIII) as follows:

Category

- 2421 Government of Canada bonds, for Government of Canada direct and guaranteed components of D30, D32 and D33.
- 2422 Provincial government bonds, for provincial government direct and guaranteed components of D30, D32 and D33.
- 2423 Municipal government bonds, for municipal government components of D30, D32 and D33.
- 2424 Other Canadian bonds, for corporate bond components of D30, D32 and D33.
- 2520 Stocks, for D31 and corporate stock components of D32 and D33.

Series Availability

The sum of series D30 and D31 is available annually from 1927 and quarterly from 1950. Series D30 and D31 are available continuously on an annual and quarterly basis from 1952 and annually for the years 1937 through 1945 in Table 33 of *The Canadian Balance of International Payments, 1972*, Catalogue 67-201. Series D32 is available annually from 1927 and quarterly from 1948. Series D33 is available annually from 1927 and quarterly from 1949.

Supplementary Detail

Source:

Catalogue	Publication	Table
67-001	Quarterly Estimates of the Canadian Balance of International Payments	1, 4, 9 and statement
67-002	Security Transactions with Non-residents	1, 3-7
67-201	The Canadian Balance of International Payments	2-4, 18, 30 and Statement 9 (1971) 2-4, 18-20, 33 and Statement 11 (1972)
67-505	The Canadian Balance of International Payments: A Compendium of Statistics From 1946 to 1965.	4 and 7 (D3-D5)

Series	Source by Catalogue			
	67-001	67-002	67-201	67-505
Trade in outstanding issues:				
Gross transactions by:				
Area and class of security		M		Q
Net transactions by:				
Area and class of security		M	A, Q1	Q
Area	Q1		Q	
New issues by:				
Area, currency and class of security			A, Q1	
Currency and class of security	Q1	Q	Q	Q
Area		Q1		
Class of security		Q		
Offerings and deliveries of bonds	Q1	Q1	A1	Q
Retirements by:				
Area and class of security			A	Q
Currency and class of security				Q
Area	Q1		Q	
Class of security		Q		

M - monthly.
 Q - quarterly.
 Q1 - quarterly, total and United States only.
 A - annual.
 A1 - annual, total and United States only.

Transactions between Canada and other countries in Canadian bonds and debentures, by type of issuer, for trade in outstanding, new issues, and retirements, annually from 1927 (with CANSIM matrix 01370 some gaps) quarterly from 1952 CANSIM matrix 01364

Related Data

The *Bank of Canada Review* contains monthly data for gross new issues delivered and for retirements of Government of Canada direct and guaranteed bonds, provincial direct and guaranteed bonds, municipal direct and guaranteed bonds (quarterly only) and issues of corporate bonds, which are subdivided in each case into issues payable in Canadian dollars and issues payable in other currencies (Tables 31-33). Series are also published quarterly for net new issues of common and preferred stocks "payable in Canadian dollars" and "payable in other currencies" (Table 34). The latter distributions reflect Canadian "stocks issued in (more properly for) foreign currencies or with dividends payable in foreign currencies".

Since the currency criterion applied in these series will not coincide with the ownership criterion applied

in series D32 and D33 covering new issues and retirements on a balance of payments basis, the two sets of series cannot be directly related. The Bank of Canada foreign currency series will, however, frequently provide a good indication of the trends of series D32 and D33. Arising from the differences in the criteria employed, foreign participation in new Canadian dollar issues of Canadian debtors and their retirement is included in series D32 and D33, while Canadian participation in new foreign currency issues of Canadian debtors and their retirement is excluded. Other factors which will cause the foreign currency denominated components of series D32 and D33 to differ from the corresponding Bank of Canada series include the treatment of sinking fund and other repurchases by a debtor (including repurchases of their own stock by life insurance companies) as retirements in series D33 but not in the Bank of Canada series. On occasion this has led to substantial timing differences in respect of Government of Canada issues. Different conventions with respect to exchange rates are also applied in the two series in respect of Government of Canada direct and guaranteed issues. There are also some differences occasioned by the availability to Statistics Canada of additional information on new issues.

Portfolio Transactions in Foreign Securities

Codes - D35 Outstanding issues

D37 New issues

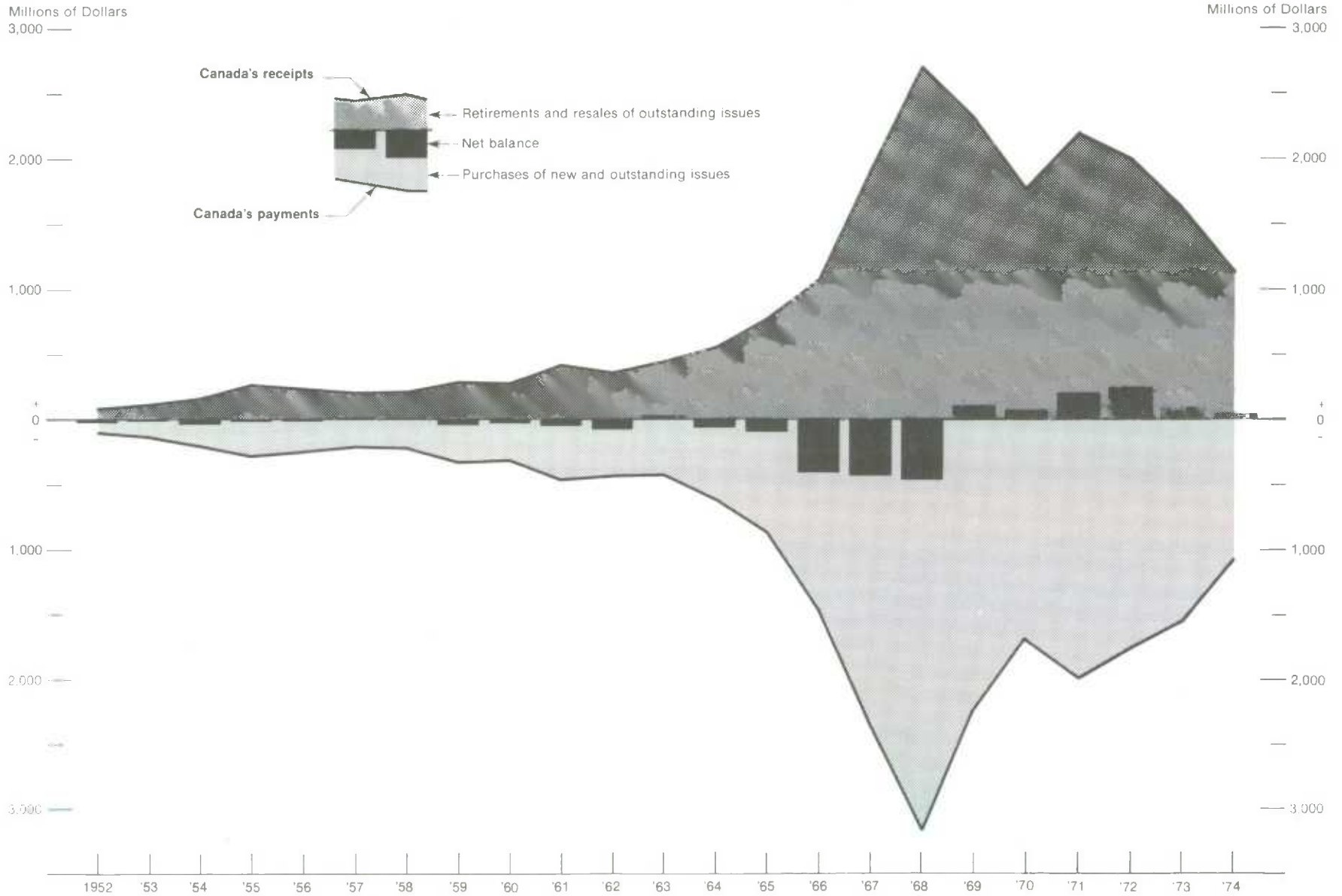
D38 Retirements

Concept

These series cover international movements of capital relating to trading, new issues, and retirements of portfolio holdings of long-term foreign securities.

Chart III.3

Gross Transactions between Canada and Other Countries in Portfolio Holdings of Foreign Securities



Description

The object of these series is to cover international transactions in portfolio holdings of long-term foreign securities. The principle which guides their construction is the recording of transactions effecting changes in ownership of securities between residents of one country and another. They are accordingly designed insofar as is possible to capture transactions which may be carried out by resident investors whether with or without the intermediation of Canadian security houses.

International security transactions frequently involve foreign exchange transactions or other movements of funds from one country to another, but also include purchases and sales whose settlement may be netted out through trading accounts and direct exchanges of securities between residents and non-residents under special offers.

Neither the physical location of the security, the currency in which the transaction may be consummated, nor the currency in which the security may be denominated is of prime relevance for the series.

As with all the other series in the group from D21 through D52 the transactions are confined to those occurring in long-term forms. The definitions which are used therefore limit the series either to equities or to obligations having an original term of more than one year. It should be emphasized, however, that short-term capital movements may take place in long-term forms (and vice versa). This will more frequently be the case in respect of transactions in portfolio holdings of long-term securities than in respect of other types of flows. A long-term bond may be acquired and held for only a short time influenced either by a view originally held of future market trends or by a subsequent reaction to changing conditions.

Excluded from the series are transactions in official holdings of medium-term non-marketable United States Government securities acquired under the Columbia River Treaty arrangements (see D48) or securities held as part of Canada's official holdings of foreign exchange (see K). Other transactions which are excluded are those related to Canadian participation in foreign short-term money markets, transactions in mortgages or export finance paper, and types of security transactions which represent direct investment of capital by the principal owners of an enterprise, e.g., the acquisition by a resident of a major block of outstanding equity of a foreign enterprise. These latter transactions are more appropriately recorded as direct investment.

Although not reflected in the summary series used in balance of payments statements, additional detail by type of issuer is available in subsidiary statements or publications:

United States issues	Government Eurobond Other bonds and debentures Common and preferred stocks
United Kingdom issues	Bonds and debentures Common and preferred stocks
Other foreign issues	Bonds and debentures Common and preferred stocks

Transactions in the securities of Canadian companies which are treated for statistical purposes as non-residents of Canada, as described in the note in Part VI, are treated as transactions in foreign securities.

Values used in the construction of the series are net amounts received by, or paid on account of, residents of Canada. Thus for transactions executed in Canada, sales are recorded on the basis of amounts debited to non-resident purchasers — the cost of the securities plus commissions and taxes, if any, in Canada; purchases are recorded at the amounts credited to non-resident sellers — the proceeds of the sales less commissions and taxes, if any, in Canada. For transactions executed outside Canada the amounts recorded in respect of sales are the proceeds less commissions and any taxes paid outside Canada; purchases include commissions and taxes, if any, paid outside Canada. It will be noted from the foregoing that the series are distorted by reason of commissions, taxes and issue expenses which might, if available separately, more appropriately appear as current account transactions.

The series may differ widely, of course, from the changes to which they give rise in the geographical ownership of the par or nominal values of obligations or of the underlying book values of equities traded. In addition to the factors already cited and to variations in exchange rates, the existence of premiums and discounts on new issues and retirements, and of variations of prices for all securities in secondary market trading, come into play. The values used in the series tend, however, to correspond to the carrying values generally reflected in the accounts of investors.

It has been found convenient to divide the series into three main components: trade in outstanding issues, new issues, and retirements. While trade in outstanding securities may lead to net capital movements and to changes in Canada's international investment position, it does not ordinarily affect the resources at the disposition of the issuer. New issues, on the other hand, add to the resources of the issuer and retirements reduce them. There is, however, a link between trading in outstanding issues and the two "terminal" series, new issues and retirements. A new issue originally purchased abroad may subsequently be traded to a non-resident in a secondary market, as an outstanding security, and its ultimate retirement would then be a domestic transaction

abroad. The distinction between the three broad series, trade in outstanding issues, new issues, and retirements, is not easily drawn at the border.

Outstanding securities include issues that have already been distributed at wholesale to a selling group as well as rights, warrants, and all mutual fund shares.

New issues are securities that have not yet been distributed wholesale by the underwriting group or purchasing syndicate. They include new, refunding and conversion issues. (As already indicated, however, rights, warrants and all mutual fund shares are treated as outstanding securities.) The series represents the cost of all new issues acquired by residents and would include issues underwritten either in Canada or abroad.

Retirements of securities occur variously at their maturity, through the exercise of call provisions in advance of maturity, or through repurchase by the debtor for sinking fund or other purposes.

Delivery or settlement dates for security transactions are normally a few days after the contract dates. In general, series are produced on a settlements basis which accords more appropriately in balance of payments estimates with corresponding financial settlements than does the contract basis.

Sources and Methods

Trade in outstanding foreign securities – The sources and methods used in the construction of estimates of trade in outstanding foreign securities between Canada and other countries may be dealt with in four periods. They closely parallel those employed in the construction of estimates of trade in outstanding Canadian securities (D30 and D31).

In the earliest years, until 1933, the estimates were very primitive. Indeed for the definitive estimates in the revision incorporated in *The Canadian Balance of International Payments, 1926 to 1948*, Catalogue 67-501, the estimate for trade in outstanding securities (both Canadian and foreign) was derived as the residual of direct estimates of the current account transactions and of other capital transactions. The data incorporated in the historical tables published after 1971, which have attempted to match detail currently published, make use of more fragmentary data which were developed earlier for the period.

Commencing with 1933 a regular monthly survey of security dealers was introduced. No description of it is included at this point as the basic principles and structure were similar to those of the survey since 1952, which is described below (although the latter has been extended and refined considerably over the years).

With the introduction of exchange control following the outbreak of war in 1939, alternative measures became available from the records of the Foreign Exchange Control Board. This source provided the net amounts of foreign exchange received or paid out as well

as transfers to or from Canadian residents of Canadian dollars under permitted security transactions. It also provided details of transactions which had been subject to special arrangements, such as the making of a direct investment abroad with the proceeds of the sale outside Canada of domestic securities having some years to maturity. The exchange control data established relatively good measures of the net transactions in outstanding Canadian and foreign securities but did not provide for switching between them, or yield distributions by type of issuer or geographic region. On the other hand coverage was more complete than in the case of the monthly survey. The two reporting systems developed a marked divergence from the middle 1940's, a substantial part of which undoubtedly reflected the omission by respondents to the monthly survey of large sales of Canadian dollar issues of the Government of Canada. Accordingly, during the period of exchange control, figures derived from it were used as the control totals. From 1946 through 1951 results of the monthly surveys were used to provide control totals for trade in outstanding foreign securities and an adjustment for switching between Canadian and foreign securities was made to the exchange control derived total for trade in outstanding Canadian securities on the assumption that this was where most of the discrepancy occurred. The monthly reports were also used as an indicator in making geographic allocations.

With the termination of exchange control near the end of 1951 the monthly survey process was re-examined in the light of the experience with the two sources. The respondent coverage and the definitions were extended and the survey, together with supplementary information from other surveys, became again the basic source for the series.

The basic schedule is BP-30, Security transactions with non-residents.⁷ It is obtained monthly from members of the Investment Dealers' Association of Canada, of the Canadian Bankers' Association, of the principal Canadian stock exchanges, other foreign investment houses operating in Canada, and a number of investors in Canada who regularly engage directly in transactions with dealers or brokers abroad, e.g., trust companies, investment funds, pension funds and some non-financial corporations. Most trading in outstanding foreign securities is concentrated in a relatively few of these respondents as shown in the special analysis below of trade in outstanding United States stocks with United States residents during the first half of 1974:

	Volume	Net sales
	millions of dollars	
Major respondents:		
13 brokers	424	15
8 mutual and pension funds	232	38
Other respondents	256	29
Total	912	82

⁷ Unless otherwise indicated all the schedules referred to in this section are reproduced in Part V.

The components of the return which are embraced within the series for trade in outstanding foreign securities are as follows:

Bonds

Bonds, debentures, notes, etc., with an original term over one year:

- 08 United States issues: Government
- 09 United States issues: Eurobond
- 10 United States issues: Other
- 11 United Kingdom issues: Government
- 12 United Kingdom issues: Other
- 13 Other foreign issues: Eurobond
- 14 Other foreign issues: European
- 15 Other foreign issues: Other

Stocks

Outstanding common and preference stocks, including rights:

- 17 United States
- 18 United Kingdom
- 19 Continental Europe
- 20 Japan
- 21 All other countries.

Although information from BP-30 provides the overwhelming part of the series for trade in outstanding foreign securities it is supplemented from a number of other sources, mainly annual.

Some transactions in outstanding foreign securities are recorded on the BP-21 and BP-21A reports on Transactions between Canada and other countries, which are the basic questionnaires sent to corporations having significant international transactions; relevant entries which may be reported in items II (b) or (c) of this questionnaire are taken into the series.

Additional transactions are also covered from the BP-29, Report by trust and mortgage loan companies in Canada on transactions with non-residents, specifically items III (e) and IV (e); respondents to the schedule BP-29 who have a significant volume of international transactions in foreign securities to report do so monthly on the schedule BP-30 and are relieved of reporting them on the BP-29.

Changes in the foreign asset holdings of Canadian companies disclosed on schedules BP-51 and BP-59, and in the Canadian ownership of some Canadian corporations which are treated for national accounting purposes as non-residents of Canada as revealed on schedules BP-51 filed by them, are also examined. Either may reveal transactions in outstanding securities which may not otherwise have been reported.

Finally, indications of major transactions in outstanding securities may become available from public

sources. The reports of respondents are examined and where necessary further inquiries are made, leading in some cases to the inclusion in the series of additional transactions.

The statement below shows for the year 1974 the statistical sources of series D35, Trade in outstanding foreign securities. The sources quoted above which are not reflected in the table yielded no significant balances in the year chosen. The table demonstrates the overwhelming importance of the BP-30 as a statistical source of the series. At the same time it demonstrates the need to look beyond it. The primary input of data on the BP-30 constituted 94.6% of the gross transactions; the other sources covering 5.4% shifted the net balance by 4.8%.

Statistical source	Sales	Purchases	Net sales
	millions of dollars		
Monthly:			
BP-30	1,051.2	981.2	+ 70.0
Quarterly:			
BP-21A	18.5	7.6	+ 10.9
BP-30	27.9	33.7	- 5.8
Annual:			
BP-21	12.7	13.0	- 0.3
BP-29	0.8	2.2	- 1.4
Total	1,111.1	1,037.7	+ 73.4

In 1974 monthly and quarterly data for trade in outstanding foreign issues produced a net balance of \$75.1 million, but this was reduced by \$1.7 million of transactions whose timing was not identifiable. It is the practice to distribute such amounts evenly over the four quarters.

New issues - The sources and methods of constructing the series covering purchases by Canadians of new issues of foreign securities may also be divided, for descriptive purposes, into two periods, those with and those without exchange control.

During the period of exchange control, from late 1939 until late 1951, the acquisition by residents of new issues of foreign securities was effectively precluded. Some acquisitions by residents of small portions of new issues offered abroad appeared on the monthly reports now designated as BP-30 and are reflected in the series. These presumably arose from switching of other securities or from transactions with funds exempted from exchange control.

For the years prior to 1940 and subsequent to 1951 the new issue series were created by meshing together information from a number of sources. To the extent that new issues were marketed in Canada, prospec-

tuses, "tombstone" announcements,⁸ summaries prepared by dealers and institutions, the press, and other commercially available financial information services were the principal sources. A component representing the acquisition in foreign markets by residents of Canada of portions of new foreign issues is available from sections 5 and 6 (lines 33 through 39) of the BP-30. Other survey questionnaires which yield some data on new issues include the BP-21 and BP-59. A special type of new issue is the participation of residents in offerings to existing shareholders of foreign corporations. When such offerings are announced the investment position records described in Part IV are examined to ascertain the latest known total of Canadian holdings. In the absence of any other information it is assumed that the Canadian shareholders exercise their rights to subscribe to new issues.

Retirements – The series for retirements of Canadian holdings of foreign securities was derived during the period of exchange control from the administrative records of the Foreign Exchange Control Board.

For the years prior to 1940 and subsequent to 1951 the series has been constructed largely on the basis of the investment position records described in Part IV. Where Canadian holdings are large, mainly those cases where an issue was originally placed in Canada, the actual retirements are recorded. When the full issue is not retired Canadian holdings are assumed to have been retired proportionately with non-Canadian holdings.

An arbitrary allowance is made for retirements of that part of the estimated holdings not identified by issue. Some additional information is reported from time to time on the schedule BP-21.

Evaluation

As in the case of transactions in portfolio holdings of Canadian securities, it is difficult to evaluate effectively the various series relating to foreign securities. They will, of course, be deficient to the extent that there are respondent errors or that there are gaps in the reporting network. A considerable effort has been made to identify major financial institutions, mainly investment and pension funds, which carry on transactions directly with foreign security offices, and to embrace them within the reporting system, but it is clear that there must be some situations of importance involving private investors which are not covered. The classification of customers, particularly financial institutions such as insurance companies, whose transactions may sometimes be related to resident and sometimes to non-resident activities, presents great difficulties for respondents. Finally, the possibility should be noted that from time to time transactions of Canadian-based non-resident owned mutual funds may have led to some distortions.

⁸ Formal announcements, normally found in the financial press, of sales of new issues, which specify their terms, the members of the underwriting syndicate, etc.

The periodic establishment of benchmarks for Canadian holdings of foreign stocks provides some opportunity for examining the reasonableness of the series, but the valuation adjustments which are necessary create considerable uncertainty. At best it may be said that this approach has not indicated statistical weaknesses of massive proportions.

Attempts have, of course, also been made from time to time to relate the transactions data covered by Canadian sources with corresponding data produced by statistical authorities in the United States. These studies are described in greater length in the note in Part VI. The results from 1965 through 1967 indicated relatively small discrepancies with somewhat larger apparent outflows from Canada than receipts in the United States. However, since that time the direction of the divergencies has shifted and they have also widened sharply to the point where Canadian receipts from the disposition of foreign securities greatly exceed reported United States reacquisitions. There is as yet no basis for attributing the weakness to the statistical series of one country or the other.

The description earlier in this section has noted that valuations employed in the series are conceptually unsatisfactory in their treatment of commissions.

Linkages and Relationships

CANSIM Databank Series – These are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) – Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 2 (Movements of Capital and Monetary Gold), as follows:

Item

- 11.3 Private long-term investment: Other common stocks, for common stock components of D35, D37 and D38.
- 11.4 Private long-term investment: Foreign central government securities, for foreign central government components of D35, D37 and D38.
- 11.5 Private long-term investment: Other securities, for other bond and debenture components of D35, D37 and D38.

IMF/OECD Common Reporting System (Appendix 6) – Global Balance of Payments Summary and Regional Balance of Payments Summary, Item C (Capital and monetary gold), as follows:

Item

- 11.2 Private long-term: Other common stocks, for common stock components of D35, D37 and D38.
- 11.3 Private long-term: Other securities, for bond and debenture components of D35, D37 and D38.

Special Report for the United Nations on international flow of long-term capital and central government transfer payments, Part 1 (Changes in foreign assets and transfer payments made) Item A2 (for sum of D35, D37 and D38).

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) – Not relevant.

Financial Flow Accounts (Catalogue 13-002) – Components (with sign reversed) of Foreign investments (category 3530) of Rest of World (sector XIII). The category also covers official holdings of United States government medium-term non-marketable securities acquired in connection with the Columbia River Treaty (component of D48) and private holdings of United States treasury bills (component of D65).

Series Availability

Series D35 is available annually for 1927 through 1932 and from 1937, and quarterly from 1950. Series D37 is available annually for 1927 through 1932 and

from 1937, and quarterly from 1946. Series D38 is available annually from 1940 and quarterly from 1950.

Supplementary Data

Source:		
Catalogue	Publication	Table
67-001	Quarterly Estimates of the Canadian Balance of Payments	1, 4
67-002	Security Transactions with Non-residents	2-4
67-201	The Canadian Balance of International Payments	2-4, 19, 20 (1971) 2-4, 21, 22 (1972)
67-505	The Canadian Balance of International Payments: A Compendium of Statistics from 1946 to 1965	4 and 8 (D6 - D8)

Series	Source by Catalogue			
	67-001	67-002	67-201	67-505
Trade in outstanding issues:				
Gross transactions by:				
Area and class of security		M		Q
Area and class of security, partial				
Net transactions by:				
Area and class of security		M		Q
Area and class of security, partial			A, Q1	
Area	Q1		Q	
New issues by:				
Area and class of security, partial			A, Q1	Q
Area	Q1		Q	
Retirements by:				
Area and class of security, partial			A, Q1	Q
Area	Q1		Q	

M - monthly.
Q - quarterly.
Q1 - quarterly, total and United States only.
A - annual.

Loans, Advances and Subscriptions by the Government of Canada

Codes – D40 Total, loans, advances and subscriptions

D41 Loans and advances to national governments

D42 Subscriptions and advances to international financial agencies

Concept

This series covers extensions of credit to non-residents by the Government of Canada (except postwar credits directly related to the financing of specific exports) and the provision of capital by the Government of Canada to international financial agencies.

Description

The series for loans and advances (D41) includes the following:

1942 – Interest-free loan to the United Kingdom –

By early 1942 transactions between Canada and the United Kingdom had led to an accumulation by the Canadian authorities of sterling amounting to approximately \$1 billion. Under the War Appropriations (United Kingdom Financing) Act of 1942 arrangements were made to convert the sterling equivalent of \$700 million into an interest-free Canadian dollar loan notionally secured by privately-owned British holdings of Canadian securities. The arrangements relating to repayment are described under series D46. Subsequent war-time financing of the net Canadian dollar deficiency of the sterling area took the form of an initial gift of \$1 billion followed by larger amounts of funds provided as mutual aid. These are included under series B37 Official contributions.

1943-44 – War-time wheat loan to the Union of Soviet Socialist Republics

1945-46 – Interim credits – Following the termination of the programmes of war-time mutual aid and provision of relief immediately thereafter by the Canadian military authorities, interim credits were extended to a number of countries under War Appropriations Acts. Most of these credits were subsequently repaid from the programme of loans under Part II of the Export Credits Insurance Act. There were two exceptions. Interim credits to the U.S.S.R. were settled independently of the new loan. Interim credits to the United Kingdom were covered in the special settlement made in 1946, described later under series D47, Special settlements; the interim credit extended in 1945 is included in the D41 series, but further extensions in 1946 were offset against the special settlement in D47.

1945-48 – Loans under Part II of the Export Credits Insurance Act – These loans together with the loan to the United Kingdom described below were part of a large-scale programme of postwar credit extension to facilitate foreign purchases of goods and services and to assist in making it possible for overseas countries to meet transitional postwar deficits in their balance of payments, to maintain adequate reserves and to assume the obligations of multilateral trade. Of the original programme of \$2,000 million, \$1,740 million had been utilized by the end of 1950, and the balance either was never allocated or lapsed. Loans and advances outstanding from the Government of Canada to foreign governments, including pre-war and war-time loans as well as some miscellaneous credits, reached a peak of \$2,000 million in 1949. Eight countries received loans under Part II of the Export Credits Insurance Act. Their outstanding interim credits were repaid by drawings on the new loans, except in the case of the U.S.S.R. which

repaid them independently. Drawings were initially on an open account basis, but were funded at regular intervals through the issue of notes covering the amounts drawn and accrued interest to that date. In the statistical series, drawings to cover the settlement of interim credits have not been shown nor are repayments of the interim credits themselves; accordingly the series in respect of these transactions represents a consolidation. The funding of accrued interest at the time of the issuance of notes, aggregating in total \$19.5 million, was not included either as an interest receipt or a capital advance, although it does appear in the totals for loans outstanding.

1946-50 – Loan of 1946 to the United Kingdom – The United Kingdom Financing Agreement Act, 1946, authorized the Minister of Finance to lend to the United Kingdom \$1,250 million over a period of five years. The amount of credit drawn by the end of 1951 was to be repaid in 50 annual instalments with interest at 2% per annum subject to certain waiver provisions. The terms were similar in all respects to those applicable to a loan of \$3,750 million made by the United States to the United Kingdom at the same time. Very heavy drawings were made on the loan in 1946 and 1947. Thereafter by arrangement the drawings were restricted. The amount outstanding reached a total of \$1,185 million in 1950 and the balance lapsed.

1957 – Loan to the United Nations in connection with the clearance of the Suez Canal.

1958-59 – Loans to India and Ceylon for the purchase of wheat. These have been included in this series because they occurred before separate estimates of export credits were compiled.

1962 – Loan to the United Nations – Canada purchased bonds of the Organisation which was experiencing serious financial difficulties.

1963-64 – Loan to India for the purchase of aircraft – (This loan of \$12.5 million might more properly have been assigned to series D49, Export credits directly or indirectly at risk of the Government of Canada, which was introduced from 1962.)

1965 on – Development loans – The "soft" loans first introduced under the development programme in 1965 are administered by the Canadian International Development Agency (formerly the External Aid Office) as part of Canada's international development assistance programme. They can be for periods as long as 50 years. Normally there are some years of grace before the first repayment becomes due. Soft loans must be spent on Canadian goods and services and are designed to help finance projects for which commercial financing is unavailable.

The series for capital subscriptions to international financial agencies (D42) includes the funds made available by Canada to:

Asian Development Bank,
Caribbean Development Bank,
Inter-American Development Bank,
International Bank for Reconstruction and Development,
International Development Association, and
International Finance Corporation

but does not include amounts provided to the International Monetary Fund which form a part of Canada's international reserves (series K4). Some parts of these subscriptions have ordinarily taken the form of non-interest bearing demand notes which are recorded as a liability in series D72 (Non-resident holdings of Government of Canada demand liabilities).

Sources and Methods

The data are derived from the financial records of the Government of Canada.

Evaluation

This series should be complete and accurate.

Linkages and Relationships

CANSIM Databank Series – These are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) – Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 2 (Movements of Capital and Monetary Gold), Items 14.4 Central government long-term loans (for D41) and 14.5 Central government other long-term assets (for D42).

IMF/OECD Common Reporting System (Appendix 6) – Global Balance of Payments Summary and Regional Balance of Payments Summary, Item C (Capital and monetary gold), component of 14.3 Central government long-term loans, intergovernmental (for D41) and component of 14.5 Central government other long-term assets (for D42).

Repayment of Government of Canada Loans and Advances

Codes – D44 Total repayments

D45 Repayment of postwar loans and advances

D46 Repayment of war loans and advances

D47 Special settlements

Concept

This series covers repayments of credits extended to non-residents by the Government of Canada, except

Special Report for United Nations on international flow of long-term capital and central government transfer payments, Part 1 (Changes in foreign assets and transfer payments made) Item C1.1 (for D41) and component of Item C2 (for D42).

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) – Not relevant.

Financial Flow Accounts (Catalogue 13-002) – Component (with sign reversed) of Other loans (category 3332) of Rest of World (sector XIII).

Series Availability

Annually from 1927, quarterly from 1950.

Supplementary Data

Net loans and advances to governments other than the United Kingdom 1945-48 (FECB Annual Report 1948, Table VII).

Postwar loans and advances 1945-48 (Catalogue 67-501, Statement 7).

Loans and advances to foreign governments December 31, 1952 (Catalogue 67-502, Statement 22).

Loans and subscriptions by Government of Canada by area, 1965-72 (Catalogue 67-201, Table 21 in 1965-70 and 1971 issues, Table 23 in 1972 issue). Available also in Catalogue 67-001.

Related Data

Public Accounts of Canada (annual).

Report by the Minister of Finance on Operations under Part II of the Export Credits Insurance Act (annual).

Additional References

The Export Credits Insurance Act, 1944.

The War Appropriation (United Kingdom Financing) Act, 1942.

The United Kingdom Financial Agreement Act, 1946 as amended 1957.

The United Kingdom Financial Agreement Act, 1953.

postwar credits directly related to the financing of specific exports.

Description

The series for repayment of postwar loans and advances (D45) includes the following:

1947 on – Loans under Part II of the Export Credits Insurance Act – Repayments represent for the

most part regular maturities. There were, however, some accelerated repayments. In 1950 and again in 1954 Norway prepaid the principal instalment of \$2.6 million due the following year. During the third quarter of 1962 the Government of France paid in advance of maturity \$67.6 million, representing one half of its remaining debt to Canada; a simultaneous prepayment was made by France to the United States. In the fourth quarter of the same year the Netherlands prepaid \$32.1 million of its debt. These repayments contributed to the restoration of Canada's international reserve position which had deteriorated sharply in the first half of 1962. Repayments by France and Belgium were resumed in 1970. No payments were received after 1950 on the loan extended to China.

1951 on – Loan of 1946 to the United Kingdom –

Repayments of this loan began in 1951. The original agreement provided that the Government of Canada would, under specified conditions, waive the amount of interest due. The United Kingdom availed itself of this provision in 1956. During 1957 the agreement was amended so that beginning with that year the Government of the United Kingdom might, under specified conditions, request deferral of up to seven annual instalments of principal and interest due under the loan of 1946 and the corresponding loan from the United States. The United Kingdom had, at the time of writing, availed itself of this provision in respect of 1957, 1964, 1965, 1968 and 1976. Interest in respect of 1956, which had been waived under the former terms of the agreement, was to be treated as an additional deferral. The ultimate repayments of deferrals will not begin until 2001.

1953-56 – Interim Credit to the U.S.S.R.

1958-63 – Loan to the United Nations (1957) in connection with the clearance of the Suez Canal.

1961-67 – Loans to India and Ceylon (1958-59) for the purchase of wheat.

1964 on – Loan to the United Nations (1962).

1964-68 – Loan to India (1963-64) for the purchase of aircraft.

1973 on – Development loans – The first contractual repayments were made in 1973. Two special transactions, one in 1973 and the other in 1976, are described below in the section on sources and methods.

The series for repayment of war loans and advances (D46) includes the following:

1943-58 – Interest-free loan of 1942 to the United Kingdom – The provisions originally applicable to this loan called for the application to its repayment of amounts accruing to the United Kingdom from the sale or redemption of Canadian securities. A lag of some months occurred between the initial capital transfers

from Canada and subsequent quarterly repayments. In 1947 the United Kingdom agreed to permit new direct investment in Canada by its residents, and the loan repayment terms were modified to permit the United Kingdom to deduct the amounts from the totals which would otherwise have been calculated as due for repayment. This arrangement was extended in 1948 to cover the financing of aircraft purchased in Canada by the United Kingdom. The effect of these arrangements was to reduce the rate of repayment of principal. By mid-1953 the balance of the loan had been reduced to \$190 million through application of the proceeds of sales and redemptions of \$582 million of Canadian securities less new direct investments in Canada of \$55 million and aircraft purchases of \$17 million. An agreement was then made providing for an immediate payment reducing the amount outstanding to \$150 million with amortization of this balance over the next five years, and the United Kingdom was released from the previous repayment provisions.

1946-47 – War-time wheat loan to the Union of Soviet Socialist Republics.

Some further Canadian claims on European countries arose from settlements of military relief. These were not treated as capital items; for further detail see the comments with respect to series B37 and A23.

Series D47, **Special settlements**, covers two transactions only: Under the terms of the Canada-United Kingdom Financial Settlement Agreement, the outstanding claims of both governments arising out of the war effort in respect of services and supplies furnished to each other prior to March 1, 1946, were, with certain exceptions, settled by payment of \$150 million by the United Kingdom. Among the multitude of transactions included were interim credits which had been extended by Canada to the United Kingdom in amounts of \$204 million in 1945 and \$112 million in 1946. The former figure was, as has been noted, included in series D41 with loans and advances by the Government of Canada. The drawings in 1946 were, however, offset in the balance of payments presentation against the settlement which occurred in March of that year and series D47 accordingly reflects only the net receipt of \$38 million in that year.

The second item relates to settlement of a loan to Roumania outstanding in an amount of \$24.3 million since the early 1920's. During 1974, a repayment of \$1,150,000 was received and recorded in series D47. Settlement of the remaining outstanding balance, to be made under an agreement reached in 1971, does not involve specific balance of payment transactions.

Sources and Methods

The data are derived from the financial records of the Government of Canada.

The initial waiver and subsequent deferrals of interest and principal on the 1946 loan to the United Kingdom were not articulated in the balance of payments estimates. An alternative treatment would have been to record a receipt of interest and a corresponding extension of credit. While repayment of the deferred amounts will not begin until 2001, they bear interest currently and this is recorded with interest receipts as an element of series A15. The total of the deferred amounts is included in statistics of Canada's international investment position. The amount as of the end of 1974 was \$173.1 million, made up of \$101.1 million deferred interest and \$72.0 million deferred principal.

Any claims for interest which may exist with respect to foreign "inactive" loans by the Government of Canada, i.e., those which are not currently revenue-producing or realisable,⁹ are not reflected in either the balance of payments or the investment position.

The series reflect several repayments of a rather special nature. In 1967 there was a remission by Canada of the principal and interest on loans extended to India for the purchase of Canadian wheat and flour. Similar transactions occurred in 1973 and in 1976 when development loans made originally to Pakistan were forgiven. These transactions were articulated by recording the forgiveness of principal as repayments and showing simultaneously official contributions of the same amount in series B37♦.

Evaluation

These series should be complete and accurate.

Linkages and Relationships

CANSIM Databank Series – These are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) – Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 2 (Movements of Capital and Monetary Gold), Item 14.4 Central government long-term loans.

IMF/OECD Common Reporting System (Appendix 6) – Global Balance of Payments Summary and

⁹ As published annually in a schedule to the Statement of Assets and Liabilities, Public Accounts of Canada.

Regional Balance of Payments Summary, Item C (Capital and monetary gold), component of 14.3 Central government long-term loans, intergovernmental.

Special Report for United Nations on international flow of long-term capital and central government transfer payments, Part 1 (Changes in foreign assets and transfer payments made) Item C1.2.

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) – Not relevant.

Financial Flow Accounts (Catalogue 13-002) – Component (with sign reversed) of Other loans (category 3332) of Rest of World (sector XIII).

Series Availability

Annually from 1927, quarterly from 1950.

Supplementary Data

Net loans and advances to governments other than the United Kingdom 1945-48 (FECB Annual Report 1948, Table VII).

Postwar loans and advances 1945-48 (Catalogue 67-501, Statement 7).

Loans and advances to foreign governments December 31, 1952 (Catalogue 67-502, Statement 22).

Loans and subscriptions by Government of Canada by area, 1965-72 (Catalogue 67-201, Table 21 in 1965-70 and 1971 issues, Table 23 in 1972 issue). Available also in Catalogue 67-001.

Related Data

Public Accounts of Canada (annual).

Report by the Minister of Finance on Operations under Part II of the Export Credits Insurance Act (annual).

Additional References

The Export Credits Insurance Act, 1944.

The War Appropriation (United Kingdom Financing) Act, 1942.

The United Kingdom Financial Agreement Act, 1946 as amended 1957.

The United Kingdom Financial Agreement Act, 1953.

~~Columbia River Treaty~~

Code – D48

Concept

This series covers receipts from the United States of payments under the Columbia River Treaty, including related investment and disinvestment by the Government

of Canada in medium-term non-marketable United States Government securities.

Description

Studies and negotiations between Canada and the United States in connection with the development of the

hydro-electric power potential of the Columbia River extending over a period of 20 years culminated in the Columbia River Treaty and Protocol of 1964. It embodied a unique and complex set of arrangements for the development of these waters, of which only the bare highlights can be given in these paragraphs. Special financial arrangements agreed upon between Canada and the United States in connection with the project were described by the Minister of Finance in some detail in the House of Commons on July 10, 1964.

Under the Treaty arrangements British Columbia undertook to build, within a nine-year period, storage projects in the Columbia River basin in Canada. These facilities would control a very large amount of water, part of which would be committed to produce power benefits downstream in the United States, to be shared equally between the two countries, as well as substantial benefits in and for Canada itself. Some of this storage would also be operated to provide flood control; and payments were to be made to Canada for flood damage prevented in the United States. Canada sold its share of the first 30 years' production of downstream benefits in return for a lump sum payment in September 1964 in the amount of \$253,929,534 in United States funds. Flood control payments made to Canada by the United States in subsequent years aggregated a further \$64.4 million in United States funds.

Funds necessary for the purchase of the downstream benefits were raised in the United States by the

Columbia Storage Power Exchange, a non-profit organization of the power producers and users concerned, and paid to the Government of Canada in United States funds. The Government of Canada then paid equivalent Canadian funds to the Government of British Columbia apart from some funds which British Columbia elected to receive in United States dollars in order to redeem outstanding debt. The United States funds remaining in the hands of the Minister of Finance were invested in medium-term non-marketable securities of the United States Government. As these securities matured their proceeds were taken into the Exchange Fund Account and employed in United States Government securities in the normal way. The effect of the arrangement was to even out the flow of funds into Canada's holdings in the Exchange Fund Account, and to spread over a lengthy period the impact on United States balance of payments statistics of the transfer of so large a sum. The non-marketable securities acquired under the arrangement did not form a part of Canada's official holdings of foreign exchange. The Minister of Finance indicated at the time of the arrangement however that, while there was no formal agreement, on the basis of discussions with the United States Treasury, he was confident that should need arise arrangements could be made to translate the securities into marketable securities.

The statement below shows in terms of United States currency, the receipts under the Treaty together with changes in related official holdings of medium-term non-marketable United States Government securities.

Year	Receipts under Treaty		Change in related official holdings of medium-term non-marketable United States Government securities (increase -)	Net receipts
	Sale of downstream benefits	Flood control		
millions of U.S. dollars				
1964	253.9	-	- 203.9	50.0
1965	-	-	30.0	30.0
1966	-	-	30.0	30.0
1967	-	11.1	30.0	41.1
1968	-	52.1	30.0	82.1
1969	-	-	30.0	30.0
1970	-	-	30.0	30.0
1971	-	-	23.9	23.9
1972	-	-	-	-
1973	-	1.2	-	1.2
Total	253.9	64.4	-	318.3

Considerable confusion has surrounded these transactions. It has, for example, been suggested that the impact on the exchange rate of the inflow was spread over an eight-year period because of the employment of the funds in special United States securities. Insofar as Canada was concerned the actual economic impact of the transactions was no different than if the inflow had been reflected immediately in the Exchange Fund

Account. In either case the acquisition by the federal authorities of external assets obviated the necessity of exchange market transactions; the Canadian dollar outlay required to be made by the federal authorities in connection with the financing was the same. The special treatment did, however, have a significant statistical effect on some of the balance of payments measures in common use in the United States.

The conceptual treatment appropriate for these transactions was a matter which was debated at considerable length but in the final analysis the decision was to follow a pragmatic, if somewhat inelegant, course.

The basic conceptual problem centred on the nature of the lump sum payment. As already noted, contractually it represented Canada's share of the first 30 years' production of downstream benefits arising from the facilities built in Canada. It might be viewed as representing the sale of water, or the sale of a service related to water flow, or as capital contributed to the construction of a facility. The expectation of the Canadian negotiators was that the lump sum payment together with the income accruing on the investment of the funds until their use would finance the capital investment required. (In practice the price assumptions were not realized and the sum fell short of the amount required.) If the transaction were seen as a sale of water, then it might have been appropriate to regard the lump sum as a prepayment to be amortized over the 30-year period. But in order to fully articulate this perception of the transaction, it would have been necessary to accrue to the Rest of the World the discount on the prepayment and then subsequently to amortize the total debt through credits for the export of water. At the end of the 30-year period, further balance of payments entries would presumably have followed covering the receipt of power representing Canada's share of subsequent production or, alternatively, its disposition to non-residents. Some national income and expenditure accountants had difficulty in accepting as production a flow of water across an international border.

An alternative perception, that the lump sum was a prepayment for services inasmuch as it was to cover control of a water flow, left the same problem of articulation.

Yet another perception, which would depart from the legal form of the Treaty, was to view the lump sum as a capital contribution from the United States to the construction of a facility in Canada whose benefits, although not articulated in an accounting sense, would be jointly shared. Some support for this perception might be found in the accounting treatment adopted by the British Columbia Hydro and Power Authority which credited the amount, together with earnings accruing on it, to an item described as "Contributions arising from Columbia River Treaty".

In determining the statistical treatment several considerations were ultimately given precedence. It was recognized that the Treaty extended over a very lengthy period. A full articulation would involve adjusting entries extending over many years, most of which would be so small that they could not conceivably affect one's perception of Canada's balance of payments. An attempt to fully articulate the transactions could moreover involve a number of price and interest assumptions and would

depart seriously from the treatment reflected in the accounts of the British Columbia Hydro and Power Authority. Finally, the major transactions were themselves so unusual that users might best be served by having them kept together in one item.

The treatment finally chosen was therefore a very simple one. The primary transactions between Canada and the United States which were associated with the Treaty were incorporated into series D48 (Columbia River Treaty). This embraced the original receipt from the sale of downstream benefits, and subsequent payments made to Canada for flood damage, together with the acquisition and subsequent disposition of the official holdings of medium-term non-marketable United States Government securities into which most of the original receipt was placed by the federal government, by agreement with the United States authorities. The credit in the Canadian balance of payments from primary receipts under the Treaty accordingly appeared as a net spread over the years 1964-73, although, as has been noted, the financing requirements generated on the federal authorities occurred at the original times of receipts from the United States.

The case for treating the sale of future downstream benefits as a capital inflow was probably stronger than was the case in respect of the flood control receipts, but the decision to treat the entire primary transactions as capital led to their exclusion from the current account and indeed, of course, the benefits to the United States were largely future benefits.¹⁰

Emphasis has been given in this description to the fact that the special capital series D48 was confined to primary transactions. Thus it did not reflect interest earnings on the United States Government securities (at the rate of 4% in respect of the 1965 maturity; 4 1/8% in respect of the 1966 maturity, and 4 1/4% in respect of subsequent maturities). Nor was the accrual to the British Columbia Hydro and Power Authority of income on the temporary employment within Canada of the funds made available in 1964 articulated as an external transaction. The item for "Contributions arising from Columbia River Treaty" on the balance sheet of the British Columbia Hydro and Power Authority, had grown by March 31, 1972, to over Canadian \$462 million.

In statistics of Canada's international investment position the capital receipts from the United States were accumulated as a liability under miscellaneous investments.

The holdings of special United States Government securities were included, during their lifetime, in the asset item for Government of Canada credits, but were, of course, subsumed within Canada's official holdings of

¹⁰ In the United States, the flood control payments were recorded in the current account.

gold and foreign exchange as they matured. The liability item, on the other hand, is being reduced by approximately 1/13th in each year beginning in 1968. This amortization is not reflected, however, in the balance of payments statements.

Sources and Methods

The data are derived from financial records of the Government of Canada.

Evaluation

The series are accurate in an accounting sense. The conceptual validity is discussed above.

Linkages and Relationships

CANSIM Databank Series – These are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) – Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 2 (Movements of Capital and Monetary Gold), Items 14.5 Central government other long-term assets and liabilities, 13.3 Local government, other long-term assets and liabilities.

IMF/OECD Common Reporting System (Appendix 6) – Global Balance of Payments Summary and Regional Balance of Payments Summary, Item C (Capital and monetary gold), 14.5 Central government other long-term assets and liabilities, 13.1 Local government long-term assets and liabilities.

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payments, Part 1 (Changes in foreign assets and transfer payments made) Item C2 (Central government, other) and Part 2 (Changes in foreign liabilities and transfer payments received) Item C2 (Central government, other).

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) – Not relevant.

Financial Flow Accounts (Catalogue 13-002) – Components in Rest of World (sector XIII) of Other financial assets (category 2610) in respect of sale of downstream benefits, of Net purchases of existing and intangible assets (category 1800) in respect of flood control receipts, and (with sign reversed) of Foreign investments (category 3530) in respect of changes in related official holdings of medium-term non-marketable United States Government securities. Counterpart liability entries are under Non-financial provincial government enterprises (sub-sector IV.2) and counterpart assets under the Federal government (sector X).

Series Availability

Annually and quarterly through full period of applicability 1964-73.

Related Data

Public Accounts of Canada (annual).

Additional References

The Columbia River Treaty and Protocol – A Presentation. Departments of External Affairs and of Northern and Natural Resources, April 1964 (Queen's Printer, Catalogue E2-4564).

Debates of the House of Commons, 10 July 1964, pp. 5306 et seq.

Export Credits Directly or Indirectly at Risk of the Government of Canada

Code – D49

Concept

The series covers all medium-term and long-term export credits extended by Canada directly or indirectly at risk of the Government of Canada, whether financed by public or private sources.

Description

The principal agencies involved in this series are the Export Development Corporation and the Canadian Wheat Board, although there are some other relatively small amounts which are also described below.

Export Development Corporation – The Export Development Corporation is a Crown corporation established in 1969 as successor to the Export Credits Insurance Corporation which started in 1949. The

Corporation is engaged in the provision of export credits insurance at its own risk (under Section 24 of the Export Development Act) and at the Government's direct risk (under Section 27). It is engaged in long-term export financing on its own account (under Section 29) and on Government account (under Section 31). The Corporation also provides foreign investment insurance.¹¹

The Export Credits Insurance Division – EDC may insure Canadian exporters against non-payment when they grant credit to foreign buyers under contracts involving:

- consumer goods sold on short-term credit usual for the particular trade, and which normally ranges from documentary sight draft to a maximum of 180 days;

¹¹ The descriptions which follow draw heavily on the Corporation's Annual Reports for 1974 and 1975.

- capital goods sold on medium-term credit which may extend to a maximum of five years;
- services;
- "invisible" exports such as the sale or licensing to a foreign customer of any right in a patent, trademark or copyright, advertising fees, fees to auditors, architectural consultants, etc.

The main risks covered under an EDC Policy are:

- insolvency of the foreign buyer;
- failure of the buyer to pay to the exporter within six months after due date the gross invoice value of goods which he has duly accepted;
- repudiation by the buyer which does not result from a breach of contract by the exporter and where proceedings against the buyer would serve no useful purpose;
- blockage of funds or transfer difficulties which prevent the Canadian exporter from receiving payment;
- war or revolution in the buyer's country;
- cancellation or non-renewal of an export permit and the imposition of restrictions on the export of goods not previously subject to restriction;
- any other cause outside the control of both the exporter and the buyer which arises from events occurring outside Canada and the continental United States of America.

To assist in financing his exports a policyholder may request EDC to assign the proceeds of any losses payable under a policy to a bank or to any other lender providing financing in respect of export sales. An exporter may assign an individual bill or he may make a blanket assignment of all his foreign accounts receivable. As a further aid to financing, EDC may issue unconditional guarantees to financial institutions which have agreed to provide non-recourse supplier financing. Such guarantees may be issued only in respect of insurable sales of capital goods or services.

The ceiling of outstanding liability under contracts of export credits insurance and guarantees issued under the authority of the EDC Board of Directors is \$750 million. In addition, a further \$750 million maximum outstanding liability is provided for insurance and guarantees which EDC may be authorized to issue at the risk of the Canadian Government. Such coverage may be extended to a transaction when the amount or term of the credit does not meet the approval of the EDC Board of Directors but when the conclusion of the transaction is judged by the Minister to be in the national interest.

Export credit sales insured at risk of the Corporation during 1974 totalled \$778 million of which \$689 million was in respect of export credit sales of consumer

goods and services and \$89 million was in respect of export credit sales of capital goods and services. At the year's end the aggregate of the maximum liabilities under outstanding current policies was \$394 million, and in addition, there were liabilities totalling \$7 million under policies issued in previous years, against which claims might still be made. However, these figures include large amounts of short-term credits which are not included in D49. During 1974 medium- and long-term policies written totalled \$178 million and the amount outstanding at the year-end was \$452 million.

EDC-insured export credit sales at risk of the Canadian Government totalled \$161 million in 1974 and at the year-end the maximum liability under policies was \$379 million.

Statistics Canada published in October 1972,¹² the results of an export credits survey undertaken at the request, and with the technical assistance, of EDC. The purpose was to determine the original terms of credit extended by Canadian exporters to foreign buyers in 1970. The survey indicated, among other things, that during 1970 about one quarter of all Canadian exports were sold on terms calling for payments before or against delivery; an estimated 47.5% were sold on credit terms of not more than 30 days, an additional 25% sold on credit terms of 30-180 days, and 2.5% on credit exceeding 180 days. This last category excludes exports that were financed by buyer credits or aid. The survey also revealed that 51% of all Canadian exports were sold to related companies, which normally obviates the need for export credits insurance.

The Export Finance Division - EDC makes long-term loans directly to foreign borrowers or guarantees private loans to such borrowers to finance Canadian exports of capital equipment and services. EDC financing is provided on commercial terms at internationally competitive interest rates to permit foreign borrowers to pay cash to Canadian exporters.

Financing of major export sales of capital equipment and services may be provided by EDC to a total \$5,100 million. Within the overall ceiling, two authorities have been established. EDC may lend up to a maximum outstanding liability of \$4,250 million on the authority of its Board of Directors. In addition, a further \$850 million maximum outstanding liability is provided for loans which EDC may be authorized to make on behalf of the Canadian Government. The latter authority applies to very large export transactions or to other special situations considered by the Minister to be in the national interest.

¹² Stella Gianetto. "Terms of Credit Extended on 1970 Export Sales by Canadian Corporations." *Canadian Statistical Review*, October 1972 (Catalogue 11-003E).

To qualify for an EDC loan or guarantee, a transaction must be of a type and for an amount which justifies extended credit terms — that is, beyond five years.

The project must be financially and economically sound and the foreign borrower must be creditworthy. The transaction must provide employment and industrial benefits for Canada as well as give promise for future Canadian exports in the foreign market concerned.

EDC requires that the transactions being financed have a Canadian material and labour content of not less than 80% and that all of the goods and services be exported from Canada. In certain circumstances however, EDC may, in conjunction with financing for Canadian capital equipment and services, also lend directly or guarantee a private loan for a portion of the associated local costs in the importing country.

During 1974 agreements signed under authority of the Board of Directors totalled \$502 million and the related notes receivable outstanding at the year-end were \$801 million including \$5.3 million which was overdue. Agreements signed in 1974 under authority of the Government amounted to \$157 million and there was \$34.5 million outstanding at the end of the year.

Foreign Investment Insurance Division — The third programme of the Export Development Corporation, that of the Foreign Investment Insurance Division, does not directly affect the series under discussion nor other balance of payments series. However, it may have indirect effects on the level of Canadian investment abroad. For this reason and for the sake of completeness it may be useful to describe this programme briefly.

EDC may insure Canadian investors against certain political risks of loss of their investments abroad. Investment may vary from the right to share in the assets of business carried on in a foreign country to lending money to a person in a foreign country for the purpose of establishing a business in that country. Coverage may be extended only to new investments and is presently limited to those made in developing countries. EDC Foreign Investment Insurance covers three broad political risks: insurrection, revolution or war; expropriation; and inconvertibility, or inability to repatriate earnings or capital.

The Canadian Wheat Board — The other major source of export credits directly or indirectly at risk of the Government of Canada is the Canadian Wheat Board. Since 1961 the Board has been involved in the financing of sales to the People's Republic of China and more recently to other countries. This financing was facilitated by specific loans to the Board by Canadian chartered banks, under guarantee of the Government of Canada. The amounts outstanding at the end of the Board's fiscal year are disclosed in its annual

report. As at July 31, 1973 liabilities to banks to finance credit sales to China amounted to \$305 million and those to finance medium-term credit sales of wheat and barley to a number of other countries amounted to \$94 million. The sales to China were for sterling, and the bills of exchange not yet due plus accrued interest, appear on the Board's balance sheet, converted at the forward sterling sales values. Parts of the early sales to China were delivered to Albania and East Germany. The other medium-term credit sales abroad were made in terms of Canadian dollars.

The responsibility for administering new sales of prairie grains under medium-term credit (three years or less) was transferred to the Canadian Wheat Board by the federal government in October 1970. Prior to that time such sales were either insured under Section 27 of the Export Development Act or were contracted under special credit guarantees extended by the Government of Canada. (Long-term credit sales involving repayments in excess of three years continue to be insured by the Government of Canada through the Export Development Corporation.)

Other credits — While the activities of the Export Development Corporation and of the Canadian Wheat Board account for the largest part of export credits directly or indirectly at risk of the Government of Canada, some other credits have been included in the series.

In order to extend the production run for CL44 aircraft, a number of planes were produced for which there were no immediate buyers, half at risk of the producing corporation and half at risk of the Government. These planes were subsequently sold to non-residents on payment terms extending over some years. The receivables of the Department involved were treated as export credits.

Another item which figured for a time in the estimate of export credits was a Canadian dollar balance established in favour of the Government of Canada by a Latin American government in connection with the renegotiation of outstanding export credits.

An entry of a rather special character occurred in the second quarter of 1973 when the Government of Canada received from the People's Republic of China \$14.5 million representing settlement of loans made by Canadian banks in early post-war years, under Government guarantee, to the Ming Sung Industrial Company of China covering construction of nine light draft river vessels. Exports of the vessels were reflected in the balance of payments in 1947 and 1948 aggregating \$8 million, with a corresponding capital outflow in D50 (Other long-term capital transactions); in Canada's returns to the IMF the accounts appeared as long-term extensions of credit by the banking sector. When the company was unable to meet the commitments falling

due between 1951 and 1960 the Canadian government paid to the banks, under the terms of the guarantee, a total of \$14.5 million, which, of course, included interest to that time. Although the original credit was reflected in D50 since export credits were not isolated in a separate item until 1962, and although the settlement included interest which had not been articulated in the balance of payments estimates, the entire settlement has been shown as a repayment of an export credit. (Figures for the outstanding total of export credits published prior to the settlement in mid-1973 should be increased by \$14 million. Revised data appear in Table IV.2.) In the investment position the credit was included as an asset under Government credits but was offset by a negative entry under miscellaneous investment representing the reserve of the Government of Canada against inactive foreign loans.

Another entry of a rather special nature occurred in 1975 when a credit made originally to Pakistan was forgiven. This transaction was articulated by recording the forgiveness of principal as an official contribution in series B37 simultaneously with a repayment in this series.

At the end of 1972 the total of medium-term and long-term export credits extended directly or indirectly at risk of the Government of Canada was placed at \$1,122 million, of which \$448 million related to wheat and \$674 million to other commodities and services. Of the total, \$839 million was financed by Government and \$283 million by the private sector.

Sources and Methods

In respect of the export credits insured at its own risk the Export Development Corporation supplies data covering the amounts of policies written, repayments under them and the balances at risk. The amounts of the policies include interest on the credits, and in the construction of estimates of capital movements no adjustment is made to eliminate the elements of unearned interest. It should be noted, however, that the Corporation does not provide insurance for the full amount of the credit. An adjustment is made to the figures to add back claims paid to insured parties by EDC but still outstanding on EDC's accounts. In respect of export credits insured directly at the Government's risk the Corporation provides figures quarterly for advances and repayments.

The Corporation supplies in respect of both financing under its own authority and financing on behalf of the Government figures quarterly of disbursements, principal collections and interest collections.

When the series was first isolated in 1962, material was obtained from the predecessor corporation, the

Export Credits Insurance Corporation. The data obtained were not as suitable for use in the construction of estimates of the balance of payments as those presently obtained, the series being generally constructed from the reported figures of total amounts authorized at risk of the Corporation or the Government rather than actual transactions.

From time to time financing provided by or through the Corporation has been laid off with Canadian chartered banks in Canada through the rediscounting of notes, and some of the insured credits have also been financed through them. In the case of the insured financing, until mid-1973 it was not possible to separate the amounts of paper discounted with banks from paper placed with them as collateral. Receivables assigned to Canadian banks in Canada have been treated as financing from private sources (and as banking claims in the returns to the IMF and OECD). (For a period the Export Finance Corporation of Canada Ltd., owned by the Canadian chartered banks, served as a vehicle for the discounting of export credits. The treatment followed statistically was to consolidate the corporation within the banking sector.) Not included in the series are receivables which are known to have been discounted abroad and accordingly to have involved no capital export from Canada, although a contingent liability may exist in respect of them. Assignment of a policy to a non-resident financial institution is normally taken *prima facie* as evidence that the receivables have been discounted abroad unless it is established that they have been assigned merely as collateral for borrowing. Further evidence of the nature of financing may be revealed on schedule BP-21 and adjustments may then be required to ensure consistency and eliminate double counting.

Net credits extended through the Canadian Wheat Board have been measured through changes in the corresponding bank financing to the Board, and grossed for the purposes of subsidiary statements on the basis of the underlying contracts and trade data. The bank financing is treated as domestic financing of the Board, and the credits themselves as financing by the Government sector.

The other elements of export credits described above are obtained from official sources.

The series does not include the loans by the Government of Canada to national governments which are included in items D40 through D47; these include some export financing.

Evaluation

Subject to the comments above with respect to the values of privately financed insured credits, the series is believed to be accurate.

Linkages and Relationships

CANSIM Databank Series – These are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) – Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 2 (Movements of Capital and Monetary Gold), components of Items 11.6 (Private long-term – other loans and trade credits) and 14.5 (Central government – other long-term assets).

IMF/OECD Common Reporting System (Appendix 6) – Global Balance of Payments Summary and Regional Balance of Payments Summary, Item C (Capital and monetary gold), components of Items 11.4 (Private long-term – other trade credits) and 14.5 (Central government – other long-term assets).

Special Report for United Nations on international flow of long-term capital and central government transfer payments, Part 1 (Changes in foreign assets and transfer payments made) components of Items A3 and C2.

National Accounts Income and Expenditure (Catalogues 13-001 and 13-201) – Not relevant.

Financial Flow Accounts (Catalogue 13-002) – Component (with sign reversed) of Other loans (category 3332) of Rest of World (sector XIII).

Series Availability

Annually and quarterly, from 1962.

Supplementary Data

Net credits outstanding at the end of 1961 were as follows:

Commodities

	millions of Cdn. dollars
Wheat ¹	54
Other ²	68
Total	122

Geographical distribution

	millions of Cdn. dollars
United States	28
Sterling area ³	2
Other OECD	
Europe	2
Other countries ²	90
Total	122

¹ Includes associated flour contracts.
² Includes \$14 million for Ming Sung Industrial Company of China credit of 1946.
³ United Kingdom, etc.

For gross credits extended and repaid, from 1962; also detail for wheat and other commodities, and by area; source of financing from 1965; amounts outstanding for some years, see:

Catalogue

- 67-505 Table 9-D12
- 67-201 (1963-65), Statement 30
- 67-201 (Table 22 in 1965-70 and 1971 issues, Table 24 in 1972 issue)
- 11-003E *Canadian Statistical Review, December 1967*, page ii.
- 67-001 Table 11 (formerly Tables 9 or 10).

Additional References

- Export Credits Insurance Act
- Export Development Act
- Export Credits Insurance Corporation, Annual Report
- Export Development Corporation, Annual Report
- The Canadian Wheat Board, Annual Report.

Other Long-term Capital Transactions

Code – D50

Concept

This series covers a residual group of capital flows in long-term forms. Excluded are direct investment, portfolio security transactions, loans and subscriptions of the Government of Canada, Columbia River Treaty transactions, and beginning in 1962, export credits directly or indirectly at risk of the Government of Canada, all of which are explicit series.

Description

The series covers long-term private loans by unrelated parties (including loans by agencies of foreign

governments to Canadian corporations generally associated with long-term commodity supply contracts or the financing of Canadian imports). It covers movements of capital between branches and head offices of insurance companies, as distinct from the investment in Canadian securities of foreign insurance funds. It covers purchases by non-residents of, and repayments to them on, mortgages on Canadian real estate. It covers transfers of capital from abroad for administration by Canadian trust companies and the repatriation of such capital. It covers loans in Canadian dollars to non-residents by the head offices and Canadian branches of Canadian chartered banks, and their repayment. It covers international transactions in real estate; in principle, investment in commercial real estate might be regarded as a form of direct investment but it is

included in this series because it does not fit readily into the corporate framework used for series D21 and D25 on direct investment. Commencing with 1972, it includes allowances for the capital of immigrants not immediately transferred to Canada and the subsequent movement of these funds.

In the period immediately following the termination of exchange restrictions in Canada in 1951, an estimate was included for the liquidation and transfer from Canada to the credit of emigrants of capital which they had not previously been permitted to take with them. Until 1962 the series covered medium- and long-term export credits extended directly or indirectly at risk of the Government of Canada, which have since been shown separately in series D49.

Sources and Methods

This series, as has already been noted, is a residual category of capital movements in long-term forms. The large number of items of varying importance which are included have, of course, counterparts in the wide variety of sources employed in their construction.

One important element relates to changes in the external claims due by or to the private sector which are long-term in form but which have not already been covered in movements of direct investment or portfolio security transactions. Data covering other loans and trade credits are derived from line I(c) and part of line II(c) of schedule BP-21, Report of transactions between Canada and other countries¹³ and lines I(b) and (f) of the BP-22, Report on investment in Canada of non-Canadian corporations. (Where appropriate, adjustments are made for receivables which have been insured by the Export Development Corporation and which are accordingly covered in series D49, Export credits directly or indirectly at risk of the Government of Canada.)

The element covering changes in the other external long-term assets and liabilities of the private sector is made up from line I(e) and part of line II(c) of the BP-21, and from lines I(d) and (h) of the BP-22. There remain, however, a number of other items also to be included.

The estimated capital flows between home offices and foreign branches of insurance companies are determined as described in the section of Part V dealing with the BP-27, Movement of funds between Canadian insurance companies and their branches, agencies, bank accounts, and other companies or persons outside Canada and the BP-28, Movement of funds between British and foreign insurance companies doing business in Canada and head or other offices, companies, or persons outside Canada.

¹³ All the schedules referred to in this section are reproduced in Part V.

Within this series provision is also made for mortgage flows. This estimate is constructed in two ways. For the preparation of estimates of Canada's miscellaneous income payments, described under series B23 in Part II, interest payments on mortgages held by non-residents on Canadian real estate are imputed. The assumption is made in the first instance that this interest has been fully ploughed back into Canadian mortgages and it is recorded as a capital inflow. Deductions are then made from it in respect of mortgage interest and principal repayments abroad which may appear on the BP-28. There is added the net flow appearing in Part C of the BP-28 which has not been identified and attributed to forms of investment other than mortgages. This total is then compared with, and adjusted where necessary to reflect, the total change in holdings of mortgages on Canadian real estate by United States insurance companies as estimated for Canada's international investment position.

Transactions related to the activities of trust and mortgage loan companies are derived from the BP-29, Report by trust and mortgage loan companies in Canada on transactions with non-residents. The year-to-year changes in line II(a) yield the flows associated with holdings by non-residents of Canadian dollar guaranteed investment certificates, receipts and debentures of respondent companies. Lines III(c) and IV(c) provide capital transfers from and to Canada for management, safe custody and agency accounts, estates and trusts, and holding companies.

The final element of this group of private non-bank transactions relates to the timing of transfers of capital by immigrants to Canada. The amounts which immigrants transfer or intend to transfer to Canada are recorded at the time of migration in series A30, Inheritances and immigrants' funds receipts. But it is unlikely indeed that all of these assets are immediately transferred, and an allowance has been made in respect of the capital retained temporarily abroad. For this, it has been assumed that amounts not in possession at the time of migration of immigrants whose assets exceed \$100,000 are transferred in equal amounts over the subsequent 20 quarters. In practice the original deferrals, by area, are rounded to the nearest \$2 million.

There are small discrete items recorded in respect of various levels of government in Canada as, for example, changes in prepayments on long-term defence equipment contracts.

Finally it has been the practice to include in this item changes in Canadian dollar bank loans to non-residents, and until 1963 a portion of foreign currency claims on residents under the treatment for foreign currency operations of the head offices and branches in Canada of Canadian chartered banks described under series D60.

The sources for quarterly estimates are understandably less comprehensive. In respect of those enterprises covered by quarterly surveys, figures for loans from non-residents are available from line I(c) of the BP-21A, Report of transactions between Canada and other countries. In the case of finance companies medium-term debt issues which appear in section IV of the BP-21C, Report by Canadian finance companies, are included to the extent that they are not reported as corporate bonds and debentures in series D30 through D33. Estimates of quarterly movements of insurance company funds are based on the levels of previous annual series, using as quarterly projectors the net funds transferred from abroad by a selection of Canadian and of foreign life insurance companies as supplied by The Canadian Life Insurance Association. Two United States sources are utilized. Loans by the Export-Import Bank to Canadian enterprises are a matter of public record. Changes in long-term banking liabilities to Canadians, as published monthly in the *United States Treasury Bulletin*, are also used after appropriate adjustment for exchange rate variations and for the transactions specifically identified from Canadian sources. (The U.S. Treasury figures in respect of long-term banking claims on Canadians have not been used within this series as experience has suggested that these data are frequently reported in Canadian sources as short-term.) Finally the figures for chartered bank loans in Canadian dollars to non-residents are originally reported on a quarterly basis.

When annual source estimates are made, the quarterly estimates in respect of insurance company transfers and those based on United States Treasury Department data are replaced, but the pattern of quarterly movements revealed by these sources is retained.

Evaluation

Because of the range of flows which in principle should be included in this series, it is not possible to comment authoritatively on the quality of the series. There can be little doubt, however, that it is less well founded than others covering movements of capital in long-term forms. The coverage of international transactions in real estate is fragmentary and haphazard; virtually no allowance is made for the acquisition of residential real estate either by Canadians abroad or by non-residents in Canada. The possibility of loans between unrelated parties, which may not be covered in the reporting frame, is real.

Linkages and Relationships

CANSIM Databank Series - These are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) - Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments

Summary), Part 2 (Movements of Capital and Monetary Gold):

Item

- 11.6 Private long-term investment: Other loans and trade credits.
- 11.7 Private long-term investment: Other assets and liabilities.
- 13.3 Local government: Other assets and liabilities.
- 14.5 Central government: Other long-term assets and liabilities.
- 16.3 Other monetary institutions: Loans.

IMF/OECD Common Reporting System (Appendix 6) - Global Balance of Payments Summary and Regional Balance of Payments Summary, Item C (Capital and monetary gold):

Item

- 11.4 Private long-term: Other trade credits.
- 11.5 Private long-term: Other assets and liabilities.
- 13.1 Local government: Long-term assets and liabilities.
- 14.5 Central government: Other long-term assets and liabilities.
- 16.4 Other monetary institutions: Other long-term loans.

Special Report for United Nations on international flow of long-term capital and central government transfer payments, Part 1 (Changes in foreign assets and transfer payments made) and Part 2 (Changes in foreign liabilities and transfer payments made), Items A3, A4, B1, and C2.

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) - Not relevant.

Financial Flow Accounts (Catalogue 13-007) - Other loans (category 2332), Other financial assets (category 2610) and, with sign reversed, Bank loans (category 3331) of Rest of World (sector XIII).

Series Availability

Annually from 1927, quarterly from 1950, but including retirements of foreign securities from 1927-32 and 1937-39 inclusive, all transactions in foreign securities from 1933-36 inclusive, and export credits directly or indirectly at risk of the Government of Canada prior to 1962.

Supplementary Data

Annually and quarterly from 1952 through mid-1967, the series was sub-divided to show separately finance company borrowing in long-term forms, n.i.e. (D51) and other flows (D52). Data will be found in Table 4 of Catalogue 67-505 (in which series D51 is

identified as D13.1 and series D52 as D13.2) and in statements in successive issues of Catalogue 67-001. The data are also available in CANSIM. The relevant "D" references ending with the two digits 40 cover series D51, and those ending 50 (which are articulated earlier in this section), cover for the period 1952 through 1966

series D52. Hence for this period, the two CANSIM series must be combined to produce series D50. The subdivision was discontinued when improvements in methodology led to the allocation of most transactions in long-term forms by Canadian finance companies to other series.

Resident Holdings of Foreign Currency Bank Balances and Other Short-term Funds Abroad (to 1963)

Code - D60 (for later series see D61)

Concept

This series measured foreign currency deposits of Canadian residents whether held in or outside Canada together with the Canadian chartered banks' net spot foreign currency positions and their holdings of gold bullion, and holdings of foreign treasury bills by other residents of Canada (except the official monetary authorities). The series was based upon the convention that, in addition to foreign banks, Canadian chartered banks were non-residents of Canada insofar as their foreign currency activities were concerned.

Description

As noted above, this section applies to a conceptual frame which is no longer in use, but which is applicable to current statistics prior to 1964. Readers whose interest lies largely in the later period may wish to turn ahead to series D61 and D65, Resident holdings of short-term funds abroad.

This series may be divided for convenience of description into two elements. The first of these covers foreign currency deposits of residents of Canada with Canadian chartered banks in Canada together with the spot positions or net holdings in foreign currencies of the head offices and branches in Canada of the chartered banks. The second covers foreign currency deposits of residents of Canada (other than banks) with banks outside Canada (including foreign branches, agencies and subsidiaries of Canadian chartered banks), together with minor amounts of foreign treasury bills, etc., held by Canadians. Both exclude any amounts which represent part of Canada's official monetary assets described under series K1 and K4.

The first element of the series, which was replaced during 1973 back to the end of 1963 by a new treatment, is described in this section. The second element of series D60 now appears as a new separate series D65, Non-bank holdings of foreign short-term funds abroad, and is described under that code.

Canada has long had an extensive international banking business. For many years the special foreign

character of these operations tended effectively to keep much of them separate from the Canadian economy. To the extent that foreign currency deposits were obtained from non-residents and employed directly outside Canada this foreign currency business gave rise to no net movements of capital to or from Canada. Accordingly Canadian balance of payments statistics were designed historically to exclude matching banking assets and liabilities denominated in foreign currencies, whether held in Canada or abroad, on the grounds that the business was, by its nature, largely "extra-Canadian" and had only limited significance for the Canadian economy itself. (Foreign currency operations of the Canadian banking system are even now treated somewhat similarly in the principal series of banking statistics in Canada, although in the last decade an increasing amount of information has been obtained with respect to foreign currency assets and liabilities.)

For many years the behaviour of deposits in foreign currency belonging to residents of Canada did not appear to be greatly influenced by whether they represented claims on banks in Canada or abroad, and little or no distinction was made under the administration of either exchange control or monetary policy. Foreign currency liabilities of Canadian chartered banks were not subject to the formal reserve requirements applying to their Canadian dollar liabilities, and during the period of exchange control the conditions under which residents of Canada were permitted to retain and operate foreign currency accounts applied equally to accounts in Canada or abroad.

Accordingly the convention was to treat foreign currency deposits of Canadian residents with Canadian chartered banks in Canada as claims on non-residents and to treat foreign currency loans to Canadian residents as foreign liabilities of Canada. The net foreign currency (spot) assets of chartered banks were treated as assets abroad regardless of the residency of the debtors or creditors. In effect this treatment moved the foreign currency operations of the Canadian chartered banks conceptually across the border. While the statistical treatment led, of course, to a set of series which was different from that which would have been derived on a strict residency basis, the overall statistical effect was the same in each case.

omit

With the development of the Euro-currency markets, the swapped deposit¹⁴ facilities of the chartered banks (which many holders look upon as tantamount to Canadian dollar deposits and whose behaviour is not unrelated to the banks' Canadian dollar operations), and the growing sophistication of corporations in managing their cash balances, the convention which had been adopted lost much of its validity. Moreover, the increasing attention being devoted to the international meshing of statistics added to the desirability of putting the Canadian statistics on a more conventional residency basis.

Accordingly, in mid-1973 the treatment was changed. It was possible to construct satisfactory comparable series on the new basis back to 1964 and series D60 currently terminates, therefore, at the end of 1963. The new series are described under D61 and D65.

The remainder of this note describes in greater detail the statistical treatment during the period of the convention that the foreign currency operations of the Canadian chartered banks in Canada were "extra-Canadian". It relates only to the spot foreign currency claims on the books of head offices and branches in Canada of the banks.

Symbols

- A = foreign currency assets
- L = foreign currency liabilities
- n = non-resident debtors or creditors
- r = resident debtors or creditors

NFXA = net foreign currency (spot) assets of head offices and Canadian branches

Identity

$$\Sigma [A_{(n+r)} - L_{(n+r)}] = NFXA$$

The appropriate net balance of payments entry is the equivalent of $\Delta (L_n - A_n)$. This is the entry conventionally used by most countries in their balance of payments statements. It will be noted that it attributes to banks, rather than to their customers, the accumulation by residents of foreign currency positions through the domestic banking system.

Readers of the paragraphs which follow may find it useful to keep in mind the reverse identity between the banks and their customers of assets and liabilities. Thus, for example, L_r is perceived from the point of view of the bank as a liability, but from the point of view of its depositors as an asset.

¹⁴ Swapped deposits are funds converted into a foreign currency, usually United States dollars, that have been placed on term deposit with a bank and that the bank has undertaken through a forward contract to convert back into Canadian dollars. Such deposits form part of the foreign currency deposit liabilities of the chartered banks.

During the period in which the foreign currency operations of the Canadian chartered banks in Canada were treated as "extra-Canadian", holdings by residents of foreign currency deposits (L_r) were treated as foreign assets together with the net foreign currency (spot) assets of the chartered banks (NFXA). Similarly foreign currency borrowing by Canadians (A_r) was treated as borrowing abroad. (It was included in items for miscellaneous capital movements, either in long-term or in short-term forms.) The Canadian balance of payments statements thus included as capital movements, with minus signs denoting as is usual net outflows or increases in external assets, in series

D60	- $\Delta (L_r + NFXA)$
D50 and D82	ΔA_r
Total	- $\Delta (L_r + NFXA - A_r)$

This treatment arrived at the same global entry as that used conventionally in other countries. The identity appearing above (under symbols), viz

$$A_{(n+r)} - L_{(n+r)} = NFXA$$

can be re-expressed algebraically as

$$- (L_r + NFXA - A_r) = L_n - A_n$$

For further purposes of illustration a concrete example of the treatment may be given using the actual data for 1974 which appear in Table III.1 in the next section dealing with item D61. From examination of this statement it will be clear that the formula $(L_n - A_n)$ yielded a net capital outflow from the foreign currency activities of the Canadian chartered banks in Canada of \$1,354 million, being the increase in the net assets with non-residents. Under the conventions followed until 1964 the effects in balance of payments series (in millions of dollars) would have been as follows:

		Millions of dollars
D60	- $\Delta (L_r + NFXA) =$ - (1,997 + 473)	- 2,470
D50 and D82	ΔA_r	+ 1,116

Sources and Methods

The definitive estimates for pre-war years published in the *Canadian Balance of International Payments, 1926-48*, Catalogue 67-501, Table XII, contain series for the net change in external assets of Canadian banks. These were derived from statements, adapted to the purposes of the balance of payments, supplied to the bureau by the Canadian Bankers' Association. A description together with the relationship of the data to the published statutory return will be found in the *Canadian Balance of International Payments - A Study*

of *Methods and Results*, Catalogue 67-D-52, pp. 162-164. In statements published more recently which endeavour to put historical material on the basis on which it is currently published (e.g., in the *Canadian Balance of International Payments, 1972*, Catalogue 67-201, Table 33) pre-war series from 1930 onwards also reflect some fragmentary information on non-bank holdings which appeared on early work sheets.

With the introduction of exchange control in September 1939 the disposition of foreign currency deposits by residents of Canada became subject to approval, and with enactment of the Foreign Exchange Acquisition Order in the spring of the following year the sale to the official monetary authorities of most of these balances was required. As noted in the section dealing with series K1, foreign exchange acquired by the authorities under this Order was treated statistically as part of official international reserves from the outbreak of war. Thereafter during the period of exchange control the maintenance of foreign currency holdings by residents of Canada was largely restricted to necessary working balances. Statistics of changes in these have not been specifically identified in the published data for the years 1941 through 1945, but are picked up again from the beginning of 1946.

With the resumption of the role of chartered banks as principals in the foreign exchange market in 1950 and the termination of exchange control in 1951 an entirely new set of circumstances arose.

The descriptions which follow trace the principal changes in the sources and methods of D60 related to the foreign currency operations of the head offices and Canadian branches of Canadian chartered banks. Description of the other elements of the series is deferred to item D65.

The process by which flows expressed in Canadian dollar equivalents are derived from changes in balances denominated in foreign currencies is described in a note in Part VII.

The structure for reporting the net (spot) foreign currency positions of the head offices and branches in Canada, which had been established on October 1, 1950, when the banks were allowed to again act as principals in the foreign exchange market, was retained for a lengthy period following the termination of exchange control in 1951. Basically it consisted of converting into a flow equivalent the changes in the spot positions of trading, other head office departments and Canadian branches of the banks in respect of United States dollars and of sterling. It will be noted that this was on a currency rather than on a residency basis.

The holdings of foreign currency deposits by residents at head offices and Canadian branches presented greater difficulty. Until the end of 1959 the

flows were derived primarily from the series for deposits in Canada in currencies other than Canadian supplied monthly by the banks to the Inspector General of Banks. Some adjustments were made to eliminate from this series isolated instances of foreign-owned deposits in Canada which came to the bureau's attention.

With rising levels of foreign currency deposits booked in Canada, the underlying assumption that most of the depositors were residents became increasingly unsatisfactory. In 1960 series were obtained covering foreign currency deposits of \$100,000 and over of Canadian residents and these were used for a time, but it was not possible to make an appropriate allowance for Canadian-owned deposits under \$100,000. A further change was made in early 1961 so that the series would be derived for all foreign currency deposits of Canadian residents plus those of non-residents in amounts of \$100,000 or less, a procedure which recognized that the latter were more likely to belong to residents than to non-residents. The series was ultimately carried back through 1960 although the quarterly distribution was somewhat arbitrary. The struggle to maintain a satisfactory measure had been marked by discontinuities at the annual level in 1930, 1940, 1952 and 1960.

By 1962 the problem had been eliminated in principle. Thereafter the series for deposits in Canada in currencies other than Canadian were made available sub-divided into resident-owned and non-resident-owned balances. Subject to the normal hazards of classification, this resolved the problems at a global level, but there remained the problem of regional allocation, since no further subdivision was available except for distributions by currency for United States dollars, sterling, and other non-Canadian currency claims.

The data available throughout this period did not yield appropriate regional distributions of any of the foreign currency components of Canadian banking data used in series D60 (and D50 and D82), and a distribution by currency was used in the absence of any other information. The result was sometimes to attribute to a specific country some transactions carried out in its currency with third countries and occasionally led to confusion in the comparison of bilateral statistics compiled in Canada and in other countries.

This situation was remedied from the beginning of 1964 when data were made available providing distributions of the underlying claims on the basis of residency of the creditor or debtor. The estimates thereafter, now superseded by the change in treatment, included in item D60 a net bilateral adjustment in respect of all three component items (D60, D50 and D82), to shift them from a currency to a geographic residency basis. The discontinuity in series at the end of 1963 implied accumulated overstatements of net inflows from the United States and the United Kingdom

of the order of \$200 million and \$250 million respectively and a corresponding understatement of inflows from other countries.

The new reporting format was substantially in the form of the table covering chartered banks: total foreign currency assets and liabilities booked in Canada, published monthly by the Bank of Canada,¹⁵ although gold-based claims were also covered. This reporting frame also superseded the earlier arrangements for obtaining the spot positions of trading, other head office departments, and Canadian branches of the banks in respect of their foreign currency holdings and thereafter the net asset figure was the basis used in constructing the element of the series representing the banks' own spot positions.

This briefly summarizes the major phases of development of the component of series D60 derived from the chartered banks. Of a somewhat more technical nature was the evolution of the treatment of gold and gold-based claims. These were treated analogously with foreign currency denominated claims until 1968, and their subsequent treatment has, of course, been superseded by the overall change in the conceptual base of the series. In the data now superseded there were, however, several changes. From the fourth quarter of 1969, retroactive to the second quarter of 1968 following the introduction of the two-tier market, gold denominated claims have been treated on a strict residency basis. This separation of gold from foreign currency denominated claims reflected the application of guidelines to foreign currency operations of the Canadian chartered banks; gold denominated claims became in due course an element in D65. Also from the fourth quarter of 1969 changes in holdings of gold bullion by the Canadian chartered banks were reallocated from the United States to the "all other" bilateral account retroactive to the second quarter of 1968, but ceased to be regarded as external assets retroactively to that time with the revisions to the gold concept introduced with the first quarter of 1973 as described under series A3.

Evaluation

The descriptions above will have indicated that data inputs in a form which was conceptually appropriate for the treatment followed were not available until 1964. Thereafter the adequacy of the measures has been largely dependent on the ability of respondents to identify unambiguously the residency of borrowers and depositors. There can be no doubt that from time to time serious difficulties are posed for them.

No satisfactory evidence of the adequacy of the measures is available. The analysis of returns by residents showing their foreign currency deposits in Canada,

whether filed in connection with the specific balance of payments surveys or the general financial statistics program, is discouraging. At the end of 1972 when the chartered banks reported that residents held \$1,609 million of foreign currency deposits at head offices and Canadian branches, returns by residents revealed well under one-half. These holdings include swapped deposits¹⁶ which are presumed normally to be attractive only to residents of Canada (or possibly non-residents with a future requirement for Canadian dollars). It is not known to what extent the short-fall reflected a failure on the part of respondents to recognize swapped deposits as holdings of foreign currency, or to what extent holdings were concentrated in the hands of provincial and municipal governments, insurance companies and certain other institutions where the reporting arrangements are not well suited to the purpose. The deposits generally could, of course, include some which were wrongly classified as being Canadian-owned although there seems no reason to suppose a bias of this nature in one direction or another. Some further analysis of the measurement of bank deposits as reported from the asset and liability sides will be found in the comment on series D65.

Linkages and Relationships

CANSIM Databank Series — These are listed in Appendix I.

IMF Balance of Payments Manual, Third Edition (1961) — Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 2 (Movements of Capital and Monetary Gold), components of:

Item:

- 16 Other monetary institutions, for data in respect of head offices and branches in Canada of Canadian chartered banks.
- 15 Central monetary institutions, for data in respect of minor working balances of non-United States non-United Kingdom non-convertible foreign currencies held by the Bank of Canada. (Prior to 1970 included also convertible currencies which were transferred at that time to official international reserves retroactively to 1961.)
- 14.6 Central government other short-term assets, for data in respect of refunding loan proceeds and other funds set aside for retirements, minor working balances of non-United States non-United Kingdom convertible foreign currencies held by the Government prior to 1970 (trans-

¹⁶ Swapped deposits are funds converted into a foreign currency, usually United States dollars, that have been placed on term deposit with a bank and that the bank has undertaken through a forward contract to convert back into Canadian dollars. Such deposits form part of the foreign currency deposit liabilities of the chartered banks.

¹⁵ *Bank of Canada Review* (Table 16 in issue for November 1975).

Item

ferred at that time to official international reserves retroactively to 1961), and on a temporary basis from the second quarter of 1968 through the end of 1972 new gold production in the hands of the authorities for disposition in the non-monetary market (eliminated retroactively in 1973).

- 13.3 Local governments other assets, for data in respect of foreign currency deposits abroad of local governments.
- 12.2 Private holdings of foreign central government securities, for data in respect of private holdings of foreign treasury bills.
- 12.4 Private holdings of currency and bank deposits, other short-term assets, for data in respect of private foreign currency deposits abroad.

Table XV Gold Holdings and Foreign Assets and Liabilities of Central Monetary Institutions.

Table XVI Gold Holdings and Foreign Assets and Liabilities of Other Monetary Institutions.

IMF/OECD Common Reporting System (Appendix 5) - Global Balance of Payments Summary and Regional Balance of Payments Summary, Item C (Capital and monetary gold), components of:

Item

- 16 Other monetary institutions, for data in respect of head offices and branches in Canada of Canadian chartered banks.
- 15 Central monetary institutions, for data in respect of minor working balances of non-United States non-United Kingdom non-convertible foreign currencies held by the Bank of Canada. (Prior to 1970 included also convertible currencies which were transferred at that time to official international reserves retroactively to 1961.)
- 14.6 Central government other short-term assets, for data in respect of refunding loan proceeds and other funds set aside for retirements, minor working balances of non-United States non-United Kingdom convertible foreign currencies held by the government prior to 1970 (transferred at that time to official international reserves retroactively to 1961), and on a temporary basis from the second quarter of 1968 through the end of 1972 new gold production in the hands of the authorities for disposition in the non-monetary market (eliminated retroactively in 1973).
- 13.2 Local government short-term assets, for data in respect of foreign currency deposits abroad of local governments (data not presently available).

Item

- 12.2 Private holdings of other short-term assets, for data in respect of private foreign currency deposits abroad and private holdings of foreign treasury bills.

Modified Table XV Gold Holdings and Foreign Assets and Liabilities of Central Monetary Institutions.

Modified Table XVI Gold Holdings and Foreign Assets and Liabilities of Other Monetary Institutions.

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) - Not relevant.

Financial Flow Accounts (Catalogue 13-002) - Components (with sign reversed) of Rest of World (sector XIII) as follows:

Category

- 3313 Foreign currency and deposits, for foreign currency deposits of residents.
- 3530 Foreign investments, for private holdings of foreign treasury bills; and, without sign reversed.
- 2610 Other assets, for net foreign currency (spot) position of the Canadian chartered banks.

Series Availability

Annually from 1927 through 1940, and from 1946 through 1963, quarterly from 1950 through 1963. (Comparable data were published through the first quarter of 1973 in contemporary reports.)

Supplementary Detail

Foreign currency assets and liabilities of head offices and branches in Canada of the Canadian chartered banks - published on a transactions basis - quarterly with stocks at end of period, in Catalogue 67-001 (Table 10, II Q1973) and Catalogue 67-201 (Table 23 in issue for 1971, and Table 25 in issue for 1972).

Related Data

Chartered banks: Total foreign currency and United States dollar assets and liabilities booked in Canada, by country of residence and type of bank customer, monthly (*Bank of Canada Review*, Tables 16 and 17 in issue for November 1976, and related Notes to the tables).

Chartered banks: Total foreign currency assets and liabilities, monthly (*Bank of Canada Review*, Table 15 in issue for November 1976, and related Notes to the tables).

Chartered banks of Canada: Statement of assets and liabilities compiled from returns made pursuant to section 103 of the Bank Act, monthly (Supplement to the Canada Gazette).

(The last two sources cover assets and liabilities held by branches, agencies and wholly-owned banking subsidiaries abroad as well as by head offices and branches in Canada.)

Resident Holdings of Short-term Funds Abroad (from 1964)

Y. Smith

Codes – D61 Chartered bank net foreign currency position with non-residents

D65 Non-bank holdings of short-term funds abroad

Concept

Series D61 measures the net foreign currency claims of the Canadian chartered banks on non-residents. Series D65 measures deposits with banks abroad and foreign money market paper held by residents of Canada, apart from the Canadian banking system and the official monetary authorities.

Description

Series D61 covering net (spot) foreign currency positions, or net claims, with non-residents of the head offices and branches in Canada of the chartered banks was introduced in the second quarter of 1973 retroactively to 1964. Table III.1 shows the composition of the foreign currency assets and liabilities of head offices and branches in Canada as at December 31, 1974, together with related series for net transactions.

Series D65 covers other resident holdings of foreign currencies abroad, apart, of course, from those which are included in the K series which cover Canada's official international reserves. Although series D65 was introduced only in the first quarter of 1973, retroactively to 1964, it previously formed an unpublished component of D60 and it will be recalled that its description there was deferred to this point. Accordingly in the text which follows some of the descriptive material relates to periods antecedent to the separate publication of the series.

Sources and Methods

All of series D61 and practically all of series D65 are derived from changes in outstanding claims denominated in foreign currencies, expressed either in terms of foreign currencies or their Canadian dollar equivalents. The processes by which flow series for use in the balance of payments, expressed in terms of Canadian dollars, are constructed from these is described in the note on the measurement of transactions in foreign currencies which will be found in Part VII.

Series D61 is derived from reports of foreign currency assets and liabilities booked in Canada at head offices and Canadian branches as supplied to the Inspector General of Banks by Canadian chartered banks. The

reporting format is substantially in the form of the table covering chartered banks: total foreign currency assets and liabilities booked in Canada, published monthly by the Bank of Canada.¹⁷

Series D65 covering non-bank holdings of foreign funds abroad presents considerable difficulties of measurement. It is the practice in most countries to derive this measure by surveys of those residents most likely to be holders of foreign currency deposits abroad. This practice has not been followed by Canadian statisticians. Examination of all the available data, including many of the surveys conducted within Statistics Canada which are not specifically for balance of payments purposes, against available measures in other countries of banking liabilities in currencies other than Canadian to residents of Canada has suggested serious coverage problems.

Estimates of non-bank holdings of foreign currencies abroad by residents at the end of 1972, derived primarily from non-Canadian sources, expressed in their Canadian dollar equivalent, were as follows:

	Millions of dollars	
United States dollars:		
In the United States	314	
In countries other than the United States and Canada	1,567	1,881
Sterling		80
Other currencies		141
United States Government treasury bills		97
Total		2,199

Returns by residents of Canada showing their holdings, as filed both in connection with specific balance of payments surveys or the general financial statistics program, revealed less than one third of the total. The record is somewhat more satisfactory excluding the Eurodollar deposits, when more than two thirds of the remainder is identifiable. But major questions remain as to the significance of the unidentified balances. The surveys are not comprehensive. They do not cover persons, estates, trusts and agencies, insurance, non-profit institutions, or pension funds and the coverage of provinces, municipalities and their agencies is inadequate. The survey systems are directed largely to corporations

¹⁷ Bank of Canada Review (Table 16 in issue for November 1976).

TABLE III.1. Foreign Currency Assets and Liabilities of Head Offices and Branches in Canada of the Canadian Chartered Banks

Item	Net transactions								Amount outstanding December 31, 1974
	1967	1968	1969	1970	1971	1972	1973	1974	
	millions of dollars								
Assets with residents of:									
United States	273	167	816	- 33	- 933	- 87	528	- 47	2,552
Other countries	375	726	1,394	1,389	319	1,288	3,211	1,492	10,889
Total non-resident	648	893	2,210	1,356	- 614	1,201	3,739	1,445	13,411
Canada	- 103	- 49	215	216	- 43	- 100	175	1,116	2,539
Total	545	844	2,425	1,572	- 657	1,101	3,914	2,561	15,770
Liabilities with residents of:									
United States	76	- 297	339	22	592	175	265	1,026	3,020
Other countries	188	702	1,365	1,212	198	1,663	3,131	- 935	8,603
Total non-resident	264	405	1,704	1,234	790	1,838	3,396	91	11,623
Canada:									
Swapped deposits	165	- 141	792	224	- 951	- 472	553	646	1,577
Other	198	330	445	- 123	- 519	383	853	1,351	3,485
Total Canada	363	189	1,237	101	- 1,470	- 89	1,406	1,997	5,062
Total	627	594	2,941	1,335	- 680	1,749	4,802	2,088	16,685
Net assets with residents of:									
United States	+ 197	+ 464	+ 477	- 55	- 1,525	- 262	+ 263	- 1,073	- 498
Other countries	+ 187	+ 24	+ 29	+ 177	+ 121	- 375	+ 80	+ 2,427	+ 2,286
Total non-residents	+ 384	+ 488	+ 506	+ 122	- 1,404	- 637	+ 343	+ 1,354	+ 1,788
Canada	- 466	- 238	- 1,022	+ 115	+ 1,427	- 11	- 1,231	- 881	- 2,703
Total	- 82	+ 250	- 516	+ 237	+ 23	- 648	- 888	+ 473	- 915

Note: This table shows the foreign currency banking operations (excluding gold) of the Canadian chartered banks. The effect on Canada's balance of payments is measured by the net assets with all non-residents which appears as series D61. The transaction figures are based on data published monthly in the *Bank of Canada Review*, but have been adjusted so as to eliminate changes in value resulting from variations in exchange rates.

with otherwise significant balance of payments transactions or to non-financial corporations, surveys of which provide greater detail of deposits held than in the case of financial institutions generally. (There may be some significance in the fact that the greatest apparent undercoverage of reporting by asset holders of foreign currency deposits tends to be in respect of swapped and of Eurodollar deposits. These forms of holdings may be less related than others to the particular focuses of the major survey sources.) The underlying data problems are starkly revealed in the *Financial Flow Accounts*, Catalogue 13-002, where massive changes in foreign currency deposits are reflected residually in the Persons sector.

This situation is presumably not unique to Canada. Official articles on developments in the United States balance of payments¹⁸ include regularly a table giving details of claims on foreigners reported by United States banks and non-banking concerns. As a memorandum item, it shows United States dollar deposits in Canadian banks both as reported by major United States corporations other than banks and as reported in Canadian banking statistics. At the end of 1974 the former figure was U.S. \$603 million and the latter U.S. \$2,138 million. The United States source accordingly captured just over 28% of the aggregate.

Resident non-bank holdings of short-term funds abroad — As a consequence of the problems revealed by this type of analysis statisticians in Canada have chosen to construct estimates of changes in resident non-bank holdings of foreign currencies abroad from foreign source data. Two basic assumptions underly this decision. The first is that the measurement of banking liabilities will by reason of concentration be more complete than the measurement through surveys of asset holders. The second is that, despite doubt that may arise concerning the residential classification of specific accounts, there is no reason to suspect a bias in one direction or another. (Indeed if there were such a bias, it would also invalidate the estimates of changes in chartered bank net foreign currency positions with non-residents which are reflected in series D61.)

Accordingly information is obtained from published sources or privately for liabilities to and claims on non-bank Canadians of banks abroad in most of the major countries. When no distinction was made between bank and non-bank claims, counterpart data reported in Canada for bank claims were deducted to derive residually the amounts of non-bank claims.

Some additional information is available from Canadian sources. If specific elements of foreign currency deposits abroad reported, for example, on the BP-21, Report of transactions between Canada and other countries,¹⁹ exceed those derived from external banking

sources, the larger figure is substituted. Similarly when, on occasion, the banking element as seen in Canada exceeded the total banking and non-banking element obtained from external sources, the non-bank residual was taken to be zero rather than negative. These corrections have been very exceptional. In the first instance they may reflect problems of coverage — holdings with banks abroad for whom data cannot be obtained. In either instance they may arise from problems of float or classification.

There will be some cases in which series derived from external sources reflect transactions with Canadian corporations which are treated as non-residents for statistical purposes. To the extent that these can be identified, an allowance for them is made elsewhere in the balance of payments as described in the note in Part VII on residency.

Gold-based claims — Another element included in this series is gold-denominated claims on non-residents held by offices and branches in Canada of Canadian chartered banks. While these claims certainly do not qualify as "non-bank" holdings, they are included in series D65 rather than D61 in order to preserve the consistency of the latter series with those published regularly by the Bank of Canada which excluded gold bullion and gold-based claims after the introduction of the banking guidelines in 1968.

Resident non-bank holdings of foreign money market paper — Estimates of net transactions in foreign treasury bills and other money market paper by head offices and branches in Canada of Canadian chartered banks are already covered in series D61 and those by the official monetary authorities are covered in series K. But other residents may also invest from time to time in such claims. Their estimated transactions are a component of series D65. Two types of sources are used.

The first of these is external. The United States will serve as a convenient example. Federal Reserve Banks collect monthly on behalf of the United States Treasury Department, large amounts of data relating to claims by or on non-residents. Among these are series for United States treasury bills and certificates of indebtedness (together with short-term obligations of corporations and other agencies of the United States Government which are guaranteed by the United States) insofar as these liabilities may be obtained from the records of banks and banking institutions. A sub-division provides the component representing liabilities to residents of Canada other than official institutions and banks. It is published monthly in the *Treasury Bulletin*.

The second source is the return supplied monthly on BP-30 by security dealers in Canada of security transactions between Canada and other countries. The procedure parallels that followed in respect of Canadian money market instruments which is described in considerable detail in the section dealing with series D74 through D77 to which the reader is referred.

¹⁸ *Survey of Current Business*. United States Department of Commerce, Bureau of Economic Analysis.

¹⁹ All the schedules referred to in this section are reproduced in Part V.

The assumption is made that the two series are non-duplicative, i.e., that the holdings reported in the United States by United States banks represent transactions carried out through channels other than Canadian security dealers.

Some additional information on Canadian holders of these types of instruments becomes available from other surveys and may give rise to further adjustments. The BP-21, Report of transactions between Canada and other countries, provides for the reporting at annual intervals of holdings of foreign treasury bills and similar short-term investments. The BP-51, Geographical distribution of ownership of capital, records holdings of non-Canadian treasury bills and of non-Canadian commercial and finance paper, and the BP-59, Capital invested abroad by Canadian enterprises, will also reveal holdings of foreign money market paper.

Special elements - It has been noted that non-bank holdings of foreign funds abroad, the present series D65, although not published separately, was an element in D60, Resident holdings of bank balances and other short-term funds abroad, although description of it under that series was deferred to this point. In the period prior to 1964, for which the element has not been published separately, several special types of balances were covered.

Prior to the union of Newfoundland with Canada in 1949 there had been an arrangement whereby Newfoundland was permitted exceptionally to sell codfish to Portugal against payment in sterling, on the understanding that the funds could be used only for retirement of their sterling debt. At the time of union the responsibility for these arrangements was assumed by Canada. Thereafter sterling receipts which were not immediately applied to debt repurchases were treated as an element of non-bank holdings of foreign currencies abroad. The debt was fully retired by 1963.

There were other official holdings of foreign exchange related to debt operations which because of their special character were reflected in this series rather than in official international reserves. In 1949 a sizeable block of exchange raised through a new Government of Canada issue in New York was set aside to cover retirements of United States dollar debt in 1950.

Finally among this listing of special elements of the series were some official holdings of currencies other than the United States dollar and the pound sterling. The two latter currencies were consistently included in Canada's official holdings of gold and foreign exchange as used in balance of payments estimates. On the other hand minor working balances held by the authorities in other currencies were included as non-bank holdings of foreign currencies abroad. When the coverage of official international reserves was extended in 1970 (as described in series K1 through K4) holdings of convertible currencies other than the United States dollar and sterling were

shifted to the new series K4, which was constructed retroactively back to 1961. Holdings of these currencies in the earlier years remained, however, among non-bank holdings of foreign currencies abroad.

In the transitional period from the second quarter of 1968 through 1972, before the implementation of the change in the treatment of gold production described in item A3, holdings by the authorities of gold for disposition in the non-monetary market were also assigned to this series as they were no longer eligible for incorporation into official international reserves. After the introduction of the revised treatment in 1973 these holdings were redesignated retroactively to April 1968 as domestic assets.

Evaluation

Any series which is derived from changes in balances dependent on the classification accredited individually to them in a great many institutions is likely to reflect inconsistencies. Banking data are further plagued by the existence of float and the problem of determining its significance even in those instances where it is measurable. The descriptions given above will have demonstrated that such checks as are theoretically possible provide no practical help in evaluating the series. The particular series which have been used appear in the judgement of the compilers to be those which are likely to be most satisfactory.

Linkages and Relationships

CANSIM Databank Series - These are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) - Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 2 (Movements of Capital and Monetary Gold) components of:

In respect of D61:

Item

- 16 Other monetary institutions, data relating to head offices and branches in Canada of Canadian chartered banks.
In respect of D65:
- 12.1 Private holdings of currency and bank deposits, for data covering private foreign currency deposits abroad.
- 12.2 Private holdings of foreign central government securities, for data covering private holdings of foreign treasury bills.
- 12.4 Private holdings of other assets for data covering private holdings of private funds.
- 13.3 Local governments other assets, for data covering foreign currency deposits abroad or local governments.

Item	Category
16 Other monetary institutions for data covering gold claims of head offices and branches in Canada of Canadian chartered banks.	3331 Bank loans, for foreign currency loans to non-residents.
	3530 Foreign investments, for holdings of foreign securities.

Table XVI Gold Holdings and Foreign Assets and Liabilities of Other Monetary Institutions.

IMF/OECD Common Reporting System (Appendix 6) - Global Balance of Payments Summary and Regional Balance of Payments Summary, Item C (Capital and monetary gold) components of:

In respect of D65:

Item	Category
16 Other monetary institutions, for data relating to head offices and branches in Canada of Canadian chartered banks.	
In respect of D65:	
13.2 Local government short-term assets, for data covering foreign currency deposits abroad of local governments (not presently available).	
12.2 Private holdings of other short-term assets, for data covering private foreign currency deposits abroad and private holdings of foreign treasury bills.	
16 Other monetary institutions for data covering gold claims of head offices and branches in Canada of Canadian chartered banks.	

Modified Table XVI Gold Holdings and Foreign Assets and Liabilities of Other Monetary Institutions.

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) - Not relevant.

Financial Flow Accounts (Catalogue 13-002) - Components (with sign reversed) of Rest of World (sector XIII) as follows:

Category	Description
2313	Foreign currency and deposits, for foreign currency deposits of non-residents.
3313	Foreign currency and deposits, for foreign currency deposits with non-residents.

Category	Description
3331	Bank loans, for foreign currency loans to non-residents.
3530	Foreign investments, for holdings of foreign securities.

Series Availability

Annually and quarterly from 1964.

Supplementary Detail

Foreign currency assets and liabilities of head offices and branches in Canada of the Canadian chartered banks - published on a transactions basis quarterly with stocks at end of period, in Catalogue 67-001 (Tables 10 or 12) and Catalogue 67-201 (Table 23 in issue for 1971 and Table 25 in issue for 1972). Minor differences from currently published totals represent rounding differences.

Related Data

Chartered banks: Total foreign currency and United States dollar assets and liabilities booked in Canada, by country of residence and type of bank customer, monthly (*Bank of Canada Review*, Tables 16 and 17, in issue for November 1976, and related Notes to the tables).

Chartered banks: Total foreign currency assets and liabilities, monthly (*Bank of Canada Review*, Table 15 in issue for November 1976, and related Notes to the tables).

Chartered banks of Canada: Statement of assets and liabilities compiled from returns made pursuant to Section 103 of the Bank Act, monthly (Supplement to the Canada Gazette).

(The last two sources cover assets and liabilities held by branches, agencies and wholly-owned banking subsidiaries abroad as well as by head offices and branches in Canada.)

Additional Reference

The Foreign Currency Business of the Canadian Banks: An Econometric Study by Charles Freedman, Bank of Canada Staff Research Studies No. 10, 1974.

Non-resident Holdings of Canadian Dollar Deposits

Code - D71

Concept

This series covers changes in Canadian dollar deposits of non-residents with Canadian banks and other deposit-accepting institutions. It also covers net Canadian dollar liabilities of the head offices and branches in Canada of Canadian chartered banks to their branches, agencies and subsidiaries abroad.

Description

The component of this series representing liabilities of the Canadian chartered banks may be divided into two sub-components for ease of description. The first of these covers deposit liabilities to non-resident customers. The second covers the net Canadian dollar liability to branches, agencies and subsidiaries abroad.

Data for deposit liabilities to non-residents are obtained quarterly for Statistics Canada by the Inspector

General of Banks. A substantial amount of geographical detail is obtained in order to meet the variety of needs described in the note on area distributions in Part VII. The liabilities are divided additionally to specify credit balances of foreign banks and correspondents, interest-bearing deposits of other non-residents, and non-interest-

bearing deposits of other non-residents. A memorandum item provides the total of components included in the three series which represents deposits of official institutions. These liabilities have reached significant levels as shown in Table III.2.

TABLE III.2. Canadian Dollar Deposits Held by Non-residents, December 31, 1974

	Millions of dollars	
Head offices and branches in Canada of Canadian chartered banks:		
Foreign banks and banking correspondents (credit balances)	641	
Other non-residents, interest-bearing deposits	771	
Other non-residents, non-interest-bearing deposits	180	1,592
Foreign branches, agencies, subsidiaries net spot liabilities in Canadian dollars:		
Deposits abroad	71	
Less:		
Loans abroad	204	- 133
Bank of Canada:		
Deposits of non-residents	44	
Money employed balances	33	77
Other deposit-accepting institutions		33
Adjustment for large identified transactions in float		- 9
Total		1,560

The measurement of capital flows in Canadian dollars between the banks in Canada and their branches, agencies and subsidiaries abroad has presented considerable difficulty. The collection of direct measures of these claims was discontinued by the Inspector General of Banks many years ago, partly on the grounds that they were severely distorted by problems of float. As an alternative the assumption is made that a net short spot position abroad in Canadian dollars represents a claim on Canada. The process is described at greater length below.

Two elements of series D71 are shown in Table III.2 for the Bank of Canada. Deposits in Canadian dollars accepted from abroad by the Bank of Canada are, of course, similar to deposits in Canadian dollars accepted by the chartered banks and they are similarly treated. A somewhat greater complication arises in respect of "money employed". Until 1974, on occasions when it was felt appropriate by the Bank of Canada to pay interest to customers, a technique was used under which the Bank set aside certain securities, the interest on which was used to compensate the other party for leaving a "money employed" balance with the Bank.²⁰ As the Bank was technically holding securities in safe-keeping on behalf of the customers, such "money employed" balances were not included in the Bank's statements of assets and liabilities.

²⁰ Evidence of the Governor before the Royal Commission on Banking and Finance, p. 86. Bank of Canada, Ottawa, May 1964.

When central bank reciprocal credit facilities have been activated in Canada's interest as described under item K5, this technique has normally been employed but it was also used for other funds on deposit for foreign central banks. Under those procedures "money employed" handled in this way could have been seen as a capital inflow arising from the acquisition of Canadian securities by non-residents. In the case of special central bank assistance this would have obscured both the assistance provided and, to a considerable degree, the need for it. The nature of Canada's liability would also have been unclear. Accordingly changes in balances in "money employed" accounts have been eliminated from security transactions and shown separately either with Canadian dollar deposits in series D71 or, where more appropriate, as official monetary movements in series K5.

The changes in Canadian dollar deposits of non-residents with the Montréal City and District Savings Bank and in deposits accepted by trust and loan companies are also shown in the item.

Sources and Methods

Data in respect of Canadian dollar liabilities to non-residents of head offices and branches in Canada of Canadian chartered banks are obtained quarterly by the Inspector General of Banks. Changes are normally used in the construction of series D71 without adjustment, although allowances are occasionally made where large

payments are known to have occurred but had not at the reporting date been debited to the accounts of non-resident payers.

Data in respect of other Canadian deposit-accepting institutions are obtained directly.

Evaluation

The series are subject to possible classification errors by reporting institutions and to the problems of float which are characteristic of most banking statistics.

Linkages and Relationships

CANSIM Databank Series – These are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) – Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 2 (Movements of Capital and Monetary Gold), components of Items 15.3 Central monetary institutions deposits and 16.2 Other monetary institutions deposits.

Table XV Gold Holdings and Foreign Assets and Liabilities of Central Monetary Institutions.

Table XVI Gold Holdings and Foreign Assets and Liabilities of Other Monetary Institutions.

IMF/OECD Common Reporting System (Appendix 6) – Global Balance of Payments Summary and Regional Balance of Payments Summary, Item C (Capital and monetary gold), components of 15.6 Central monetary institutions liabilities to official and of 16.6 Other monetary institutions other foreign liabilities.

Modified Table XV Gold Holdings and Foreign Assets and Liabilities of Central Monetary Institutions.

Modified Table XVI Gold Holdings and Foreign Assets and Liabilities of Other Monetary Institutions.

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) – Not relevant.

Financial Flow Accounts (Catalogue 13-002) – Components of Currency and bank deposits (category 2311) and of Deposits in other institutions (category 2312) and, with sign reversed, of claims on Associated enterprises (category 3512) Rest of World (sector XIII).

Series Availability

Annually from 1940 and quarterly from 1950.

Non-resident Holdings of Government of Canada Demand Liabilities

Code – D72

Concept

This series reflects changes in the principal demand liabilities of the Government of Canada to non-residents.

Description

The principal component of this series is represented by non-interest-bearing notes payable on demand to international investment agencies. For the most part these represent parts of Canadian capital subscriptions and advances to the agencies which have not yet been utilized. The Canadian subscriptions and advances themselves are a component of series D42.

For example, at the end of 1974 there were notes outstanding in the following amounts:

Millions of dollars

Agency	
International Development Association	172.4
Inter-American Development Bank	23.8
Asian Development Bank	8.4
Caribbean Development Bank	1.9
Total	206.5

Provisions with regard to capital subscriptions to the International Bank for Reconstruction and Development required members to maintain the original gold value of their subscriptions. For a time part of these subscriptions were employed in non-interest-bearing demand notes of the Government of Canada. During this period occasional adjustment payments or receipts occurred between Canada and the International Bank for Reconstruction and Development as a result of this provision. These transactions, which were not large, were regarded as arising from valuation adjustments and were not reflected in the balance of payments at that time.

There are also non-interest-bearing notes payable on demand to the International Monetary Fund. These are an element in Canada's reserve position in the International Monetary Fund and as such are included in series K4 or K5 rather than D72.

Also included in this series from 1958 through 1966 were changes in a deposit account of the United States with the Department of National Defence. This account was first brought into series D72 when a very substantial amount was placed in it by the United States government to facilitate the placing of contracts by the Royal Canadian Air Force on behalf of the United States Air Force in respect of Strategic Air Command bases. By the end of 1966 the amounts passing through this

account had been sharply reduced and it was phased out of series D72. The Government of Canada has a number of other open accounts with international organizations and foreign governments but balances and changes in them tend to be small. They are included in series D82 as was the account with the United States before 1958 and after 1966.

Sources and Methods

The data are derived from financial records of the Government of Canada.

Evaluation

The component of the series made up of non-interest-bearing notes payable on demand to international investment agencies is an accounting figure which is accurate and consistent with other elements of the balance of payments.

The component representing the United States deposit account was, of course, accurate insofar as government accounting is concerned, but may not always have been consistent in timing with the uses of funds as they appear elsewhere in the balance of payments.

Linkages and Relationships

CANSIM Databank Series – These are listed in Appendix I.

Non-resident Holdings of Canadian Money Market Paper

Codes – D74 Treasury bills (Government of Canada)

D75 Commercial paper

D76 Finance company paper

D77 Other short-term paper

Concept

These series measure capital flows related to non-resident holdings of a variety of Canadian money market instruments.

Description

The development of the Canadian short-term money market²¹ is comparatively recent. Many observers date it from 1954 when the Bank of Canada set up special facilities to encourage trading in treasury bills. By 1958, the initiative of the Bank of Canada and the active co-operation of money market jobbers and the chartered banks had developed a broad market in federal government treasury bills and short-term bonds. Dealers

²¹ In balance of payments usage, short term is applied to terms of one year or less while in money market usage, short term is applied to three years or less.

IMF Balance of Payments Manual, Third Edition (1961) – Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 2 (Movements of Capital and Monetary Gold), Item 14.6 Central government other short-term liabilities.

IMF/OECD Common Reporting System (Appendix 6) – Global Balance of Payments Summary and Regional Balance of Payments Summary, Item C (Capital and monetary gold), component of 14.6 Central government other short-term liabilities.

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) – Not relevant.

Financial Flow Accounts (Catalogue 13-002) – Component of Other loans (category 2332) of Rest of World (sector XIII).

Series Availability

Annually from 1946 and quarterly from 1950.

Related Data

Public Accounts of Canada (annual).

had also become active in marketing short-term notes of instalment finance companies which turned increasingly to this market because of the uncertainty of the chartered bank lines of credit and the rigid and relatively higher cost of bank lending rates at that time. Particularly after 1957, a market also developed for short-term promissory notes of prime non-financial corporate borrowers.²²

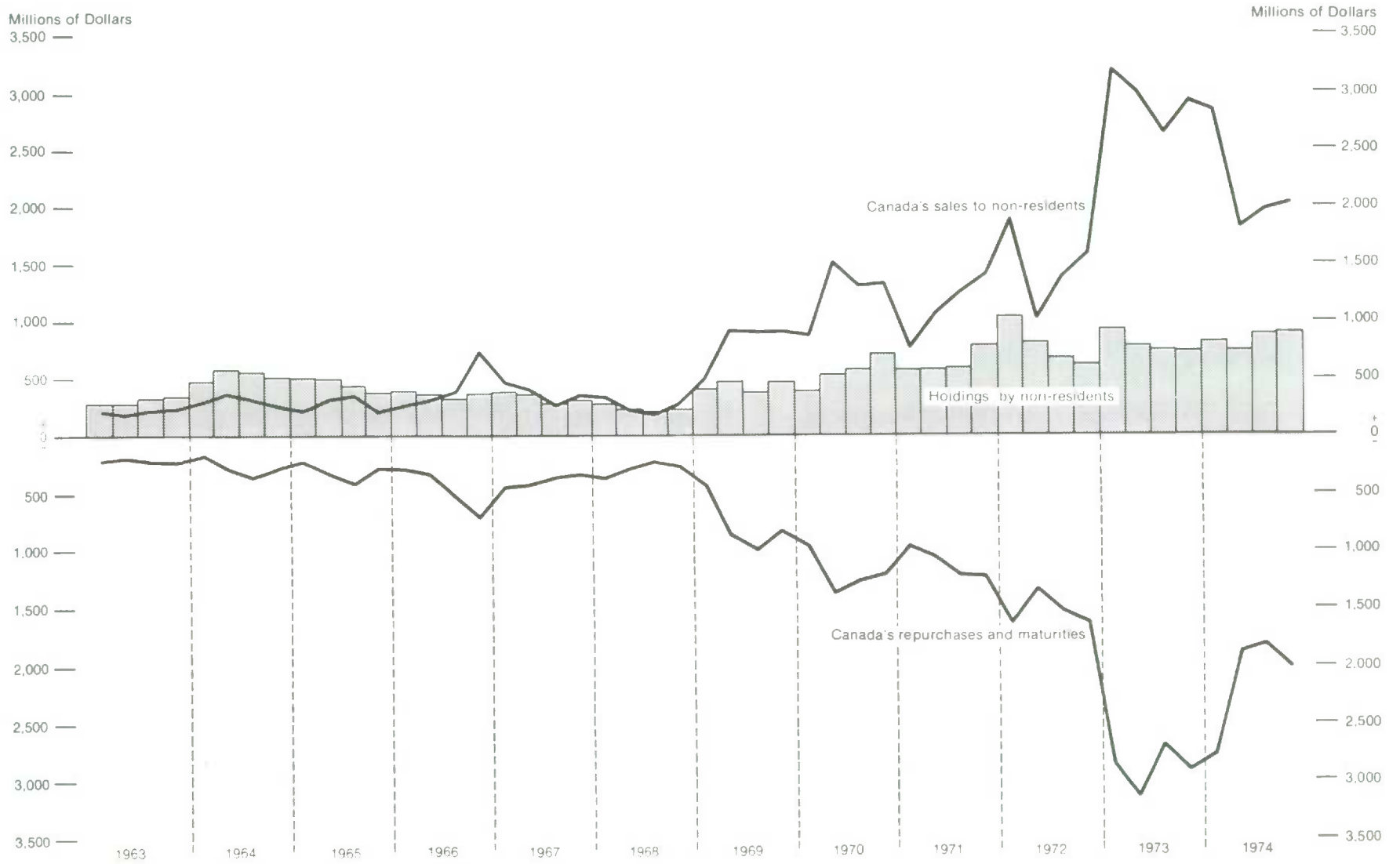
By the end of 1974 the outstanding total of treasury bills and other short-term paper of provincial and municipal governments and their enterprises, sales finance and consumer loan company paper, other commercial paper and Canadian dollar bankers' acceptances had reached a total of \$7,195 million.²³ Government of Canada treasury bills held outside the banking system and government accounts amounted to a further \$233 million, and there were further large holdings by the general public of Government of Canada bonds maturing

²² *Report of the Royal Commission on Banking and Finance*, p. 319, Queen's Printer, Ottawa, 1964. See also "Government of Canada treasury bills" in *Bank of Canada Review*, May 1972, "The corporate short-term paper market" in *Bank of Canada Review*, September 1976, and *The Canadian Money Market*, Revised, Wood Gundy Limited, 1974.

²³ *Bank of Canada Review*, November 1976, Table 35.

Chart III.4
**Gross Transactions between Canada and Other Countries
 in Selected Canadian Money Market Instruments**

(Treasury Bills, Finance company paper, Commercial paper, Canadian dollar bankers' acceptances and other short-term paper)



within three years. This list by no means exhausts the range of instruments available in the money market in Canada. It excludes, for example, term deposits with banks and other deposit accepting institutions.

Most of the principal Canadian money market instruments in which non-residents invest are included in the group of series described in this section. The motivation for transactions may vary. While it is reasonable to regard interest arbitrage as being a major influence, there are others. Some investment from abroad in short-term money market instruments can be directly traced to future needs of the investors for Canadian funds. The Canadian money market may see accumulations of non-resident-owned funds in an anticipation of payments under export contracts. Or it may provide a temporary haven for funds destined for long-term investment in Canada. But the overwhelming part of the movement is the result of what one may picturesquely describe as sharp pencil work - and more accurately as electronic calculator work - relating interest rates, in Canada and elsewhere, and forward exchange margins.

The identification of appropriate time series to provide measures of the differentials is not simple, as the relative differentials in respect of different types of instrument vary over time. The *Bank of Canada Review* includes a table²⁴ of Canadian and international interest rates covering a wide range of long- and short-term investments. A series is provided for the annual interest rate equivalent of the spread between the spot and forward exchange rates for United States dollars in Canada. Covered differentials representing the spread between comparable Canadian and United States short-term rates after allowance has been made for the forward premium or discount are given for three-month treasury bills and 90-day short-term paper.

²⁴ Table 20 in issue for November 1976.

Analysis of movements can also be made difficult by factors such as the changing incidence of withholding taxes on various forms of investment, the effects of programs by other countries to protect their balances of payments and by the impact of disastrous investor experiences in the paper of some companies (Atlantic Acceptance Corporation Limited, in which non-residents had important holdings of short-term paper, collapsed in June 1965).

As already noted, not all of the instruments available within the money market are covered in the series. Indeed there is limited attraction in some of them, such as swapped deposits, for non-resident investors. The series which are covered in this group include most of the forms which are likely to be attractive to non-residents. They exclude, however, term deposits with Canadian chartered banks, whether denominated in Canadian or other currencies, except for those in bearer form.

The swings in non-resident holdings of money market paper have been wide. For example, at the end of the third quarter of 1964 holdings by non-residents of paper of Canadian sales finance and consumer loan companies reached slightly over \$500 million. By the latter part of 1968 they had declined to \$129 million. They reached another peak of \$565 million at the end of the first quarter 1972. Non-resident holdings of the various types of instruments at the end of 1974 are shown in Table III.3. Most of these instruments were denominated in Canadian currency; the total of outstanding sales finance, consumer loan and other short-term paper payable in foreign currencies to both residents and non-residents totalled only \$248 million.²⁵ Non-resident holders of Canadian dollar paper may if they wish avoid assuming Canadian dollar positions by entering into forward exchange contracts.

²⁵ *Bank of Canada Review*, November 1976, Table 35.

TABLE III.3. Non-resident Holdings of Selected Canadian Money Market Instruments, December 31, 1974

	Millions of dollars	
Government of Canada treasury bills		85
Sales finance and consumer loan company paper		483
Other commercial paper and Canadian dollar bankers' acceptances		110
Other short-term paper:		
Provincial and municipal treasury bills	55	
Provincial and municipal government enterprise treasury bills	23	
Bearer deposits with Canadian chartered banks	18	
Short-term paper of other financial institutions (mainly affiliated with foreign banks)	127	223
Total		901

Swapped deposits have varied greatly. They reached just over \$1.8 billion during 1970, fell during 1972 to below \$200 million, and rose again to over \$2.9 billion in the Fall of 1974.²⁶ They may be assumed to be very largely held by residents of Canada. They have a direct impact on the balance of payments only to the extent that the funds are in fact employed in claims on non-residents, in which case they affect series D61.

Another form of money market investment by non-residents which does not appear in this group of series is buy-back transactions under sale and repurchase agreements based upon Government of Canada direct issues with an original term over one year. Transactions of this nature were at one time of some importance and were published in Table 9 D17.5 in the *Canadian Balance of International Payments - A Compendium of Statistics from 1946 to 1965*, Catalogue 67-505. More recently, however, buy-back transactions have been based on short-term instruments and are included with other transactions in them.

Sources and Methods

These series represent the only major elements of short-term capital flows in Canada's balance of payments which are constructed on the basis of transactions rather than derived from changes in holdings. In this respect the methodology differs from that most commonly employed in other countries. In the Canadian situation the method is believed to provide more complete coverage than would be possible from surveys of either holders or issuers, and has the added advantage of providing information on turn-over.

The basic data for all four series in this set come largely from the Schedule BP-30²⁷ and its supporting schedules. As described in Part V these questionnaires are obtained monthly from approximately 200 brokers, other security dealers, banks, investment funds, pension funds and other large institutional investors.

The development of information relating to international money market transactions on the BP-30 (and its predecessors) provides an interesting example of the evolution of surveys to meet changing conditions - a process which extended over more than five years. Although foreign investments in Canadian money market instruments were not very large until the 1960's, the development was foreseen and statistical improvements began to be made in 1959.

Prior to that year the schedules specified in respect of transactions in short-term (original term one year or less) securities only two classes:

- Canadian
- All other countries

²⁶ *Bank of Canada Review*, Table 6.

²⁷ All the schedules referred to in this section are reproduced in Part V.

In 1959 this classification was extended to:

- Government of Canada issues
- Canadian commercial and finance paper
- Other Canadian
- All other countries

In 1962 the categories were further extended to:

- Government of Canada issues
- Canadian commercial paper
- Canadian finance paper
- Other Canadian
- All other countries

At the same time provision was made, under the category bonds and debentures, notes, etc., having an original term over one year, for a sub-division of trade in outstanding Government of Canada direct issues between those

- Under buy-back agreements, and
- Other sales or purchases

The instructions were also amended to include the following:

"Buy-backs - sales and purchases reflecting buy-back transactions are to be reported. Separate lines are provided for Government of Canada direct issues with original terms over one year. Other issues should be included in the appropriate categories but need not be specifically segregated."

(This provision was deleted in 1974 after a long period in which transactions of this type were small.)

In anticipation of possible international transactions in bankers' acceptances, the instructions to dealers were amended to indicate that these should be included with "Other Canadian" short-term securities.

In July 1963 the instructions were further revised to include the following:

"Timing - Delivery dates are a more appropriate basis for the compilation of this return than are contract dates. Where practical reasons necessitate the general use of contract dates it is essential that arrangements be made to adjust the returns to a delivery basis in respect of buy-back and other important deferred delivery transactions."

The statistics derived from the schedules involved a particular problem insofar as reporting agencies might not be involved in the maturity of paper. This necessitated the estimation of outflows covering repurchases and maturities, based on the reported sales and repurchases and a further allowance for maturities based on arbitrary assumptions as to original terms. (In these estimates special assistance was obtained occasionally from some of the larger respondents.)

This rather primitive procedure continued to be necessary until May 1964 when Supplements A and B were introduced. These provided much additional information including identification in respect of both sales and purchases of the issuer of the paper and of the month of its maturity. These supplements permitted the accurate compilation of run-offs at maturity of non-resident holdings of paper which had not previously been reported as having been repurchased.

The new data made it possible to produce estimates by issuer of the amounts of short-term paper in the hands of non-residents. This in turn made it possible to correlate more effectively the detail of short-term paper in the hands of non-residents which became available annually on the BP-21 (item III.d) and BP-51 (lower part of Section I).

The foregoing description of sources and methods is applicable to each of this set of series. Series D76, Non-resident holdings of Canadian finance company paper, is constructed through a combination of the "transactions" series derived as above with Schedule BP-21C, Report by Canadian finance companies, which is obtained quarterly. This return and its predecessors were in fact the source of the earliest information collected by Statistics Canada which related specifically to foreign participation in Canadian money markets. It was concerned with the indebtedness to non-residents of Canadian sales finance and consumer loan companies. Until 1955 quarterly information had been obtained by including on the predecessor of the regular quarterly Schedule BP-21A an extra question directed to finance companies. In 1955 the special questionnaire, now designated BP-21C, was introduced for these companies. It was extended in 1962 to distinguish the specific forms of liabilities and has been further modified since to facilitate the integration of the data with other series.

Prior to changes made effective at the end of 1974, the BP-21C could be expected, in principle, to record those instruments which the respondent had placed abroad directly (including, of course, those through non-resident dealers). The BP-30, on the other hand, would reflect those instruments which passed into the hands of non-residents through Canadian dealers. This general assumption had to be applied until the introduction of Supplements A and B to Schedule BP-30 made it possible to work up the results of that series by issuer. Thereafter the two sets of individual data were placed in juxtaposition, and a quarter-end estimate of the degree of overlap of the sources was derived substantially on the assumption that the smaller figure in respect of each issuer represented, for the most part, duplication. At the end of 1974 the survey sources yielded the following information on holdings by non-residents of Canadian finance company paper:

	Millions of dollars
Money market source series (BP-30)	336
Finance company source series (BP-21C)	236
Sub-total	572
Deduct allowance for duplication (maximum overlap by separate issuers totalled 99)	- 89
Estimated holdings	483

On the basis of these data a final transactions series was worked up from the two sources.

Since the end of 1974, provision has been made to identify separately Canadian finance company paper placed directly abroad and paper placed through Canadian dealers. From that date it was possible to produce the series by combining the amounts reported on the BP-21C as having been placed directly abroad and the larger of the amounts reported as having been placed abroad through Canadian dealers from the BP-21C and the amounts reported by dealers on BP-30 as being placed abroad, without the necessity of assumptions with respect of duplication.

While in principle the same approaches could have been developed in respect of commercial paper, the smaller amounts and the lesser concentration of issuers are not sufficient to warrant the response burden. As noted earlier, however, some data adjustments are made in respect of short-term commercial paper from the annual returns on BP-21 or BP-51.

Evaluation

The methodology which has been developed for these series should yield generally satisfactory results. The annual questionnaires which have been examined have not revealed important amounts of non-resident holdings of their commercial paper known to issuers which have failed to be captured by the money market source. The groupings employed in series collected by Federal Reserve Banks for the United States Treasury do not permit a close comparison with Canadian data.

Linkages and Relationships

CANSIM Databank Series - These are listed in Appendix 1.

IMF Balance of Payments, Third Edition (1961) - Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 2 (Movements of Capital and Monetary Gold), as follows:

Item

14.3 Central government short-term securities, for D74.

- Item**
- 12.4 Private short-term other (component), for D75, D76 and private component of D77.
- 13.3 Local government other liabilities, for provincial and municipal components of D77.
- 16.3 Other monetary institutions loans, for banking component of D77.

IMF/OECD Common Reporting System (Appendix 6) – Global Balance of Payments Summary and Regional Balance of Payments Summary, Item C (Capital and monetary gold), components of:

- Item**
- 14.6 Central government short-term liabilities, for D74.
- 12.2 Private short-term other liabilities, for D75, D76 and private component of D77.
- 13.2 Local government short-term other liabilities, for provincial and municipal components of D77.
- 16.5 Other monetary institutions short-term loans, for banking component of D77.

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) – Not relevant.

Financial Flow Accounts (Catalogue 13-002) – Components of Rest of World (sector XIII) as follows:

Category

- 2340 Government of Canada treasury bills, for D74.
- 2350 Finance company and other short-term commercial paper, for D75, D76 and D77 (except for bearer deposits with Canadian chartered banks).

Category

- 2311 Currency and bank deposits, for chartered bank component of D77.
- 2312 Deposits in other institutions, for other financial corporations component of D77.

Series Availability

- D74 Non-resident holdings of Government of Canada treasury bills: annually from 1937, quarterly from 1950.
- D75 Non-resident holdings of Canadian commercial paper: annually and quarterly from 1964.
- D76 Non-resident holdings of Canadian finance company paper: annually and quarterly from 1963.
- D77 Non-resident holdings of other Canadian short-term paper: annually and quarterly from 1964.

Combined items:

- D75 and D77 Non-resident holdings of Canadian commercial paper, etc.: annually and quarterly from 1963.

The sum of series D75 through D77 and D81 is available annually and quarterly from 1952.

Supplementary Data

The following supplementary data are available from the dates indicated.

	Item	Gross international transactions	Non-resident holdings
D74	Government of Canada treasury bills	1958	1951
D75	Canadian commercial paper	1964	1963
D76	Canadian finance company paper	1963	1962
D77	Other Canadian short-term paper, total	1964	1963
	Provincial and municipal, direct and guaranteed	1973	1975
	Banks	1973	1975
	Other financial corporations	1973	1975
D75 and D77	Canadian commercial paper, etc.	1963	1962

A table showing separately the volume of sales and purchases (including maturities) is published in the quarterly balance of payments reports (Catalogue 67-001).

Related Data

Series are published quarterly in *Financial Institutions – Financial Statistics* (Catalogue 61-006)²⁸ for

demand and short-term notes payable in foreign currency by sales finance and consumer loan companies, and monthly in the *Bank of Canada Review*²⁹ Table 35 for sales finance and consumer loan company paper and for other commercial paper outstanding in currencies other than Canadian. It will be noted that these series relate to the currency payment provisions of paper rather than to its ownership.

²⁸ Table 21 in the Second Quarter 1974 issue.

²⁹ *Bank of Canada Review*, November 1975.

Non-resident Holdings of Other Canadian Finance Company Obligations

Code - D81

Concept

This series isolates net capital flows to Canadian finance companies which have not been covered explicitly elsewhere.

Description

The provision of capital by non-residents to Canadian finance companies takes a variety of forms. The capital supplied in long-term forms by the principal owners is a part of direct investment in series D21. That supplied through sales to non-residents of long-term capital issues is covered in series D30 through D33. Other borrowings in long-term forms are included in series D50. Because of the nature of their business, borrowings in short-term forms by Canadian sales finance and consumer loan companies are also of considerable importance. The capital flows associated with the issue and repurchase of finance company paper are covered in series D76. There remain two other forms of non-resident financing of these companies which are of significance. These are their bank borrowings abroad and the provision of funds to them by parent companies through open-end intercompany accounts. These two categories make up the flows covered in series D81, Non-resident holdings of other Canadian finance company obligations.

Sources and Methods

The principal source of this series is the quarterly schedule BP-21C, Report by Canadian finance companies.³⁰ Item 1 of this questionnaire gives the amounts outstanding by way of loans and overdrafts with foreign banks. Item 2 gives the amounts owing to parent companies, head offices or affiliates. In each case the currency in which the claim is denominated is distinguished. When deriving estimates of the flows, adjustments are made for fluctuations in exchange rates (as described in the note in Part VII).

A special statistical problem is presented in cases where, for by-law or other reasons, as an alternative to direct borrowing by Canadian subsidiaries in the Canadian market, long-term debentures are placed in Canada by foreign parent companies and the funds then advanced on intercompany account to the subsidiary. Provision is made on the schedule BP-21C to identify such cases, and the transactions inwards and outwards

are excluded from the articulation of Canada's international transactions.

In the process of editing, the two elements of series D81 are reconciled to items III(a) (2) and (e) (2) of the annual schedule BP-21, Report of transactions between Canada and other countries, with appropriate adjustment where necessary.

Evaluation

The data are considered to be accurate. The number of companies involved is limited and it is believed that the survey coverage is complete. Data are reconciled periodically with quarterly returns filed by respondents with the Financial Institutions Section of the Business Finance Division.³¹

Linkages and Relationships

CANSIM Databank Series - These are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) - Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 2 (Movements of Capital and Monetary Gold), component of 12.4 Private short-term, other liabilities.

IMF/OECD Common Reporting System (Appendix 6) - Global Balance of Payments Summary and Regional Balance of Payments Summary, Item C (Capital and monetary gold), component of 12.2 Private short-term, other liabilities.

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) - Not relevant.

Financial Flow Accounts (Catalogue 13-002) - Components of Other loans (category 2332) and of Claims on associated enterprises - corporate (category 2512) of Rest of World (sector XIII).

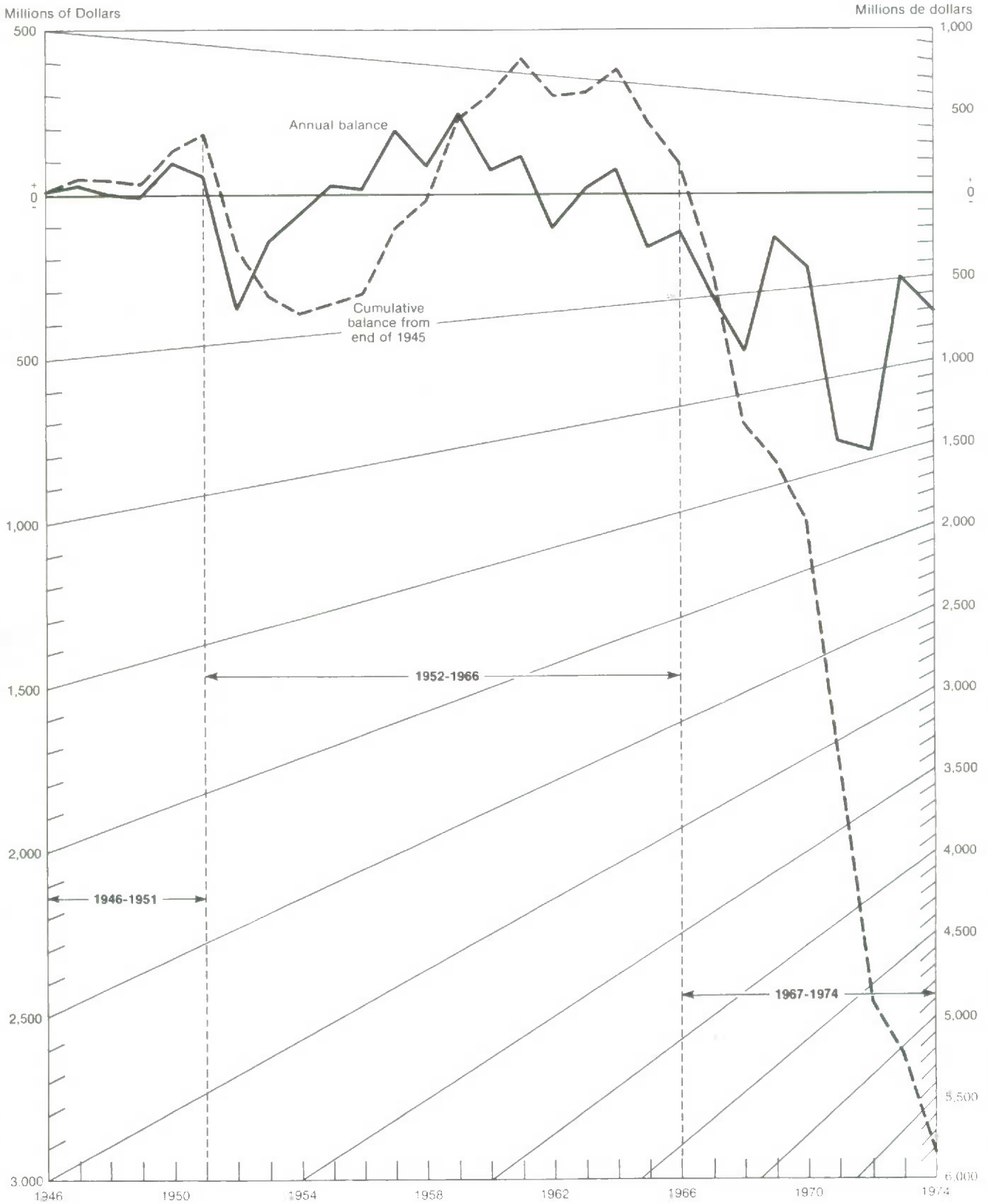
Series Availability

Annually and quarterly, from 1963. The sum of series D75 through D77 and D81 is available annually and quarterly from 1952.

³⁰ All the schedules referred to in this section are reproduced in Part V.

³¹ *Financial Institutions - Financial Statistics* (Catalogue 61-006).

Chart III.5
Net Errors and Omissions



Other Short-term Capital Transactions

Code - D82

Concept

This series covers a residual group of capital flows in short-term forms. To it there is also assigned the net errors and omissions or balancing item in the Canadian balance of payments.

Description

This series is composed of miscellaneous capital movements classified as "short term", i.e., likely to be reversed within a year, which give rise to changes in claims on or liabilities to non-residents. Included are foreign accounts receivable and payable (including inter-company accounts), short-term loans and similar claims, and the balancing item representing the difference between recorded measures of current transactions, capital flows and reserve movements, which embodies all unidentified transactions. Excluded, of course, are the short-term flows specifically covered in series D60 through D81 and official monetary movements.

While many sorts of movements may be included, the largest part of these capital flows which is identifiable falls generally within the picturesque and apt description "leads and lags", the differences in timing between the provision of goods and services and the financial settlement for them. Under this definition some leads and lags may be "regular" in the sense that they reflect normal settlement practices and might in principle be deduced from the ebb and flow of international trade and the particular payment terms applying in respect of trade with particular countries or in particular commodities. Apart from the consequences of the changing composition, direction and volume of international trade, other influences on leads and lags come into play from time to time. Credit stringency in one of the trading partners may lead to changes in leads and lags as debtors under pressure seek to alleviate their position by deferring settlement of their payables or as creditors seek to alleviate their position by accelerating the collection of receivables. Commodity market conditions may give buyers or sellers added clout. But perhaps the most dramatic examples of leads and lags internationally have arisen when a particular currency has been under speculative attack, whether bullish or bearish in nature. In such cases the exchange positions arising in the normal course of trade may be shortened or lengthened through the acceleration or deceleration of the settlement of trade accounts. Even in conditions of stringent exchange controls the prevention of speculative capital transactions in the form of leads and lags presents great difficulty.

Given the statistical difficulty of measuring fully the ebb and flow of capital associated with international trade normally, it is not surprising that under conditions where movements of capital are to be expected either

because of monetary stringency or exchange rate speculation there may be significant effects on errors and omissions, which are discussed at greater length below.

Net errors and omissions♦ - As has been noted, the series incorporates the net errors and omissions in the Canadian balance of payments. This is the balancing item representing the difference between recorded measures of current, capital and reserve movements, which embodies all unidentified transactions. For reasons which are outlined below it has normally been attributed to transactions with the United States.

The Balance of Payments Manual published by the International Monetary Fund³² notes that:

"The balance of payments employs a double-entry system of accounting. In general, the two offsetting entries for a given transaction or flow are not made explicitly but are included as a result of the methods used for estimating the balance of payments. . . . Since the sources on which the entries are based may be incomplete or inaccurate, and different sources which may not be consistent with one another are in most cases used for the two flows making up the transactions, an item for errors and omissions is included . . . to bring the statement into balance. Since errors and omissions are likely to be partly mutually offsetting, the item is described as "net errors and omissions". A credit entry for errors and omissions denotes a net understatement of recorded credits or overstatement of recorded debits; conversely, a debit entry denotes a net understatement of recorded debits or overstatement of recorded credits."

The treatment of net errors and omissions in published statistics of the Canadian balance of payments differs from the general international practice both in that it does not appear as an explicit item and in that it is allocated regionally. The Canadian practice was adopted in 1951 when statements for 1950 were being prepared.

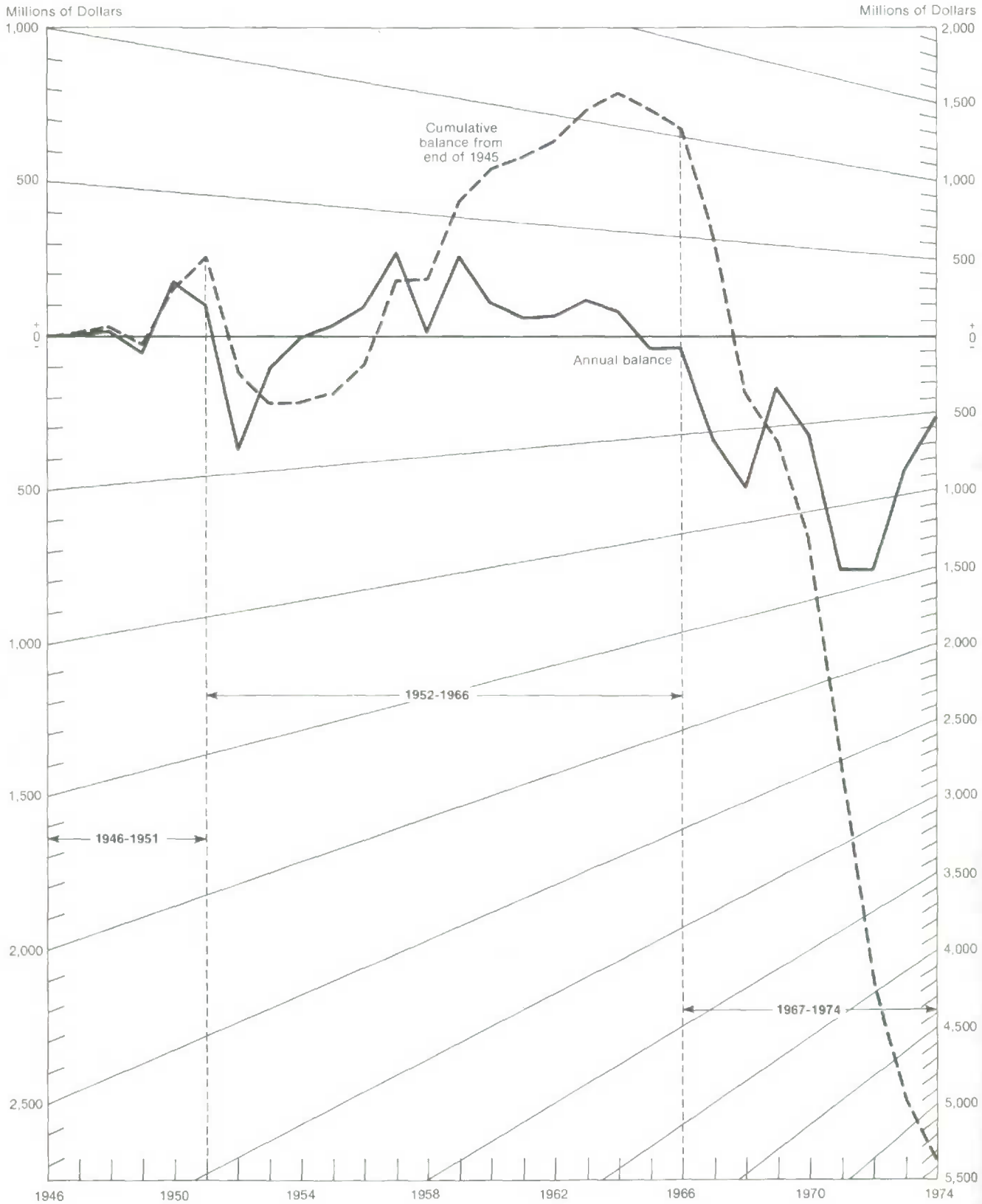
This treatment is, of course, also quite different from that adopted in the National Income and Expenditure Accounts. In these there is a presumption that measures of the income and expenditure sides have approximately equal reliability,³³ and the residual error of estimate is accordingly divided equally between the two. In the description which follows the rationale for assigning the balancing item of the balance of payments to short-term capital transactions is developed.

³² IMF *Balance of Payments Manual*, Third Edition (1961) paragraphs 65 and 69.

³³ *A Guide to the National Income and Expenditure Accounts* (National Income and Expenditure Accounts, Volume 3) Catalogue 13-549.

Chart III.6

Other Short-term Capital Transactions (Including Net Errors and Omissions)



Although not susceptible to direct statistical quantification the errors and omissions item may be thought of as arising from several different types of problems. There may be a continuing or systematic bias in the measurement of a particular component of the balance of payments. Thus if no provision is made for a specific type of transaction, or if the methodology employed persistently overstates or understates a particular component, this will be reflected in a continuing and persistent balance of errors and omissions. If not overshadowed by more ephemeral transactions, the existence of a fault of this nature will be evident in the persistency and stability of a hard core element in the errors and omissions balance. Of a different character, a sporadic or erratic transaction or group of transactions of which account may not have been taken will also appear in the errors and omissions balance. Examples might be an irregular dividend or a large capital investment which somehow escaped the statistical net. Falling between these two types of problem is the phenomenon of unrecorded leads and lags which has been discussed above.

Three periods in the post World War II years may be usefully distinguished for purposes of description. The first is from 1946 through 1951 when foreign exchange controls applied in Canada. The period since has been divided at the end of 1966 about which time new influences clearly became of significance.

From 1946-51 - During the years 1940 through 1951 statistical measurements of capital movements made extensive use of data derived from exchange control. The administrative orientation of the control was in the direction of control over capital outflows, and the statistical by-products were suited more to the measurement of outflows of short-term capital than to corresponding inflows. Errors and omissions were on balance generally small. In 1950, however, Canada experienced a massive inflow of capital as non-residents established large positions in Canadian dollars in anticipation of an expected revaluation of the Canadian dollar. Recorded transactions in 1950 indicated the omission of credits on a scale extraordinarily large by previous historical standards. Although large capital inflows were recorded, it was suspected that a large part of the unidentified credits must have represented inflows of capital in short-term forms, and in the estimates published after that time net errors and omissions were subsumed within capital movements. Canada's international financial arrangements in that period were such that it was possible to produce reasonable measures of multilateral settlements between Canada and the sterling area, and these made possible allocation of the residual separately in the accounts with the United States and with the United Kingdom.

From 1952-66 - With the termination of exchange control near the close of 1951 an entirely new situation was faced, requiring reactivation and extension

of the pre-war statistical survey system to provide some of the data which had previously been derived from exchange control records. Effort was first concentrated on the measurement of current account transactions and of capital flows in long-term forms; extension and development of the reporting system to cover adequately movements in short-term forms was carried out over a period of some years. This did not occur in a static situation. New conditions arising in Canada with the introduction of a variable exchange rate and the termination of exchange control were followed not only by a reflux of some of the capital which had come into Canada in earlier years but also by the establishment or enlargement of some foreign positions which had not been permitted under the controls previously in effect.

Moreover, during this period, reconstruction of war-devastated nations in Europe and Asia, relaxation of exchange controls in many parts of the world, an expanding number of effectively convertible foreign currencies, new trade arrangements, growing domestic and international money markets including the emergence of the Eurodollar market, and the growth of international corporations, all enlarged the opportunities and incentives for capital movements. Inevitably there were lags in the development of statistical systems adequate to cope with the new channels and forms these took. Not surprisingly, the impact was greatest in the area of capital movements in short-term forms.

Net errors and omissions outward (reflecting unrecorded payments or overestimated receipts) in 1952 reached a level not again achieved during the period 1952-66. A part was assigned arbitrarily to the United Kingdom to offset in some degree the inflows in 1951 which had been abnormally large. Thereafter the item was assigned entirely to the account with the United States. This decision was based upon the high concentration of Canada's international transactions with that country and the "openness" characteristic of economic and financial transactions between the two countries. While this is not the place to develop the pervasive relationships existing between the two economies and the reasons for them, it is clear that developments in the United States which are of consequence to practically every country in the world, are especially so in the case of Canada. Allocation of the residual to the United States account where it generally constituted a relatively small item, even if not totally appropriate, was not likely to be a source of policy error, and made possible residual estimates of multilateral settlements.

There were again errors and omissions reflecting net debits for the years 1953 and 1954, but there followed a decade in which the annual balances were inwards, with the exception of 1962 when the Canadian dollar was under attack. In 1965 and 1966 there were relatively small net balances of unidentified payments which reduced the accumulated postwar total to a net credit of only \$0.1 billion (although the net credit of

TABLE III. 4 Net Errors and Omissions and "Other Short-term Capital" Transactions, 1946-74

Year	Net errors and omissions included in series D82 - Other short-term capital transactions					Recorded transactions included in series D82 - Other short-term capital transactions		
	I	II	III	IV	Total	I	II	III
	millions of dollars							
1946	..	..	..	..	14	..	..	..
1947	..	..	..	..	26	..	..	..
1948	..	..	..	..	1	..	..	..
1949	..	..	..	..	- 4	..	..	..
1950	24	25	25	27	101	6	- 6	126
1951	15	16	16	15	62	- 3	179	- 13
1952	- 137	- 24	- 174	- 54	- 389	- 12	- 19	- 7
1953	- 95	- 3	- 56	- 12	- 166	1	21	- 5
1954	- 37	6	- 36	- 3	- 70	11	31	9
1955	9	41	- 8	- 12	30	2	10	- 11
1956	59	116	10	- 161	24	64	- 16	- 16
1957	93	181	45	- 77	242	21	44	- 32
1958	129	16	- 64	30	111	- 21	22	- 64
1959	96	84	109	28	317	15	25	- 84
1960	- 59	174	24	- 38	101	- 56	- 3	20
1961	- 75	101	34	97	157	55	- 42	- 78
1962	- 58	- 69	100	- 118	- 145	- 49	- 14	179
1963	81	173	- 129	- 93	32	- 51	- 33	136
1964	- 61	57	- 23	140	113	60	17	- 32
1965	- 180	- 75	- 64	80	- 239	- 2	36	41
1966	- 44	90	- 155	- 73	- 182	- 77	- 6	54
1967	- 349	101	- 51	- 202	- 501	17	- 88	- 9
1968	- 604	- 51	- 421	292	- 784	37	28	108
1969	- 288	220	- 78	- 73	- 219	3	- 135	182
1970	- 176	280	- 210	- 281	- 387	- 201	16	53
1971	- 461	- 107	- 707	- 73	- 1,348	- 380	- 1	114
1972	- 513	- 243	34	- 733	- 1,455	- 96	- 141	330
1973	- 57	102	- 243	- 296	- 494	- 128	43	- 447
1974	- 161	133	- 572	- 170	- 770	23	132	174

Note: Net errors and omissions have been attributed to the United States account with the exception of the following amounts which were attributed to the United Kingdom:

Year	I	II	III	IV	Total
	millions of dollars				
1946	..	..	..	..	- 7
1947	..	..	..	..	21
1948	..	..	..	..	18
1949	..	..	..	..	- 15
1950	- 5	- 4	- 4	- 4	- 17
1951	13	14	13	13	53
1952	- 15	- 2	- 18	- 5	- 40

TABLE III. 4. Net Errors and Omissions and "Other Short-term Capital" Transactions, 1946-74

Recorded transactions included in series D82 - Other short-term capital transactions		Total of series D82 - Other short-term capital transactions					Year
IV	Total	I	II	III	IV	Total	
millions of dollars							
..	- 9	..	..	..	..	5	1946
..	- 21	..	..	..	..	5	1947
..	20	..	..	..	..	21	1948
..	- 55	..	..	..	..	- 59	1949
- 35	91	30	19	151	- 8	192	1950
- 113	50	12	195	3	- 98	112	1951
22	- 16	- 149	- 43	- 181	- 32	- 405	1952
27	44	- 94	18	- 61	15	- 122	1953
13	64	- 26	37	- 27	10	- 6	1954
4	5	11	51	- 19	- 8	35	1955
53	85	123	100	- 6	- 108	109	1956
54	87	114	225	13	- 23	329	1957
- 26	- 89	108	38	- 128	4	22	1958
59	15	111	109	25	87	332	1959
81	42	- 115	171	44	43	143	1960
- 12	- 77	- 20	59	- 44	85	80	1961
124	240	- 107	- 83	279	6	95	1962
82	134	30	140	7	- 11	166	1963
- 40	5	- 1	74	- 55	100	118	1964
102	177	- 182	- 39	- 23	182	- 62	1965
148	119	- 121	84	- 101	75	- 63	1966
39	- 41	- 332	13	- 60	- 163	- 542	1967
- 196	- 23	- 567	- 23	- 313	96	- 807	1968
- 124	- 74	- 285	85	104	- 197	- 293	1969
- 51	- 183	- 377	296	- 157	- 332	- 570	1970
249	- 18	- 841	- 108	- 593	176	- 1,366	1971
- 46	47	- 609	- 384	364	- 779	- 1,408	1972
194	- 368	- 185	145	- 720	- 102	- 862	1973
- 104	225	- 138	265	- 398	- 274	- 545	1974

Discontinuities: Prior to 1952 D82 covered in addition series D75 through D81. Prior to 1964 D82 covered short-term loans in foreign currency to residents of Canada by head offices and Canadian branches of Canadian chartered banks (see series D60 and D61).

Data as published in the *Quarterly Estimates of the Canadian Balance of International Payments, Second Quarter 1976*.

TABLE III.5 Errors and Omissions in the Balance of Payments of Canada, United States and United Kingdom, Expressed as Percentages of Gross Current Account Transactions, 1946 - 74

No.	Item	1946 - 51		
		Canada	United States	United Kingdom
		percentages of gross current transactions (credits plus debits)		
	Errors and omissions entries:			
1	Gross annual credits	0.41	1.67	0.15
2	Gross annual debits	0.01	0.06	1.24
3	Total	0.42	1.73	1.40
4	Net balance	0.40	1.61	1.08
	Cumulative errors and omissions balance:			
5	Maximum accumulated net credit	0.40	1.61	0.15
6	Maximum accumulated net debit	-	-	1.09
7	Amplitude	0.40	1.61	1.24
8	Maximum total of consecutive annual credits	0.33	1.49	0.15
9	Maximum total of consecutive annual debits	0.01	0.06	0.93

Source: See Table III.6.

TABLE III.5 Errors and Omissions in the Balance of Payments of Canada, United States and United Kingdom, Expressed as Percentages of Gross Current Account Transactions, 1946 - 74

1952 - 66			1967 - 74			1946 - 74			No.
Canada	United States	United Kingdom	Canada	United States	United Kingdom	Canada	United States	United Kingdom	
percentages of gross current transactions (credits plus debits)									
0.45	0.44	0.46	-	0.40	0.41	0.19	0.52	0.41	1
0.48	0.56	0.16	1.52	1.23	0.35	1.04	0.88	0.34	2
0.93	1.00	0.62	1.52	1.63	0.76	1.23	1.40	0.75	3
0.02	0.12	0.31	1.52	0.82	0.06	0.84	0.36	0.08	4
0.14	0.37	0.42	-	0.03	0.29	0.08	0.27	0.20	5
0.25	0.19	-	1.52	1.19	-	0.84	0.56	0.08	6
0.39	0.66	0.42	1.52	1.22	0.29	0.92	0.83	0.28	7
0.39	0.37	0.26	-	0.36	0.16	0.14	0.20	0.10	8
0.25	0.56	0.11	1.52	1.22	0.29	0.92	0.66	0.16	9

Source: See Table III.6.

TABLE III.6. Errors and Omissions in the Balance of Payments of Canada, United States and United Kingdom, 1946-74

No.	Item	Canada			
		1946-51	1952-66	1967-74	1946-74
		billions of dollars			
	Errors and omissions				
1	Gross annual credits	0.2	1.1	-	1.3
2	Gross annual debits	-	1.2	6.0	7.2
3	Total	0.2	2.3	5.9	8.5
4	Net balance	0.2	- 0.1	- 5.9	- 5.9
5	Number of annual credits	5	9	-	14
6	Number of annual debits	1	6	8	15
7	Largest annual credit	0.1	0.3	-	0.3
8	Largest annual debit	-	0.4	1.5	1.5
9	Maximum accumulated net credit	0.2	0.4	-	0.6
10	Maximum accumulated net debit	-	0.6	6.0	5.8
11	Maximum consecutive annual credits	0.2	1.0	-	1.0
12	Covering years	2	7	-	7
13	Maximum consecutive annual debits	-	0.6	6.0	6.4
14	Covering years	1	3	8	10
	Annual signs of item:				
15	Same as for Canada				
16	Opposite to Canada				
	Current account transactions				
17	Gross credits	24.9	118.3	194.7	337.9
18	Gross debits	24.7	131.3	196.4	352.5
19	Gross transactions	49.6	249.6	391.1	690.4
20	Net current account balance	0.2	- 13.0	- 1.7	- 14.6

Source: Canadian data - Table III.4; *The Canadian Balance of International Payments, 1973-74*, Table 33 (Catalogue 67-201) and the *Quarterly Estimates of the Canadian Balance of International Payments - Second Quarter 1976* (Catalogue 67-001); United States data - *Survey of Current Business* - June 1970, October 1972, and June 1976; United Kingdom data - *United Kingdom Balance of Payments, 1946-1957, 1963-1973, 1964-1974, 1965-1975 and Fourth Quarter 1976*.

Note: As figures are individually rounded, totals do not necessarily equal the sum of their component parts.

TABLE III.6. Errors and Omissions in the Balance of Payments of Canada, United States and United Kingdom, 1946-74

United States				United Kingdom				No.
1946-51	1952-66	1967-74	1946-74	1946-51	1952-66	1967-74	1946-74	
billions of U.S. dollars				billions of pounds sterling				
3.2	3.8	5.1	12.1	-	0.8	1.0	1.8	1
0.1	4.8	15.5	20.4	0.4	0.2	0.8	1.4	2
3.3	8.6	20.6	32.5	0.4	1.0	1.8	3.2	3
3.1	- 1.0	- 10.4	- 8.3	- 0.3	0.6	0.2	0.4	4
5	9	2	16	1	9	5	15	5
1	6	6	13	4	6	3	13	6
1.1	1.0	4.6	4.6	-	0.3	0.4	0.4	7
0.1	1.1	9.6	9.6	0.1	0.1	0.7	0.7	8
3.1	3.2	0.4	6.2	-	0.7	0.7	0.9	9
-	1.7	10.4	12.9	0.3	-	-	0.3	10
2.8	3.2	4.6	4.6	-	0.5	0.4	0.5	11
4	8	1	1	1	7	1	7	12
0.1	4.9	15.3	15.3	0.3	0.2	0.7	0.7	13
1	6	5	5	3	4	1	1	14
4	7	6	17	2	7	3	12	15
2	8	2	12	3	8	5	16	16
102.8	442.9	620.0	1,165.8	16.2	88.5	120.7	225.4	17
88.2	420.7	640.3	1,149.3	16.0	87.6	123.0	226.5	18
191.1	863.6	1,260.3	2,315.0	32.1	176.1	243.7	451.9	19
14.6	22.2	- 20.3	16.5	- 0.2	1.0	2.3	1.1	20

Source: Canadian data - Table III.4; *The Canadian Balance of International Payments, 1973-74*, Table 33 (Catalogue 67-201) and the *Quarterly Estimates of the Canadian Balance of International Payments - Second Quarter 1976* (Catalogue 67-001); United States data - *Survey of Current Business* - June 1970, October 1972, and June 1976; United Kingdom data - *United Kingdom Balance of Payments, 1946-1957, 1963-1973, 1964-1974, 1965-1975 and Fourth Quarter 1976*.

Note: As figures are individually rounded, totals do not necessarily equal the sum of their component parts.

recorded other short-term transactions over the same period was a further \$0.9 billion). Errors and omissions of the orders of magnitude indicated represented only an extremely small proportion of Canada's total international transactions, which for 1965 were indicated to have been about \$45 billion. Given the pervasive nature of Canada's international economic and financial relationships, and the wide variety of channels through which transactions take place, amounts of this sort have probably to be expected (and accepted).

Over the period there was a significant improvement in the systematic coverage of short-term capital movements by both banking and private sectors. It was not until 1960 that good global figures for the external assets and liabilities of the Canadian banking system became available and it was not until 1964 that bilateral distributions, with some continuing deficiencies, became available. Despite considerable extension, coverage of other short-term receivables and payables continues inevitably to be incomplete.

In view of these developments of the system, until at least the end of 1966, the historical series for net errors and omissions alone is mainly of technical interest. Such evidence as is available to support the estimates of current and long-term capital transactions in counterpart country data or in the extensive annual surveys of international investment taken independently, together with information which has become available under the Corporations and Labour Unions Returns Act, as well as examination of the behaviour of the item, all tended to confirm the impression that net errors and omissions reflected significant capital movements in short-term forms and for most purposes might best be used by analysts in conjunction with recorded elements of "other" capital movements in such forms. This procedure eliminated insofar as was possible statistical distortion resulting from the progressive improvement in the recording of capital movements in short-term forms.

It is not, of course, intended to imply that there were or are neither errors nor omissions in Canadian balance of payments statements apart from capital flows in short-term forms. That would suggest a state of perfection which is not likely to be attained. Measures of almost every item are susceptible to error.

From 1967-74 — The relatively modest outward balances of errors and omissions in 1965 and 1966 were the prelude to a continuing series of further net balances of unidentified payments which over the subsequent eight years aggregated a massive \$5.9 billion. This huge accumulation occurred in a period when Canada's gross international transactions, too, rose rapidly. From a total of about \$45 billion in 1965 they swelled to about \$132 billion in 1974. Large errors and omissions were not unique to Canada. They occurred in a period of development of immense international pools of currency, massive enlargement of markets for foreign ex-

change, great instability on the international exchanges, a succession of crises involving the international payments mechanism, increased international intercorporate links, and interest rate levels and patterns sufficient to stimulate rapid transfers of vast amounts of funds. All these factors added to problems of identifying capital flows.

Statistical data are provided in a series of tables which are annexed.

Table III.4 provides figures for net errors and omissions subsumed within item D82 of the balance of payments, together with the recorded transactions included in that item. The annual figures for net errors and omissions are also presented with accumulated totals in chart form.

Table III.5 relates net Canadian errors and omissions to the sums of credits and debits on current account, and provides comparable data for the United States and the United Kingdom. (The source data are given in Table III.6.)

If it is appropriate to regard errors and omissions as reflecting mainly unrecorded capital movements in short-term forms, one should reasonably expect these series (or the sum of the series and of corresponding recorded data), after due adjustment for major movements related to speculation on the exchange rate, to respond to identifiable causal factors such as international interest rate differentials (hedged or unhedged) or the changing volume and composition of international commodity movements. No such analysis is available. But there are other possible hypotheses. Capital movements in recent years have been distinguished by extraordinarily large flows of foreign currency banking deposits, measurement of which is dependent on the residential classification accorded by banks to literally billions of dollars of deposits in Canada and abroad. Given the growing importance and complexity of the so-called multinational corporations, problems of classification by country could well produce statistically significant aggregates which are incompatible with the national concepts employed in the balance of payments frame as a whole. This is of course not different in principle from any other error or omission. But the data themselves are inevitably aggregated away from the close scrutiny normally accorded by balance of payments statisticians to the detail of other series of comparable magnitude. Again no tests have been undertaken.

There continue to be a variety of capital movements in short-term forms of which no measurement is attempted. The float of United States currency and instruments in the hands of the Canadian public is one simple example, but floats also exist within the banking data, within corporate accounting, and within the statistical system (as in the case of trade documents). Data on security transactions although generally collected

on a conceptually appropriate basis, may be affected by unexpected delays in delivery and other factors analogous to float. Nor is float confined to records, for commodities themselves in transit at a given date may give rise to unexpected and unwanted statistical effects. On top of these temporary and passing influences are superimposed the continuing or random errors of coverage and valuation.

But these factors are unlikely to account for errors and omissions of the size indicated in recent years, and efforts to identify other major causes of error have not yet been successful. The prospects for improvement, assuming underlying causal influences do not recede, rest then with the identification and elimination of weaknesses elsewhere in the accounts, and in the extension and improvement of direct measures of short-term movements. In other parts of this volume will be found some examples of the efforts in these directions. Further progress is dependent on the ingenuity of statisticians, the resources made available for the work, and the willingness of respondents to face further reporting burdens should remedies appear to call for them.

Since the mid-1960's changing institutional factors have called increasingly in question the propriety of the conventional attribution to the United States account of the balancing item in Canada's balance of international payments. Consideration is accordingly being given to departing from the postwar Canadian practice and adopting the practice more generally followed by other countries. This involves the combination within a single line, by residual, of balances settled by exchange transfers (multilateral settlements) and net errors and omissions, the latter appearing alone in the global statement.

There remains only to say something about the quarterly distribution shown in Table III.4 and about the successive revisions of the errors and omissions item.

Broadly speaking, it may be said that the definitive Canadian balance of payments statements are annual rather than quarterly. Many items in the quarterly estimates are dependent on partial surveys or on other indicators, the levels being adjusted ultimately when full annual data are available and processed. It follows therefore that the quarterly estimates *per se* are less accurate than their annual totals, and the net sum of any of these inaccuracies in a quarter has a comparable impact in the opposite direction on the errors and omissions item. Nevertheless reflections of the exchange difficulties which were experienced in 1950,³⁴ 1962, 1968, and 1970 may be discerned in the residual item together with some instances of over-the-quarter-end float.

The same sort of reservation applies to the errors and omissions item in the preliminary annual estimates when the full range of data, particularly elements of

capital flows in such short-term forms as changes in accounts and loans receivable and payable, has not been available. In the early estimates considerable use is accordingly made of the counterpart data of other countries. To the extent that this is subsequently replaced by fully processed Canadian source data which produce different results there may be added impact on the errors and omissions item in the early period. The preliminary series have not been published, but data for recent years in the accompanying statements are subject to revision.

Sources and Methods

The residual group of capital movements making up this series comprises two main elements. The first element is derived from a variety of sources which are employed to produce a total of recorded movements. The balance of net errors and omissions in estimates of the Canadian balance of payments, which comprises the second element, has been described in considerable detail in the section immediately preceding. The recorded element is made up as follows:

- Changes in the balances in intercompany accounts derived from items III (a) of the BP-21, Report of transactions between Canada and other countries.³⁵ This report shows year-end balances on intercompany and/or interbranch accounts identified as short term or current. Some adjustments are necessary to derive appropriate measures of capital flows. It has been noted elsewhere that the concept of short term used in Canadian balance of payments statistics excludes all items intended or likely to remain outstanding for more than one year from the date incurred. It is accordingly necessary to eliminate from the changes in outstanding totals of intercompany accounts any amounts which have been treated as long-term direct investment flows and therefore already included in series D21 and D25. The schedule BP-21 provides for the identification of such amounts. A further adjustment eliminates the changes in intercompany accounts of Canadian finance companies which are covered in series D81 for "other" finance company obligations.
- Changes in accounts receivable and payable similarly derived from items III (b) and (c) of the BP-21 and 3 and 5 of the BP-22. Where appropriate, adjustments are made for receivables which have been insured by the Export Development Corporation and hence covered in series D49, Export credits directly or indirectly at risk of the Government of Canada.
- Changes in non-resident-owned stocks held in Canada on consignment derived from the data reported by respondents to the BP-21 in item III (f).
- Other short-term loans and advances derived from item III (e) of the BP-21 after the transfer to series D81 of the changes in bank borrowing by Canadian finance companies.

³⁴ In the quarterly estimates for 1950 and 1951, the pattern of the residual was reflected in the recorded element of D82.

³⁵ All the schedules referred to in this section are reproduced in Part V.

- Transactions under buy-back (purchase and resale) agreements based on Government of Canada long-term securities, as revealed from 1963 through 1973 on the BP-30, Security transactions with non-residents.
- Changes in the difference between bank and book figures of foreign currency deposits of Canadians, normally representing changes in cheques issued and outstanding, in the few exceptional cases where data are available.
- Changes in liabilities of government departments and some Crown agencies to non-residents on an open account basis.
- Changes in Canadian dollar debit balances of non-residents with head offices and Canadian branches of Canadian chartered banks.
- Changes in gold liabilities to non-residents of head offices and Canadian branches of Canadian chartered banks.
- Changes in net estimated Canadian dollar claims on their foreign branches, agencies and subsidiaries by head offices and Canadian branches of Canadian chartered banks.

Quarterly estimates naturally make use of those available elements which are finally incorporated in the annual estimates, such as the data for Canadian banking transactions or those which may be derived from the items on the BP-21A corresponding on a quarterly basis to the annual data. But the quarterly estimates also make use on an interim basis of some foreign source data which are ultimately eliminated but whose quarterly pattern remains. Thus data for United States short-term liabilities to Canadians by non-financial corporations and United States banking claims, both long and short term, in the form of loans, collections and acceptances made for account of Canadians are used, with adjustments for exchange rate variations, after eliminating on the basis of Canadian sources any elements which appear inappropriate. The particular series used have been selected on the basis of their fit conceptually and in practice into the Canadian frame. Similar processes are followed with respect to data available for certain other countries.

Since the balancing item of net errors and omissions, which has been described in the section above, is a residual, nothing useful can be added at this point on its sources and methods.

Evaluation

Little can be said about the quality of this series. The direct measures of components are clearly not complete in respect of receivables, payables and short-term loans, and there may be classification problems within the banking source data. Net errors and omissions is, of course, itself a net reflection of faults in the direct measures of items throughout the balance of payments (see description above).

Linkages and Relationships

CANSIM Databank Series – These are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) – Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 2 (Movements of Capital and Monetary Gold), components of 12.3 Private short-term trade credits, 12.4 Private short-term other, 13.3 Local governments other, 14.6 Central government other short term, 16.2 Other monetary institutions deposits, and 16.4 Other monetary institutions, other foreign liabilities.

IMF/OECD Common Reporting System (Appendix 6) – Global Balance of Payments Summary and Regional Balance of Payments Summary, Item C (Capital and monetary gold), components of 12.1 Private short-term trade credits, 12.2 Private short-term other, 13.2 Local government short-term, 14.6 Central government short term, 16.5 Other monetary institutions, other short-term loans and 16.6 Other monetary institutions other foreign liabilities.

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) – Not relevant.

Financial Flow Accounts (Catalogue 13-002) – Components of Other financial assets (categories 2610, 2311 and 3511) of Rest of World (sector XIII).

Series Availability

Annually from 1927 and quarterly from 1950, also including however the following series:

- D71 prior to 1940
- D74 prior to 1937
- D75 prior to 1952
- D76 prior to 1952
- D77 prior to 1952
- D81 prior to 1952

Supplementary Data

Separate data for some components of the series have been published recently on annual and quarterly bases, as follows:

	Annually from	Quarterly from
Chartered bank Canadian dollar claims on non-residents	1966	1970
Short-term foreign currency bank borrowing by Canadians ¹	1966	1970
Short-term foreign currency bank borrowing abroad by Canadians	1967	1972

¹ Series superseded by conceptual change, but available through 1971.

The series includes the balancing item representing the difference between the recorded measures of current, capital and reserve movements, and accordingly embodies

all unidentified transactions. Figures for the balancing item, annually from 1946 and quarterly from 1950, through 1974 appear in Table III.4.

Balance Settled by Exchange Transfers *made*

Code - G

Concept

Balances settled by exchange transfers (multilateral settlements) reflect net transfers between countries or areas of claims on a third.

Description

While in concept the balance of payments takes the form of a double entry accounting frame in which credits equal debits, this is true in respect of bilateral or area statements only after account has been taken of interregional or multilateral settlements, or balances settled by exchange transfers. This lack of bilateral balance is due to the fact that in the balance of payments certain movements of capital are allocated by country or area on the basis of the residence of the foreign creditor or debtor rather than that of the foreign party to the transactions. To bring each bilateral statement into balance it is necessary to record the relevant multilateral settlements.

Net flows on account of goods and services, transfer payments, and capital movements other than those classified on the creditor-debtor principle, are allocated by the country of the transferor or transferee. Certain capital movements (ordinarily changes in foreign assets and liabilities of monetary institutions and foreign short-term assets and liabilities of other sectors), however, are allocated by the country of the foreign debtor or creditor. The two principles of allocation result in unbalanced bilateral statements whenever one country transfers to another country claims on a third country of the types so allocated. For example, many countries outside the United States settle transactions between themselves in dollars. Thus, Canada may pay United States dollars to other countries for the purchase of imports (or may purchase their currency for that purpose with United States dollars). These imports will be recorded in the bilateral statement between Canada and the exporting country. On the other hand, the corresponding change in Canada's United States dollar balances (assuming they were held in the United States) will appear as a decrease in assets (a credit) in Canada's balance of payments with the United States, as an increase in assets (a debit) in the exporter's balance of payments with the United States, and as a shift in the geographic distribution of liabilities in United States bilateral balance of payments statements. With entries only for the imports and the changes in short-term assets and liabilities, the individual bilateral statements of the United States, the exporter, and Canada will each be out of balance.

In the bilateral statements of the balance of payments, series G, Balance settled by exchange transfers, is a measure of these multilateral settlements. A negative figure indicates the extent to which the account in which it appears has been settled by transfers in Canada's favour, while a positive figure in another account indicates the application of these receipts. Settlements occur between bilateral sectors but cancel out as a whole and consequently do not appear in the statement between Canada and all countries.

It is customary and convenient to think of settlements as taking place in United States dollars. This is generally true in the case of a country such as Canada whose closest trading relationship is with the United States and whose international monetary reserves are largely maintained in United States dollars. In fact, however, multilateral settlements include a wide variety of transactions in various currencies. (The regional allocation convention formerly followed by Canada with respect to gold production available for export also affected the statistical series.)

Most multilateral settlements today occur through normal private channels. In the wartime period when strict exchange controls existed and when international financial arrangements were commonly applied on a bilateral or currency region basis, the great bulk of such settlements was carried out by monetary and exchange authorities. The transition from bilateral to multilateral arrangements and the contraction in the role of the central authorities had special statistical significance which is described below.

During the period of exchange controls in both the sterling area and Canada it was possible to construct direct estimates of the multilateral settlements between Canada and the sterling area. The largest part of these represented transfers between the exchange authorities in the United Kingdom and Canada of gold or United States dollars. During the late 1940's purchases in Canada by the United Kingdom which were financed by the United States government under the European Recovery Programme ("off-shore" purchases) contributed in important measure to multilateral settlements. Thus current account credits representing exports to the United Kingdom were offset by debits in the United States account reflecting the enlargement of Canada's official holdings of United States dollars. The bilateral accounts were balanced by the recording of the multilateral settlement as a debit in the account with the United Kingdom and a credit in the account with the United States.

TABLE III.7. Bilateral Statement of Multilateral Settlements in the Canadian Balance of International Payments

No.	Item	1963 ¹	1964	1965	1966	1967
		millions of dollars				
	United States					
1	Current account balance	- 1,202	- 1,780	- 2,075	- 2,157	- 1,454
	Capital transactions in:					
2	Long-term forms	+ 843	+ 943	+ 1,074	+ 1,393	+ 1,317
3	Short-term forms	- 17	+ 693	- 637	- 473	- 766
4	Net capital movement	+ 826	+ 1,636	+ 437	+ 920	+ 551
5	Balance to be settled ³	- 376	- 144	- 1,638	- 1,237	- 903
6	Increase (-) in net official monetary movements	+ 61	+ 197	+ 92	+ 371	- 13
7	Balance settled by exchange transfers	+ 315	- 53	+ 1,546	+ 886	+ 916
	Monetary gold, SDR and IMF accounts					
8	Current account balance	+ 151	+ 145	+ 139	+ 128	+ 113
	Capital transactions in:					
9	Long-term forms	-	-	-	-	-
10	Short-term forms	-	-	-	-	-
11	Net capital movement	-	-	-	-	-
12	Balance to be settled ³	+ 151	+ 145	+ 139	+ 128	+ 113
13	Allocation of SDRs . . . . .	...	...	...	...	...
14	Increase (-) in net official monetary movements	- 117	- 502	- 303	+ 10	+ 49
15	Balance settled by exchange transfers	- 34	+ 357	+ 164	- 138	- 162
	Other					
16	Current account balance	+ 530	+ 1,211	+ 806	+ 867	+ 842
	Capital transactions in:					
17	Long-term forms	- 206	- 193	- 241	- 165	+ 98
18	Short-term forms	+ 46	- 655	+ 1,092	+ 48	- 130
19	Net capital movement	- 160	- 848	+ 851	- 117	- 32
20	Balance to be settled ³	+ 370	+ 363	+ 1,657	+ 750	+ 810
21	Increase (-) in net official monetary movements	- 89	- 59	+ 53	- 22	- 56
22	Balance settled by exchange transfers	- 281	- 304	- 1,710	- 728	- 754
	Total					
23	Current account balance	- 521	- 424	- 1,130	- 1,162	- 499
	Capital transactions in:					
24	Long-term forms	+ 637	+ 750	+ 833	+ 1,228	+ 1,415
25	Short-term forms	+ 29	+ 38	+ 455	- 425	- 896
26	Net capital movement	+ 666	+ 788	+ 1,288	+ 803	+ 519
27	Balance to be settled ³	+ 145	+ 364	+ 158	- 359	+ 20
28	Allocation of SDRs . . . . .	...	...	...	...	...
29	Increase (-) in net official monetary movements	- 145	- 364	- 158	+ 359	- 20
30	Total balance settled by exchange transfers	-	-	-	-	-

¹ There is a discontinuity at the end of 1963 in the allocation bilaterally of capital movements in short-term forms implying accumulated earlier net overstatements of inflows from the United States and corresponding net understatements of inflows from the rest of the world of the order of \$200 million.

² There is a discontinuity at the end of the first quarter of 1968 arising from the inclusion in merchandise trade of sales to and purchases from non-residents of non-monetary gold which are allocated bilaterally in substitution for gold production available for export which was normally allocated previously to the United States account but is shown separately in the table.

³ The balance to be settled is equal to the sum of current and capital movements.

Note: Data as at December 1976.

TABLE III.7. Bilateral Statement of Multilateral Settlements in the Canadian Balance of International Payments

1968 ²	1969	1970	1971	1972	1973	1974	No.
millions of dollars							
- 780	- 845	- 165	- 46	- 168	- 841	- 1,530	1
+ 1,151	+ 1,669	+ 824	+ 771	+ 1,159	+ 811	+ 1,679	2
- 1,423	- 458	- 23	+ 628	- 1,384	- 1,123	+ 811	3
- 272	+ 1,211	+ 801	+ 1,399	- 225	- 312	+ 2,490	4
- 1,052	+ 366	+ 636	+ 1,353	- 393	- 1,153	+ 960	5
- 645	+ 222	- 1,452	- 1,059	- 291	+ 429	+ 165	6
+ 1,697	- 588	+ 816	- 294	+ 684	+ 724	- 1,125	7
+ 34	+ 1	+ 6	+ 8	+ 3	+ 2	+ 7	8
-	-	-	-	-	-	-	9
-	-	-	-	-	-	-	10
-	-	-	-	-	-	-	11
+ 34	+ 1	+ 6	+ 8	+ 3	+ 2	+ 7	12
...	...	+ 133	+ 119	+ 117	-	-	13
+ 413	- 303	- 309	+ 148	- 46	+ 38	- 213	14
- 447	+ 302	+ 170	- 275	- 74	- 40	+ 206	15
+ 649	- 73	+ 1,265	+ 480	- 306	+ 857	- 120	16
+ 518	+ 668	- 72	- 289	+ 498	- 438	- 643	17
+ 200	- 897	- 305	- 775	+ 417	+ 265	- 180	18
+ 718	- 229	- 377	- 1,064	+ 915	- 173	- 823	19
+ 1,367	- 302	+ 888	- 584	+ 609	+ 684	- 943	20
- 117	+ 16	+ 98	+ 15	+ 1	-	+ 24	21
- 1,250	+ 286	- 986	+ 569	- 610	- 684	+ 919	22
- 97	- 917	+ 1,106	+ 442	- 471	+ 18	- 1,643	23
+ 1,669	+ 2,337	+ 752	+ 482	+ 1,657	+ 373	+ 1,036	24
- 1,223	- 1,355	- 328	- 147	- 967	- 858	+ 631	25
+ 446	+ 982	+ 424	+ 335	+ 690	- 485	+ 1,667	26
+ 349	+ 65	+ 1,530	+ 777	+ 219	- 467	+ 24	27
...	...	+ 133	+ 119	+ 117	-	-	28
- 349	- 65	- 1,663	- 896	- 336	+ 467	- 24	29
-	-	-	-	-	-	-	30

¹ There is a discontinuity at the end of 1963 in the allocation bilaterally of capital movements in short-term forms implying accumulated earlier net overstatements of inflows from the United States and corresponding net understatements of inflows from the rest of the world of the order of \$200 million.

² There is a discontinuity at the end of the first quarter of 1968 arising from the inclusion in merchandise trade of sales to and purchases from non-residents of non-monetary gold which are allocated bilaterally in substitution for gold production available for export which was normally allocated previously to the United States account but is shown separately in the table.

³ The balance to be settled is equal to the sum of current and capital movements.

Note: Data as at December 1976.

Even during this period there were not inconsequential multilateral settlements with the sterling area which occurred as a result of (authorized) transactions by the private sector. Some contracts for the export of goods and services were settled in United States funds; typically they were related to situations in which the export involved a large United States dollar content. There were in the opposite direction payments in United States dollars by Canada to the sterling area arising from contractual obligations such as interest and principal on debt denominated in United States funds.

Some multilateral transactions occurred in sterling. Family remittances to China were typically carried out through Hong Kong which led to a multilateral settlement. In the opposite direction transfers of sterling to Canada in settlement of commodity transactions with non-sterling countries were authorized by the United Kingdom under exceptional circumstances; relatively large sales of Newfoundland codfish were made to Portugal against settlement in sterling. And multilateral settlements in Canadian dollars occurred, for example, reflecting the flow of Canadian funds between members of the sterling area and the central reserves in the United Kingdom. Fairly recent examples of some size can be found in settlements for wheat purchased by the Union of Soviet Socialist Republics³⁶ and by the People's Republic of China,³⁷ both of which paid for Canadian wheat in sterling.

Direct measures of multilateral settlements are largely impossible in the absence of rigorous channeling of international settlements. Indirect measures indicate that multilateral settlements have grown greatly both in size and volatility with the rapid rise in international transactions generally and in massive international currency market movements in particular.

Sources and Methods

From 1927 through 1930 the balance settled by exchange transfers was assumed to be the balancing item in each area statement.

From 1940 through 1951 it was possible to derive a direct estimate of the balance settled by exchange transfers in respect of the sterling area as a whole because of the nature of the exchange controls and payments arrangements then in effect. Within the sterling area, the item was allocated by assuming the balance settled by exchange transfers in respect of the rest of the sterling area to be the balancing item within the statement for that area. In effect it was assumed that all transactions between the rest of the sterling area and Canada were captured by the statistical system.

³⁶ Testimony of H.T. Aitken, President of the Export Development Corporation, before the Standing Senate Committee on Banking, Trade and Commerce, June 14, 1973.

³⁷ The Canadian Wheat Board. Annual Reports.

The remainder of the direct estimates of balances settled by exchange transfers between the sterling area as a whole and Canada was applied in the United Kingdom account, leaving a residual there representing errors and omissions with the sterling area as a whole.

The existence of direct estimates for balances settled by exchange transfers in respect of the sterling area established the figure, equal but opposite in sign, in respect of non-sterling area countries. Closely following the practice described in respect of the sterling area it was then assumed that the balance settled by exchange transfers in respect of non-sterling area groupings other than the United States was represented by the balancing items in those statements. The remainder of the figure for the non-sterling area was attributed to the United States, leaving a residual item for errors and omissions in that statement. Globally the various entries for balance settled by exchange transfers cancelled out leaving an errors and omissions item for the world as a whole, made up of separate figures in the United States and United Kingdom accounts.

With the termination of exchange control in Canada near the close of 1951 it was no longer possible to make direct estimates of balances settled by exchange transfers with any country or area. On the basis of a judgement that the residual errors and omissions item in the United Kingdom account in 1951, which was abnormally large, was in the nature of a short-term capital movement, a decision was made to reverse a substantial part of it in the 1952 estimates. The remainder of the global errors and omissions item was then attributed to the United States. Following these assumptions the remaining bilateral imbalances were taken as measures of balances settled by exchange transfers.

For the years following 1952 the global errors and omissions item was attributed entirely to the United States account as described under series D82. Bilateral imbalances were then taken as measures of balances settled by exchange transfers.

Evaluation

From the descriptions given above it will be clear that the measures of balances settled by exchange transfers have been totally derived as residuals except for the period from 1940 through 1951 when direct evidence of settlements in respect of the sterling area was available. The quality of the series is accordingly determined by the general quality of the estimates of all other items in the balance of payments, and by the allocation conventions including those pertaining to the statistical treatment of gold prior to 1969 as described under series A3 and of errors and omissions. As indicated under series D82, the convention with respect to the treatment of errors and omissions has become increasingly questionable.

Linkages and Relationships

CANSIM Databank Series – These are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) – Table B (Regional Balance of Payments Summary), lines 22 and 23.

IMF/OECD Common Reporting System (Appendix 6) – Table B (Regional Balance of Payments Summary), Part 3 (Reconciliation), lines 20 (Regional adjustments) and 21 (Multilateral settlements). (Statistical differences represent variations in area distributions.)

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) – Not relevant.

Financial Flow Accounts (Catalogue 13-002) – Not relevant.

Series Availability

Subject to variations in area distributions, published series are available annually from 1946 and quarterly from 1950, and may be derived annually from 1927 through 1945 from Tables XVI, XVIII and XIX in *The Canadian Balance of International Payments, 1926 to 1948* (Catalogue 67-501).

Supplementary Data

None.

Related Data

None.

Allocation of Special Drawing Rights

Code – J

Concept

This series covers the allocation to Canada by the International Monetary Fund of Special Drawing Rights. It recognizes the creation of a liability in the acceptance of an allocation. This liability is of an unusual character since repayment would be involved only if the arrangement was terminated, but there are obligations under the scheme to accept SDRs within limits. This series makes it possible to reflect in the series covering official international reserves (K4) their growth due to the allocation of SDRs. (For a more complete perception of the treatment of SDRs readers may find it useful to refer also to the series note on K4.)

Description

Member countries of the International Monetary Fund that are also participants in the Special Drawing Account receive supplements to their reserves in the form of SDRs which are reserve assets created by the Fund to influence the total level of world reserves; they are allocated to participating members in proportion to their Fund quota.

Under the conditions in effect at time of writing, early in 1977, SDRs may be used when a participant has a need to use reserves. When a participant wishes to use SDRs to acquire currency the Fund may designate the participant that has to receive them and to provide the user with a currency which must be a "currency convertible in fact". Participants that are designated are those that have strong balance of payments and reserve positions or that must acquire SDRs to meet obligations or for other reasons under the Articles of Agreement. A participant is obligated to accept SDRs on Fund designation up to the point at

which its holdings are three times its allocation. SDRs may also be transferred between participants without Fund designation or without need if the Fund so decides in transactions for certain purposes. They can be transferred to the Fund's General Account in payment of charges or in repayment of a member's drawings. A participant's daily average use during any five-year period is not to exceed 70% of its overall allocation during this period.

Amendments to the Articles of Agreement of the International Monetary Fund which, *inter alia*, remove many of these restrictions on the use of the SDR were adopted by the Board of Governors of the Fund in 1976. At time of writing, these amendments were awaiting official acceptance by member countries in order to become effective. The proposed amendments are intended to make the SDR the principal reserve asset in the international monetary system. For example, participants will be able to enter into transactions by agreement without the necessity for general or special decisions by the Fund, and transfers of SDRs in such transactions will not be subject to the requirement of need to use reserve assets; the SDR will replace gold as a means of payment by members to the Fund and by the Fund to members.

Allocations of SDRs were made to member countries in 1970, 1971 and 1972. This series reflects the allocations. (Actual holdings of SDRs, which may, of course, differ from cumulated allocations, are covered in K4.) Because of their unique character, balance of payments entries reflecting the allocations of SDRs are shown in a special line appearing between the groups of capital and of official monetary movements.

In a note to the 1970 financial statement of the Exchange Fund Account, the liability in respect of

Special Drawing Rights allocated by the International Monetary Fund to Canada is described as representing the obligation that arises upon the termination of Canada's participation in the Special Drawing Account under Article XXX of the Articles of Agreement of the International Monetary Fund or on the liquidation of the Special Drawing Account under Article XXXI. A liability entry also appears in the Statement of Assets and Liabilities of the Government of Canada in the Public Accounts.

In Canada's international investment position an entry for the allocations is shown among Canada's long-term foreign liabilities.

SDRs are interest bearing, and holders in effect receive income on amounts held in excess of their original allocations, and pay interest on any amount by which holdings fall short of original allocations.

The Special Drawing Account, like other accounts of the International Monetary Fund, is allocated regionally to the "All other" groups in balance of payments statements.

Sources and Methods

The series is derived from official accounting records.

Net Official Monetary Movements (to 1960)

Codes – K4 Total of official monetary movements (K1 - K3) (from 1927 - 60)

K1 Change in official holdings of gold and foreign exchange (from 1946 - 60)

K2 Change in net International Monetary Fund position (from 1946 - 60)

K3 Other special international financial assistance (from 1946 - 60)

Concept

Series K1 covers flows related to changes in Canada's official international reserves of gold and United States dollars held by the Exchange Fund Account, other Government accounts and net holdings of the Bank of Canada, as well as equivalent holdings of sterling.

Series K2 covers flows related to changes in Canada's net position with the International Monetary Fund.

Series K3 covers liabilities associated with the extension to Canada of assistance by the monetary authorities of other countries.

Evaluation

This series should be complete and accurate.

Linkages and Relationships

CANSIM Databank Series – These are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) – Not covered.

IMF/OECD Common Reporting System (Appendix 6) – Global Balance of Payments Summary and Regional Balance of Payments Summary, Part 3 (Reconciliation of Parts 1 and 2), 21 (Allocation/cancellation of SDRs).

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) – Not relevant.

Financial Flow Accounts (Catalogue 13-002) – Specified component of Other financial assets (category 2610) of Rest of World (sector XIII).

Series Availability

Annually and quarterly from 1970 when Special Drawing Rights were introduced.

Description

These series for official monetary movements represent the flow equivalents of changes in the principal foreign exchange assets and liabilities available to the authorities to assist in the orderly settlement of Canada's international transactions.

From 1927 through 1939 they cover only monetary gold movements (estimated on the basis of a study of statistics of gold exports and imports) and, from its establishment in 1935, changes in holdings of foreign currencies by the Bank of Canada.

From 1940 through 1960 series K1 reflects official holdings of gold and foreign exchange, defined as gold, United States dollars (including short-term securities of the United States Government) and sterling held by the Exchange Fund Account, other Government accounts and net holdings of the Bank of Canada. The figures for 1940 and 1941 are affected by the inclusion in official holdings of amounts of private holdings subsequently acquired by the Exchange Fund Account under the Foreign Exchange Acquisition Order of 1940.

The Exchange Fund Account held sterling until 1952 and small amounts of other foreign currencies

besides United States dollars until 1945, and there were similar holdings in other Government accounts and by the Bank, but they were of a working balance nature only and not sizeable. Until 1970 releases of information on Canada's official international reserves did not cover official holdings of currencies other than United States dollars. On the other hand series K1 has in addition to United States dollars consistently included holdings of sterling.

Because of their special nature or purpose, some holdings of foreign exchange by the authorities have been excluded from time to time from series K1, and included instead in series D60 Resident holdings of foreign currency bank balances and other short-term funds abroad. It has already been recorded that holdings of foreign currencies other than United States dollars and sterling were included in series D60 until the end of 1960; they were generally working balances of limited statistical significance. The receipt in the early postwar years of relatively small balances of blocked funds in settlement of military relief shipments was totally excluded.

There were also some holdings of United States dollars or sterling which did not appear in the reserve series. Receipts of sterling arising from sales of codfish by Newfoundland to Portugal under arrangements whereby they could only be used for debt retirement were taken into D60 until applied to debt repurchases. In 1949 a sizeable block of exchange raised through a new Government of Canada issue in New York was set aside to cover retirements of United States dollar debt in 1950; this, too, was covered in series D60.

Other balances in United States dollars or sterling have existed from time to time in connection with the servicing of foreign currency debt. Redemption accounts are normally established with the paying agent the day prior to that fixed for payment. When, occasionally, this occurs at a quarter end, an awkward statistical problem emerges. If the authorities have excluded the funds from the quarter-end figures for official international reserves their existence must be taken account of somewhere else in the balance of payments, e.g., with other holdings, where their significance is likely to be misunderstood, or alternatively the debt may be shown as having been retired in the quarter preceding the maturity or call date. Neither alternative is found attractive by statisticians. The practices followed have in fact varied and on at least one occasion a redemption account balance was left in the official reserve data until the liability in respect of which it had been established was actually due.

There were two sets of circumstances during exchange control in Canada in which the figures used statistically for official reserve movements were not consistent technically with the holdings. It has been noted that the data for 1940 and 1941 were constructed

on the basis that holdings subsequently acquired by the authorities under the Foreign Exchange Acquisition Order, whose use had previously been subject to control, were already official assets. The second related to the treatment of a substantial float item at the end of September 1950 and is described further in the note in Part VII dealing with transactions in foreign currencies.

For a description of gold holdings, see series K4 (1961 on), K5 and K6.

From 1946 Canada normally had a net reserve position with the International Monetary Fund which was shown as item K2. This position was not included in releases of the total of Canada's official international reserves until 1970, although Canada's net creditor position was noted. For a further description, see series K4 (1961 on), K5 and K6.

Sources and Methods

The series are constructed from official sources.

Evaluation

Subject to the qualifications given in the description above, the series are accurate and complete.

Change in Coverage of Official International Reserves Introduced in 1970 and Carried Back Statistically to 1961

The release issued by the Minister of Finance on February 3, 1970 covering the level and composition of Canada's official international reserves introduced changes in coverage. Some of these, such as the inclusion of sterling and the regular reporting of Canada's position with the International Monetary Fund, had already been taken into the group of monetary movements covered in items K1, K2 and K3. There were, however, other smaller changes and the new series were extended for statistical purposes back to 1961.

Accordingly back to the beginning of that year a new series K4, Net official international monetary movements - official international reserves, was constructed to reflect flows corresponding to the new coverage.

In addition to accounts formerly shown in item K1, Change in official holdings of gold and foreign exchange, series K4 includes deposit balances of foreign currencies other than the United States dollar which were defined as convertible by the IMF and held by the Exchange Fund Account, the Receiver General and the Bank of Canada. These convertible currencies were previously included in item D60 of the balance of payments with the exception of sterling which had consistently been included with the reserves in balance of payments statements. Moreover the Bank of Canada's liquid foreign currency assets were thenceforth included

in official international reserves without deduction of the Bank's foreign currency liabilities to non-residents. Formerly only the net holdings were included. (Under the new treatment these liabilities form a part of item K5.)

The Minister also included as part of the reserves the whole of Canada's reserve position in the IMF which is defined as the amount of foreign exchange that Canada is entitled to draw from the Fund on demand for balance of payments purposes. The monthly statement of Canada's official reserves had previously treated as equivalent to reserves only that part of the reserve position in the Fund called the net creditor position, which is the amount of credit Canada had provided to other countries through the IMF. The balance of payments presentation had, however, included the whole of the reserve position in the IMF in series K2 Changes in net International Monetary Fund position. This asset now forms part of item K4. (Item K2 had also included Canada's net liability to the IMF when that institution held Canadian dollars in excess of 100% of Canada's quota. This situation has only occurred in the exchange crisis of 1962 and the period immediately following when the liability incurred was being liquidated. In the new presentation liabilities of this type were included in item K5.)

These changes coincided with the introduction of Special Drawing Rights in 1970, which were included among the official international reserves covered in series K4.

Table 25 in *The Canadian Balance of International Payments, 1965-70* (Catalogue 67-201) showed changes in reserves on the new basis back to 1961 and also indicated the net effects of the change on other accounts in the balance of payments.

Flows representing changes in liabilities associated with the official international reserves were grouped in a new series K5. This covers the Bank of Canada's foreign currency liabilities to non-residents (formerly netted out against assets in item K1), Canada's net liability to the International Monetary Fund if that institution held Canadian dollars in excess of 100% of Canada's quota (formerly included in item K2) and amounts previously shown under item K3, designated successively as "Other special international financial assistance" and "Reciprocal swap facility with Federal Reserve System", and currently described as "Reported use of central bank reciprocal credit facilities".

Linkages and Relationships

CANSIM Databank Series - These are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) - Table A (Global Balance of Payments Sum-

mary) and Table B (Regional Balance of Payments Summary), Part 2 (Movements of Capital and Monetary Gold), Central Monetary Institutions Items 15.2 Marketable assets, 15.3 Deposits (foreign currency component) and 15.6 Gold (for K1), 15.1 Accounts with IMF (for K2), and 15.5 Other foreign assets and liabilities (for K3).

Table XV Gold Holdings and Foreign Assets and Liabilities of Central Monetary Institutions.

IMF/OECD Common Reporting System (Appendix 6) - Global Balance of Payments Summary and Regional Balance of Payments Summary, Item C (Capital and monetary gold), Central monetary institutions 15.4 Other freely usable assets, and 15.2 Gold, less 15.6 Liabilities to official (foreign currency component) for K1, 15.1 Accounts with IMF (for K2) and 15.9 Other foreign assets and liabilities (for K3).

Modified Table XV Gold Holdings and Foreign Assets and Liabilities of Central Monetary Institutions, lines 2, 7.2 and 8 less 14 (foreign currency component) for K1, lines 4 to 6 for K2 and line 18 for K3.

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) - Not relevant.

Financial Flow Accounts (Catalogue 13-002) - Official international reserves (category 3210) less Official monetary reserve offsets (category 2700) of Rest of World (sector XIII).

Series Availability

K1, K2, K3 - Annually and quarterly from 1946 through 1960. Item K4 provides total for 1927 through 1960, but data for 1927 through 1939 are not comparable (see Description section under K4). For 1940 through 1945 items K2 and K3 would be nil, and K4 accordingly equivalent to K1. (Comparable data through the third quarter of 1969 were published in contemporary reports, and may be derived for the fourth quarter of 1969 from the quarterly report for that period.) For the current coverage see the section on K4, K5 and K6, from 1961 on.

K4 - Annually from 1926 and quarterly from 1946, through 1960. Data for 1927 through 1939 are not comparable; see Description section. Data for 1940 through 1960 comprise total of applicable items K1, K2 and K3. (Comparable data through the third quarter of 1969 were published in contemporary reports, and may be derived for the fourth quarter of 1969 from the quarterly report for that period.) See separate section for the current coverage of K4 from 1961 on.

Supplementary Data

Canada's Accounts with the International Monetary Fund (Catalogue 67-505, Table 11).

Related Data

Official Holdings of Gold and United States dollars. Release of the Minister of Finance, monthly.

Government of Canada Summary of Budgetary Revenues and Expenditures, Non-budgetary Transactions and Changes in Unmatured Debt and Current Account Cash, monthly.

Foreign Exchange Control Board. Reports to the Minister of Finance (1946-51).

Report of the Minister of Finance to Parliament on the Operations of the Exchange Fund Account in accordance with Section 26 of the Currency, Mint and Exchange Fund Act, annual.

Public Accounts of Canada, annual.

Weekly Financial Statistics, Bank of Canada.

Bank of Canada Statistical Summary, monthly.

Annual Report of the Governor to the Minister of Finance, and Statement of Accounts, Bank of Canada.

Report of the Royal Commission on Banking and Finance, 1964. Evidence of the Governor before the Royal Commission on Banking and Finance, Bank of Canada, n.d.

International Financial Statistics. International Monetary Fund, monthly.

Net Official Monetary Movements (from 1961)

Codes — K4 Official international reserves

K5 Official monetary liabilities

K6 Net official monetary movements

Concept

Series K4 covers flows related to changes in Canada's official international reserves, as released at regular monthly intervals by the Minister of Finance.

Series K5 covers flows related to associated liabilities.

Series K6 covers flows related to net changes in Canada's official international reserves and associated liabilities.

Description

Official international reserves — The series for official international reserves is made up of flow equivalents of changes in convertible foreign currency holdings of the Exchange Fund Account, the Receiver General for Canada and the Bank of Canada, gold, Special Drawing Rights, and Canada's reserve position in the International Monetary Fund. The assets are valued in terms of United States dollars, and the changes are expressed in Canadian dollar equivalents as described in Part VII. Adjustments are made to eliminate the effects on the United States dollar values arising from changes in exchange rates. Thus for example, changes in the value of SDR-denominated assets in Canada's official international reserves arising from the change in the exchange value of the United States dollar do not appear as flows in Canada's balance of payments, nor do variations in the value of Canada's international reserves arising from changes in the exchange value of the Canadian dollar. (The exchange revaluation effects of some isolated transactions carried out *de facto* on the basis of new rates prior to the completion of the formalities

leading to their reflection in holdings of international reserves were similarly removed from the flow data.)

The major portion of Canada's official holdings of United States dollars was invested until 1976 in special United States Treasury notes, in accordance with an arrangement made in 1968 whereby Canada was exempt from most parts of the United States balance of payments program. These notes are special non-market issues of the United States Treasury which, under United States balance of payments definitions, do not constitute a liquid claim on the United States. No distinction is made in practice or for statistical purposes in Canada in respect of the types or terms of United States Government securities in which Canada's official international reserves are employed. (For some years the authorities in Canada had additional holdings of special United States Treasury obligations acquired under the Columbia River Treaty arrangements. These were excluded from Canada's official international reserves. They are described under series D48 Columbia River Treaty.)

Monetary gold in the hands of the authorities has long been treated as a claim on the rest of the world, an external asset forming part of Canada's official international reserves. Because of its general acceptability as a means of international settlement, monetary gold has been the equivalent of convertible foreign exchange. The process by which new gold production passed into the official reserves and the statistical treatment of it have been described as the monetisation of gold, meaning the "conversion" of non-monetary to monetary gold, although the term has historically been associated with the relationship between gold and a domestic currency base. The process of monetisation in the latter sense came to an end when the gold stocks of the Bank of Canada were acquired by the Exchange Fund Account and the legal gold reserve requirement suspended early in the war. Monetisation of gold in the sense of growth of Canada's stock of monetary gold from new Canadian

production came to an end in March 1968 when separate monetary and non-monetary markets were established by international agreement among the principal countries of the world. In the currently published data relating to the period since that time non-monetary gold has been treated as a commodity.

The gold component in Canada's official holdings was for many years carried in the reserves at holding prices designed to reflect the realizable value, i.e., after allowance for the potential cost of moving gold to other financial centres for eventual resale. This practice was discontinued in 1972 when the Exchange Fund Account revalued its holdings from an average of about U.S. \$34.90 per fine ounce to the newly established United States price of U.S. \$38. The revaluation was recorded in May following the completion by the United States authorities of the formalities associated with the change in gold parity of the United States dollar.

There was a further increase in the price of gold to U.S. \$42.22 per fine ounce in October 1973, and further variations in price from July 1, 1974 when it was linked through the SDR to a "basket" of 16 currencies. None of these revaluations were reflected in the flows recorded in series K4.

The existence of a small inventory of refined gold held at the Royal Canadian Mint awaiting disposition was noted in the description of series A3 Gold production available for export. Such gold was not regarded as a foreign asset even prior to the establishment of non-monetary and monetary gold markets. Exceptionally, on a temporary basis from April 1968 to the end of 1972, such gold together with other new gold production in the hands of the authorities for disposition in the non-monetary market was included as a foreign asset - official holdings of non-monetary gold - in item D65. After the introduction of the revised treatment of new gold production in 1973 retroactively to April 1968 these holdings were designated as domestic assets. It may be noted that holdings of gold at the Mint have not always been valued at the same prices applied to Canada's international reserves. Until 1951 bullion at the Mint was valued at a statutory price of Cdn. \$20.67 per fine ounce.

Special Drawing Rights first appeared as a component in Canada's official international reserves following the initial issue of them by the International Monetary Fund in January 1970. While holdings of SDRs are regarded as reserve assets, liabilities associated with their original allocation are not regarded as reserve liabilities but appear as a separate series J - Allocation of Special Drawing Rights. SDRs were linked until mid-1974 to gold and thereafter to a "basket" of 16 currencies.

Canada's reserve position in the International Monetary Fund is also an SDR-denominated asset. It represents the amount of foreign exchange that Canada

is entitled to draw from the Fund on demand for balance of payments purposes. Each member of the IMF has a "quota", generally subscribed 25% in gold and the balance in its own currency. Quotas have been increased on several occasions since the Fund was established in 1945 and Canada's quota is currently 1,100 million expressed in Special Drawing Rights. The normative situation with respect to Canada's General Account with the IMF is accordingly

	Millions of SDRs
Subscribed in gold	275
Subscribed in Canadian dollars	825
Total subscription = quota	1,100

Canada's net asset, or reserve position, in the IMF would thus be made up as follows:

	Millions of SDRs
Asset:	
Subscription	1,100
Liabilities:	
Canadian dollars held by IMF, mainly in the form of interest-free demand notes	825
Net asset or reserve position	275

This final figure represents the net amount of resources provided by Canada to the Fund, and Canada is entitled to draw it from the Fund on demand for balance of payments purposes.

When the Fund makes available to other countries resources from its Canadian dollar holdings, Canada's liabilities to it drop and Canada's net asset or reserve position rises. When amounts are repaid to the Fund in Canadian dollars Canada's position falls. If Canada has occasion to make use of the Fund's resources, it purchases from the Fund foreign currencies against Canadian dollars. Canada's liabilities to the Fund are thereby increased and the net asset is reduced. If the Fund's holdings of Canadian dollars exceed 100% of Canada's quota, Canada's reserve position with the Fund has been entirely withdrawn, and any net liability constitutes a use of IMF credit (which appears in series K5 rather than K4).

Member countries are required to maintain the SDR value of their subscriptions to the Fund. Accordingly if, due to exchange rate changes, the SDR equivalent of the Fund's holdings of Canadian dollars is reduced, Canada must make available sufficient Canadian dollars to restore the value. Correspondingly if the SDR value of the Fund's holdings of Canadian dollars rises

because of exchange rate changes, repayments are made to Canada. These valuation adjustments, which in terms of Canadian funds affect equally both the cost of Canada's subscription to the Fund and its liabilities to the Fund, may be thought of as being offset within Canada's reserve position with the IMF, although they are explicit in the Government's accounts.

This very summary description has dealt with the general structure of the accounts with the Fund, but has not covered a number of other aspects such as the effects of earnings, or of the General Arrangements to Borrow, under which the resources of the Fund may be extended by borrowing from specific member countries, in which Canada has participated. Nor has it described the conditions pertaining to the use of IMF credit and to the restoration of reserve positions.

Official monetary liabilities – The series for official monetary liabilities (K5) covers three types of transactions directly related to the level of Canada's official international reserves: the use of IMF credit, foreign exchange deposit liabilities of the Bank of Canada to non-residents, and the reported use of central bank reciprocal credit facilities. Each of these has already been described. Each, it will be noted, is basically of a short-term nature. Other directly related liabilities, for example long-term debt issues placed abroad specifically to enlarge Canada's official international reserves, are not, however, included as official monetary liabilities.

When Canada experienced foreign exchange difficulties in 1962 and again in 1968 international financial assistance was made available to it through the International Monetary Fund and through central bank reciprocal credit facilities. The first involved in 1962 the elimination of Canada's reserve position in the IMF and additional use of IMF credit. In 1968 Canada did not make use of IMF credit but did draw down the full amount of its reserve position. Apart from the resources made available through transactions with the Fund, Canada received support from other central banks under reciprocal credit facilities. These banks made available United States funds on a swap basis in exchange for Canadian funds, with the transactions to be reversed at the same exchange rate after a fixed but renewable term. The United States funds received from the foreign central banks became a part of Canada's official holdings of gold and United States dollars. The Bank of Canada was unable under law until the 1967 revision to the Bank Act to pay interest and in order that the foreign central banks might receive interest on the funds provided, the Bank had earlier adopted a technique of setting aside Government of Canada securities for them against "money employed" balances. Such balances did not appear on the Bank's statements of assets and liabilities. This method of handling "money employed" balances was not discontinued until 1974. Under normal procedures the acquisition of Canadian securities by non-residents would have appeared as a capital inflow arising

from the sale of Government of Canada securities. This would have obscured both the assistance provided and, to a considerable degree, the need for it. Accordingly the balances in money employed accounts arising out of the reported use of central bank reciprocal credit facilities have been isolated and shown separately with official monetary movements in series K5.

In both 1962 and 1968 a small statistical residual remained following the full repayment of the facilities, arising out of the exchange conversion procedure followed in the construction of the estimates. This is described in the note in Part VII on transactions in foreign currencies.

It may be useful to record here that Canada has also provided assistance to other foreign central banks. In the case of Canada, however, this has normally been accomplished by redeposit with the other central banks of a part of Canada's official holdings of United States dollars. Thus, for example, in September 1968 the Exchange Fund Account made a deposit of U.S. \$100 million under a bilateral arrangement entered into between the Bank of Canada and the Bank of England in the context of an intercentral bank group facility arranged in November 1967. On other occasions deposits have been made by the Bank of Canada which purchased on a swap basis from the Exchange Fund Account the United States dollars required for the purpose. This was the case, for example, with respect to credits to help France deal with the exchange difficulties encountered in the course of 1969.

The existence of such redeposits by the Bank of Canada at times serves to explain large changes in the holdings of foreign currency assets by the Bank. But changes may also reflect swap transactions between the Exchange Fund and the Bank of Canada relating to the Bank's cash management operations,³⁸ or they may reflect funds accruing to the Exchange Fund Account which, at the balance sheet date, had not been invested in United States Government securities held directly by the Exchange Fund Account. The nature of the asset holding – whether in the form of a deposit or of securities – is sometimes a clue to the underlying nature of the transactions.

Forward transactions do not directly affect the figures appearing in balance of payments statements. There is, however, some discussion of them in the note on transactions on foreign currencies in Part VII. It has been the practice of the authorities to provide information about the amounts at month end of net outstanding United States dollar overnight and forward contracts of

³⁸ For a description of this type of transaction see page 32 of the *Annual Report of the Governor of the Bank of Canada to the Minister of Finance and Statement of Accounts for the year 1973*, and Technical Note on Temporary Bank of Canada – Exchange Fund Swaps, in the *Bank of Canada Review, July 1977*.

the Exchange Fund Account and the Bank of Canada that affect the total of official reserves. These will be found in the reports to Parliament on the operations of the Exchange Fund Account and are also reproduced annually in the *Bank of Canada Review*.

The series K6 is, of course, merely the net balance of K4 and K5.

Publication of the regional distribution of series K4, K5 and K6 covering net official monetary movements is normally delayed until the release by the Minister of Finance of the Annual Report of Operations of the Exchange Fund Account, in order not to reveal on a current basis the existence or extent of official international assistance. In regional statements, movements in official holdings of gold were allocated to the United States account until the end of the first quarter of 1968. Thereafter they have been allocated to the "All Other" group of countries and institutions. Canada's transactions with the IMF, including holdings of SDRs, are also included with the "All Other" group.

Sources and Methods

The series are constructed from official sources.

Evaluation

Subject to minor valuation problems, some inconsistency in the handling of redemption accounts, and the geographical discontinuity in the allocation of monetary gold at the end of the first quarter of 1968, all of which are described above, the series are accurate and complete.

Linkages and Relationships

CANSIM Databank Series - These series are listed in Appendix 1.

IMF Balance of Payments Manual, Third Edition (1961) - Table A (Global Balance of Payments Summary) and Table B (Regional Balance of Payments Summary), Part 2 (Movements of Capital and Monetary Gold) Central Monetary Institutions Items 15.1 Accounts with IMF (when positive), 15.2 Marketable assets, 15.3 Deposits (foreign currency assets) and 15.6 Gold, for K4, and 15.1 Accounts with IMF (when negative), 15.3 Deposits (foreign currency liability) and 15.5 Other foreign liabilities, for K5.

Table XV Gold Holdings and Foreign Assets and Liabilities of Central Monetary Institutions.

IMF/OECD Common Reporting System (Appendix 6) - Global Balance of Payments Summary and Regional Balance of Payments Summary, Item C (Capital and monetary gold), Central Monetary Institutions 15.1 Accounts with IMF, 15.2 Gold, 15.3 SDR holdings and 15.4 Other freely usable assets, for K4; and 15.1 Accounts with IMF, 15.6 Liabilities to official (foreign currency component) and 15.9 Other foreign liabilities, for K5.

Modified Table XV Gold Holdings and Foreign Assets and Liabilities of Central Monetary Institutions, lines 2, 4, 5, 6, 7.2 and 8 for K4 and lines 14 (foreign currency component) and 18 for K5.

National Income and Expenditure Accounts (Catalogues 13-001 and 13-201) - Not relevant.

Financial Flow Accounts (Catalogue 13-002) - Official international reserves (category 3210) less Official monetary reserve offsets (category 2700) of Rest of World (sector XIII).

Series Availability

Annually and quarterly from 1961. See K4 (1927-60) for earlier data.

Supplementary Data

Canada's General Account with the International Monetary Fund (Catalogue 67-001, table number varies, and Catalogue 67-201, Table 27 in issues for 1965-70 and 1971, Tables 28 and 29 in issue for 1972).

Canada's Accounts with the International Monetary Fund (Catalogue 67-505, Table 11).

Canada's Official International Monetary Assets and Liabilities (Catalogue 67-001, table number varies, and Catalogue 67-201 Tables 24-26 in issues for 1965-70 and 1971, Tables 26, 27 and 30 in issue for 1972).

Extension of concept of official international reserves 1970 with data back to 1961 (Catalogue 67-001 Fourth Quarter 1969, p. 25 and Catalogue 67-201, 1965-70, Table 25).

Related Data

Canadian sources - The following notes relate the level and composition of Canada's official international reserves, as announced monthly by the Minister of Finance, to other Canadian source data publicly available. The figures used for illustrative purposes are those at the end of 1974.

The data for December 31, 1974 released on January 3, 1975, were as follows:

	Millions of U.S. dollars	
Foreign currencies ¹		
United States dollars	3,767.7	
Other ²	12.9	3,780.6
Gold		940.7
Special Drawing Rights		574.3
Reserve Position in the International Monetary Fund		529.7
Total		5,825.3

¹ Convertible foreign currency holdings of the Exchange Fund Account, the Receiver General for Canada and the Bank of Canada.

² Valued at official rates in terms of United States dollars.

The total of U.S. \$3,780.6 million for foreign currencies is identifiable as follows:

		Millions of Cdn. dollars	Millions of U.S. dollars
Exchange Fund Account			
From Appendix II and Table II in the Report of the Minister of Finance to Parliament on the Operations of the Exchange Fund Account for the 12 months ending on the 31st day of December 1974 in accordance with Section 17 of the Currency and Exchange Act	Assets valued in United States dollars:		
	Cash on deposit		1.5
	United States Treasury bills and bonds at cost, with accrued interest		726.0
	United States special Treasury notes at cost, with accrued interest		2,389.6
	International Bank for Reconstruction and Development bonds at cost, with accrued interest		59.3
	International Monetary Fund:		
	Special Drawing Rights		578.1
	Notes		173.8
	Gold		940.7
	Total		4,869.1
	Deduct items shown later:		
	International Monetary Fund:		
	Special Drawing Rights		574.3
	Notes (excluding accrued interest of \$38 million on SDRs purchased and on IMF notes of \$1.6 million).		172.2
	Gold		940.7
	Total		3,181.9
Bank of Canada			
From Statement of Assets and Liabilities in Annual Report of the Governor to the Minister of Finance, and Statement of Accounts, for the year 1974	Deposits in foreign currencies:		
	Pounds sterling and United States dollars	7.7	
	Other currencies	0.3	
	Securities issued by the United Kingdom and the United States of America	570.0	
	Deduct:		
	Liabilities in foreign currencies to Government of Canada		1.7
	Total, expressed in Canadian funds	576.4	
	Total, expressed in United States funds		581.9
Government of Canada			
From Table I in Statement of Financial Operations for December 1974 and the first nine months of the current fiscal year	Current account cash in foreign currencies	10.1	
	Total, expressed in United States funds		10.2
	Total		3,774.0

The short-fall of U.S. \$6.6 million between this total of \$3,774.0 million and the total of \$3,780.6 million shown in the official release is not identifiable from publicly available sources, but the Bank of Canada balance sheet does not segregate by currency accrued interest on its investments. It may be presumed that this would be included in the total of official international reserves, and contributes to the difference. Because of the early publication of reserve data some revisions in the balances of operating accounts may also

occur between the announcement of reserve levels and the publication of accounting statements.

The figures of U.S. \$940.7 million for gold and U.S. \$574.3 million for holdings of Special Drawing Rights have already been identified in the material above.

The figure of U.S. \$529.7 million for Canada's reserve position in the International Monetary Fund

cannot be readily identified from publicly available accounting sources, although it can be readily linked to Table 65, International Monetary Fund Accounts with Canada, in the *Bank of Canada Review*³⁹ and the tables covering Canada's General Account with the International Monetary Fund, in *Quarterly Estimates of the Canadian Balance of International Payments* (Catalogue 67-001).

These tables which show the derivation of the position are expressed in terms of Special Drawing Rights. The reserve position of SDRs 432.6 million (including IMF notes) shown at December 31, 1974 was equivalent at that time to U.S. \$529.7 million (based on the ratio U.S. \$1 = 0.817 SDR).

The series for Canada's reserve position in the International Monetary Fund can also be linked to the government's accounting records at the **fiscal year end**, but it is necessary to exclude the notes representing loans made to the IMF through the Exchange Fund Account:

	31 March 1975	
	Expressed in millions	
	SDRs	U.S. dollars
Reserve position in the IMF. . . .	494.4	616.7
Less notes	191.3	238.6
Net	303.1	378.1

On the Government of Canada Statement of Assets and Liabilities as at March 31, 1975 included in the Public Accounts of Canada, Canada's accounts with the International Monetary Fund are shown as follows:

	Millions of Cdn. dollars
Assets:	
Canada's subscription to capital of the International Monetary Fund	1,253.0
Liabilities:	
Non-interest-bearing notes payable to the International Monetary Fund	916.0
Net asset.	337.0

The United States dollar equivalent of this figure was U.S. \$336.4 million. Canada's reserve position in the International Monetary Fund excluding notes as of March 31, 1975, expressed in the United States funds, was \$378.1 million. The difference is largely due to carrying the subscription to the Fund, amounting to SDR 1,100 million, at a cost of Cdn. \$1,253 million

in contrast to its Canadian dollar equivalent of \$1,374 million at the balance sheet date. If this figure is substituted, one derives the following:

	Millions of Cdn. dollars
Asset.	1,374.6
Liability	916.0
Net asset	458.6

The United States dollar equivalent of this figure was \$457.7 million. The difference between this and \$378.1 million would be accounted for *inter alia* by other Canadian dollar claims of the International Monetary Fund in Canada and by pending adjustments (subsequently made in June 1975) related to the maintenance of the SDR value of Canada's subscription.

Non-Canadian source data – Statistics appearing in the *Treasury Bulletin* published monthly by the United States Treasury Department naturally reflect large parts of Canada's official international reserves.

Table IFS-3 reports United States liquid and other liabilities to foreign official institutions. These are described *inter alia* to include liabilities (short and long term) to official institutions of foreign countries, as reported by banks in the United States, and foreign official holdings of marketable and non-marketable United States Government securities with an original maturity of more than one year, except for non-marketable notes issued to foreign official non-reserve agencies. (The reference to foreign official non-reserve agencies presumably included the obligations acquired by Canada under the Columbia River Treaty arrangements – see D48.) Table IFS-4 reports non-marketable United States Treasury bonds and notes issued to official institutions of foreign countries.

The figures given for Canada for December 31, 1974 in Tables IFS-3 and IFS-4 were U.S. \$3,665 million and U.S. \$2,540 million respectively. We have already seen that the Exchange Fund Account had United States special Treasury notes at cost with accrued interest aggregating U.S. \$2,390 million. If one may presume that the difference of \$150 million represented accrued interest, this amount might be added to the figure reported in IFS-3 to bring it to U.S. \$3,815 million. To this might be added \$12.9 million for official holdings of foreign currencies other than United States dollars, \$59.3 million for securities of the IBRD, and \$3.7 million for accrued interest on SDRs purchased. This would produce a total of U.S. \$3,891 million to relate to the reported foreign currency element of Canada's official international reserves of \$3,781 million. Factors which might serve in explaining the difference would include differences in the carrying values of securities in the two series, including possibly some accrued interest and discount, and any float.

³⁹ January 1977.

Table CM-I-4 provides data on short-term liabilities to foreigners reported by banks in the United States, by type and country showing separately those payable in United States dollars to foreign banks and official institutions. It gives the following figures for December 31, 1974 for Canada.

	Millions of U.S. dollars
Deposits	284
United States Treasury bills and certificates	451
Negotiable time certificates of deposit and other short-term liabilities	2,042
Total short term	2,777

To this may be added the following non-marketable and long-term claims

	Millions of U.S. dollars
Non-marketable United States Treasury bonds and notes issued to Canada, as per Table IFS-4	2,540
Accrued interest as indicated above.	150
Long-term liabilities to Canadians reported by Banks in the United States, as per Table CM-I-7.	19
Estimated official and private Canadian holdings of marketable long-term Treasury securities reported by banks and brokers in the United States, as per Table CM-V-4.	713
Total non-marketable and long term.	3,422

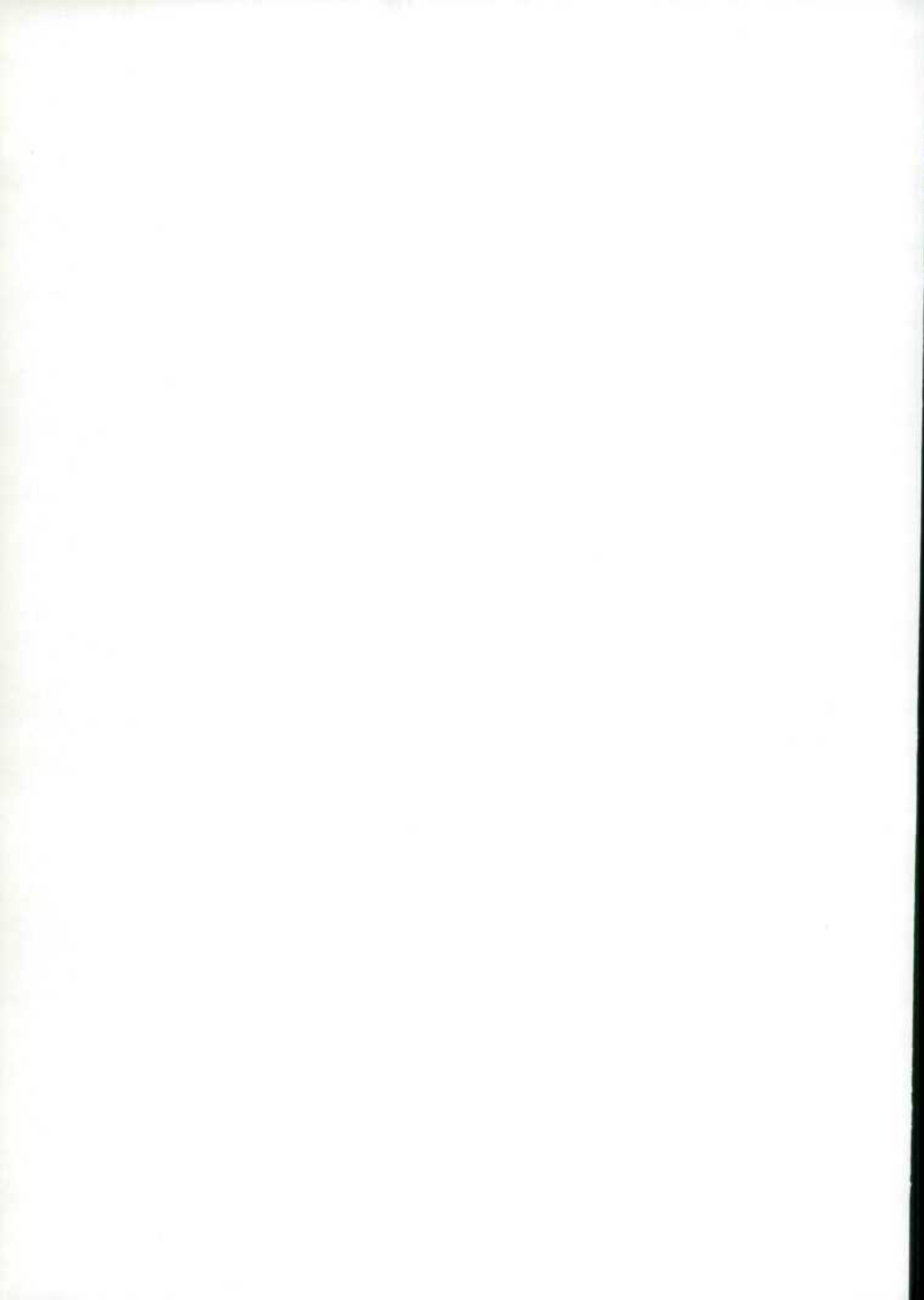
Total short- and long-term claims by Canada reported by United States banks (with identified accrued interest) of \$6,199 million are indicated. Eliminating the component of \$3,815 million derived earlier for official holdings, there remains \$2,384 million for holdings outside the official sector. The total of United States dollar claims on United States banks booked by chartered banks in Canada, as reported in the *Bank of Canada Review*, was Cdn. \$2,416 million, equivalent to U.S. \$2,437 million. The remaining difference of U.S. \$53 million would reflect variations in carrying values

(apart from the specific allowance made), holdings of United States Treasury issues by other Canadians, and float.

Isolation of the security components indicates that Canada's holdings of short-term and non-marketable United States Treasury issues, as reported by United States sources, are less than the sum of the United States securities reported to be held by the Canadian authorities. The specific description in the Canadian balance sheets would not preclude holdings of United States Treasury securities with an original maturity of more than one year which are classified as long term in the United States Treasury source. No such distinction is made either in practice or for statistical purposes in respect of components of Canada's official international reserves.

References

- Official International Reserves. Release of the Minister of Finance, monthly.
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- Public Accounts of Canada, annual.
- Weekly Financial Statistics. Bank of Canada.
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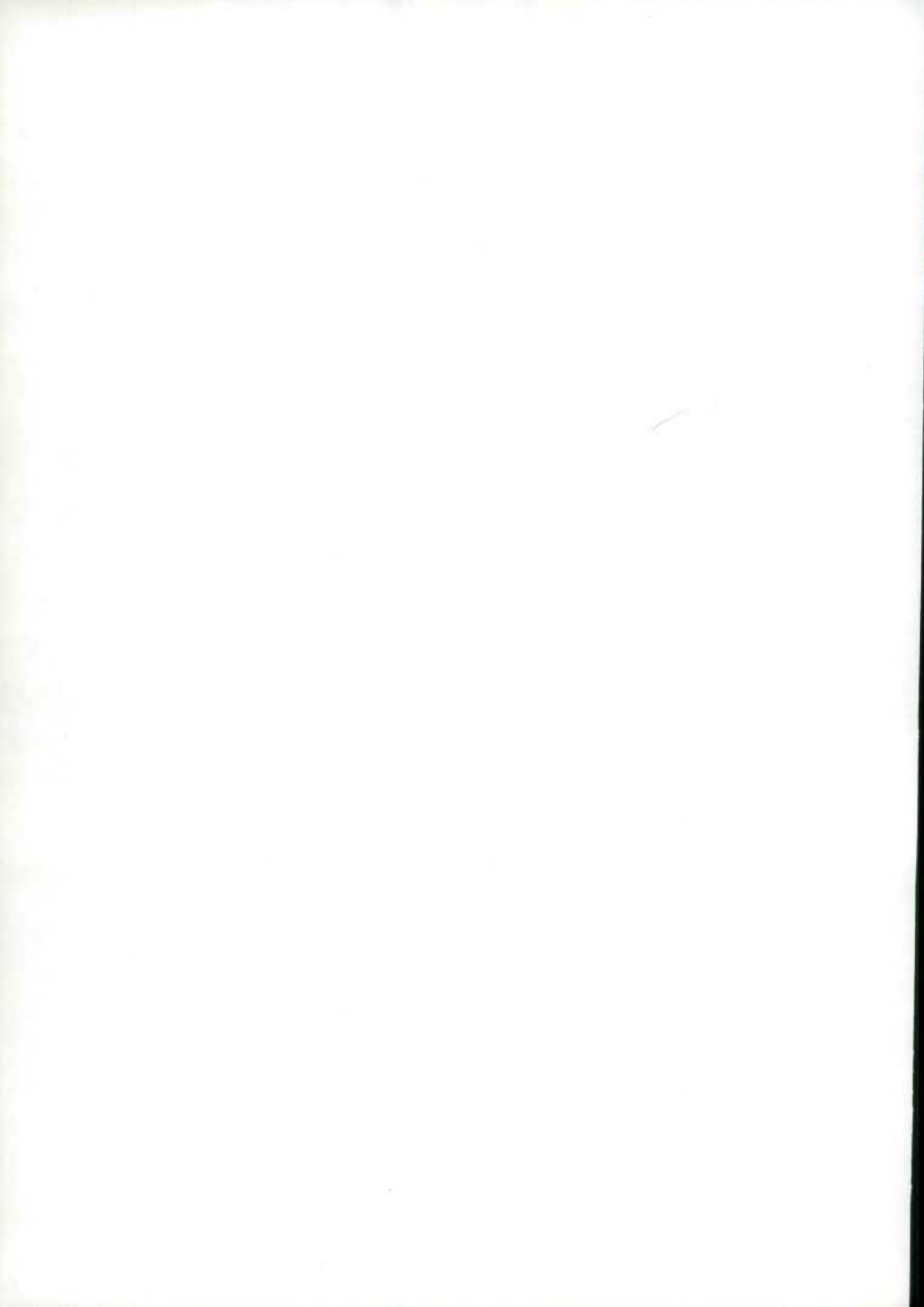


PART IV

CANADA'S INTERNATIONAL INVESTMENT POSITION

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Introduction

Canada's summary balance of international indebtedness is normally presented in the form shown below in Table IV.1 (with some additional geographical detail which is not listed). The discussion of the individual components which will be found in this Part follows the order of the table.

TABLE IV.1. Canada's Balance of International Indebtedness

Canada's assets

- Direct investment
- Portfolio investment
- Miscellaneous investment
- Government of Canada credits
- Government of Canada subscriptions to international financial agencies
 - Canadian long-term investment abroad
- Net official monetary assets
- Other Canadian short-term holdings of foreign exchange
- Short-term receivables, n.i.e.
- Gross assets

Canada's liabilities

- Direct investment
- Government bonds
- Other portfolio investment
- Miscellaneous investment
 - Foreign long-term investment in Canada
- Non-resident equity in Canadian assets abroad
- Official SDR liabilities
 - Total long-term liabilities
- Non-resident holdings of Canadian dollars
- Short-term payables, n.i.e.:
 - Finance company obligations
 - Other
- Gross liabilities

Canada's net international indebtedness

Data covering Canada's international investment position in summary form for 1926, 1930, 1933, 1939, 1945, 1950, 1955, 1960, and 1965 through 1974 are found in Table 1 of *Canada's International Investment Position, 1974* (Catalogue 67-202). Data for the inter-

vening years between 1960 and 1965 are found in Table 1 of the corresponding volume for 1968-70 (Catalogue 67-202). For years between 1945 and 1960, refer to Table 1 in the 1926-67 edition (Catalogue 67-202).

The Foreign Investment Review Agency, P.O. Box 2800, Postal Station "D", Ottawa, Canada, K1P 6A5 makes available without charge *Compendium of Statistics on Foreign Investment* (FIRA Papers No. 4, May 1978) based largely on published Statistics Canada data.

The distinction between long-term and short-term capital in Canada's international investment position, as in the balance of payments, is based upon probable behaviour rather than on the nominal form of the claim. Respondents are asked to classify as long-term those claims which are intended or likely to remain outstanding for more than one year from the date incurred. This concept has proved more meaningful than adherence to the strict form of claims, because demand obligations or open-account claims are frequently applied in parent company-subsidiary accounting to capital having an essentially long-term function. In general, therefore, the definition adopted approximates capital employed both in fixed assets and in a more or less "permanent" level of working capital.

Because of the use of nominees and other intermediaries, some investments may be attributed incorrectly. Due to the locations of such intermediaries in relation to the area distributions employed in presentation of the data, it is particularly likely that some of the investment attributed to the United States or to the United Kingdom should be attributed to other countries.

Components of Canada's international investment position may be aggregated in a number of ways to facilitate analysis of different aspects of Canada's international economic and financial relationships. There could be special interest in distinguishing long-term and short-term components, or components providing for contractual repayment, or those carrying service obligations in foreign currency at a predetermined rate, or in the range of yields (immediate or accrued) attaching to their term and liquidity, or in their division between the private and public sectors. Each of these might have meaning in the context of a particular study. While it is not possible to compile all the components of Canada's international investment position in such a way as to permit precise classifications on all these bases, a great many combinations to meet particular purposes are possible using the variety of detail published.

Canada's Assets

A summary of Canadian long-term investments abroad, classified geographically, is available as follows:

1964 through 1974 Table 2 in Canada's International Investment Position, 1974 (Catalogue 67-202)

1949, 1952 and 1958

1945, 1951, 1960 and 1962 through 1965

Table 2 in Canada's International Investment Position, 1971-73 (Catalogue 67-202)

Table 2 in Canada's International Investment Position, 1968-1970 (Catalogue 67-202)

1926, 1930, 1939 and intervening years between 1945 and 1962	Table XXIII in Canada's International Investment Position, 1926-1967 (Catalogue 67-202)
1926 through 1937 (unrevised)	Table 3 in the Canadian Balance of International Payments, A Study of Methods and Results (Catalogue 67-D-52)
1925-26 (unrevised)	Capital Investments by Britain and Foreign Countries in Canada and Capital Investments by Canadians in Other Countries, 1927 (Catalogue 67-D-51)

Direct Investment Abroad

Concept and description – The concept of direct investment abroad employed in statistics of Canada's international investment position is the book value of long-term investment abroad owned by the controlling or principal owners resident in Canada. The concept of control is described briefly under series D21 and D25 in Part III. The basis of valuation is described in Part VII.

In principle, capital flows for Canadian direct investment abroad, described under series D25 in Part III, relate to the same investments shown as Canadian direct investment abroad in the investment position. Differences between the flows and the changes in the book value of the investments arise, *inter alia*, from fluctuations in exchange rates, from undistributed earnings, from unidentified effects of variations in the time periods covered by reports, and from occasional instances of corporate reorganizations and of the migration of principal owners or shifts between direct and portfolio investment arising from changing international ownerships.

In the case of Canadian direct investment abroad there is a significant non-resident equity which arises through foreign investment in the Canadian parent companies. The existence of this equity does not affect the total of Canada's external assets, but is recognized as a liability in the category covering non-resident equity in Canadian assets abroad which is described later in this Part.

There are a number of cases in which Canadian companies serve purely as legal intermediaries in the ownership of investments in another country by persons or corporations resident outside Canada. The impact of these companies on the Canadian balance of payments, and indeed on the Canadian economy, is minimal. As described in the note on "Residency, Non-resident Canadian Companies and Other Special Situations" which will be found in Part VII, these investments

are, insofar as possible, excluded from statistics of Canada's international investment position.

Some special considerations apply also to the treatment of financial institutions. In the case of Canadian banks, their investments in banking operations through branches, agencies, wholly-owned subsidiaries, and non-controlled affiliates are covered in the separate asset series for other Canadian short-term holdings of foreign exchange, described below. Their investments in partly-owned but controlled corporations and in wholly-owned subsidiaries engaged in providing trust services or in the holding of real estate are, however, treated as direct investment. Beginning with 1974, the investments of banks in foreign premises, which are not held through separate corporations, are included with miscellaneous investments abroad.

Sources and methods – The basic source of the series for the book value of long-term Canadian direct investment abroad is the schedule BP-59, Capital invested abroad by Canadian enterprises.¹ Section A of this return provides details of direct investment abroad whether in subsidiaries, affiliates or in other forms such as unincorporated branches, agencies, warehouses, mining claims or oil properties. The totals used are those for the reporting company's interest in the form of long-term investment abroad. In the case of investments in subsidiaries or affiliates, values are those reflected in the balance sheet of the subsidiary or affiliate. As described in Part VII, the expression of these investments in terms of Canadian dollars is made generally at rates of exchange prevailing at fiscal reporting dates. Another source of information on Canadian direct investment abroad is the schedule BP-60, Canadian investment in non-Canadian corporations, which is used in a relatively few cases of significant direct investment abroad by individuals and other Canadian investors who do not receive the BP-59.

The survey universe is established from a wide variety of sources ranging from section V of schedule BP-51, Geographical distribution of ownership of capital of Canadian enterprises, to public sources.

Evaluation – The coverage of the series for Canadian direct investment abroad is believed to be reasonably complete. Some considerable lack of comparability exists, however, with other annual time series. The irregularity stems mainly from such causes as the effects of fiscal/calendar year-end deviations, exchange rate fluctuations and different stages of consolidation of financial accounts of foreign subsidiaries and affiliates with those of the Canadian parent companies.

¹ All the schedules referred to in this section are reproduced in Part V.

Published data sources - A growing amount of detail on Canadian direct investments abroad is being published. As the extent and variety of these investments has grown, the constraints of the confidentiality

provisions of the Statistics Act have become less confining. Except where otherwise indicated, references are to published tables.

Series	Year	Catalogue 67-202				Catalogue and reference year
		1974	1971-73	1968-70	1926-67	
Geographical distribution by industry	1974	3				
	1970-73	3	3			
	1964-69	3	3	3		
	1963		3	3		
	1952, 1954, 1956, 1957, 1959, 1961 and 1962			3	XXIV	
	1951, 1953, 1955, 1958 and 1960		3	3	XXIV	
	1946-50				XXIV	
	1945		3	3	XXIV	
	1926, 1930 and 1939				XXIV	
	1937 (unrevised)					67-D-52 4
Detailed geographical distribution, by control in Canada or elsewhere	1974	4				
	1972 and 1973	4	4			
	1971		4			
	1969 and 1970			4		
	1968			4	XXV	
1965-67				XXV		
Less detailed geographical distribution	1949, 1954 and 1958-66				35*	
Geographical distribution, by industry and by control in Canada or elsewhere	1974	5				
	1972 and 1973	5	5			
	1971		5			
	1968-70			5		
	1965-67 (industrial distribution unrevised)				XXVI	
Size of investments abroad by Canadian enterprise, by control in Canada or elsewhere	1974	6				
	1972 and 1973	6	6			
	1971		6			
	1968-70			6		
	1965-67				XXVII	
Size of investment in concerns, by control in Canada or elsewhere	1974	7				
	1972 and 1973	7	7			
	1971		7			
	1968-70			7		
	1965-67 (may be unrevised)				XXVIII	
Equity and control, by geographical distribution	1973 and 1974	9				
	1971 and 1972	9	11*			
	1970	9	11*	11*		
	1969	9		11*		
	1967 and 1968			11*	44*	
	1965 and 1966				44*	
	1960-64					67-201 1963, 1964 and 1965 57*
	1958-60					1961 and 1962 28*
	1957					1960 29*
	1954					1963, 1964 and 1965 57*
In developing countries, by control in Canada or elsewhere	1974	10				
	1970-73	10	12*			
	1969	10		12*		
	1967 and 1968			12*	43*	
	1965 and 1966				43*	

* statement.

Series	Year	Catalogue 67-202				Catalogue and reference year
		1974	1971-73	1968-70	1926-67	
Type of foreign concern	1974	8				
	1971-73	8	13*			
	1970	8	13*	13*		
	1969	8		13*		
	1967 and 1968 1965 and 1966			13*	46* 46*	67-D-51
Form of capital	1936 (with numbers of investors)					1936 26 and 27
	1937 (with numbers of investors)					1937 16
	1974	13				
	1971-73	13	14*			
	1970	13	14*	14*		
Total value and Canadian equity, geographical distribution, by industry	1969	13		14*		
	1967 and 1968			14*		
	1936					1936 26 and 27
	1937					1937 16
	1954					67-503 31*
Investment in Latin America (includes portfolio investment)	1954 and 1958					67-201 1959 22*

* statement.

Canadian direct investments abroad have tended to be prominent in such industries as beverages, farm implements and retailing, in which fiscal year-ends typically differ from calendar year-ends; accordingly estimates of direct investment abroad reflect significant amounts at dates which do not correspond to the calendar year-end. An analysis of the book values used

for the end of 1970 demonstrates this point. At that time, Canadian investors each having direct investments abroad of over \$5 million accounted for \$5,745 million or 92.8% of total direct investment abroad aggregating \$6,188 million. These large investments were distributed on the basis of their fiscal year-ends as follows:

Fiscal year ending	Canadian direct investors	Book value of Canadian direct investment abroad	
	number	millions of dollars	per cent
During first calendar quarter	9	178	3.1
During second calendar quarter	8	191	3.3
During third calendar quarter	8	1,078	18.8
During fourth calendar quarter, except December 31	5	366	6.4
Sub-total	30	1,813	31.6
On December 31	64	3,932	68.4
Total	94	5,745	100.0

Also affecting the series in varying degrees is the influence of variations in the exchange rate between the Canadian dollar and the currencies in which investments may be held. As noted in the description above the estimates are typically constructed on the basis of the

exchange rates applicable on the date to which the specific data relate. The accounting year-end differences which are embodied in the series compound the problem of exchange rate fluctuations, rendering impractical the isolation of their contribution to changes in the totals.

Portfolio Investment Abroad

Concept and description — The concept of portfolio investment employed in statistics of Canada's international investment position is the book value of the holdings by residents of Canada of portfolio investments in foreign securities. As described in Part VII, book value applies to the value reflected in the accounts of the debtor, rather than the carrying values which may be recognized in accounts of investors. (Foreign securities are defined to include holdings by Canadian residents in Canadian companies whose activities and assets are wholly outside Canada as described further in the section on "Residency, Non-resident Canadian Companies, and Other Special Situations" in Part VII.)

Canadian holdings of foreign securities have been built up over a long period and for diverse reasons. Before the growth of the Canadian capital market, opportunities for investment in some types of securities were confined largely to capital markets abroad. At times securities of United States companies having subsidiaries in Canada have been regarded as the most satisfactory vehicles available for participation in particular Canadian industries. About 80% of the book value of Canadian portfolio investment in United States shares at the end of 1960 and about 85% at the end of 1966 were in the stocks of companies having branches, subsidiaries or affiliates in Canada.

During the 1920's when interest in the New York Stock Exchange was high, residents of Canada acquired extensive holdings of United States stocks. Canadians in addition had substantial minority holdings of a portfolio nature of stocks of some Canadian utility companies operating principally in South and Central America and also offered a ready market for bond issues of governments of South American countries. Canadian holdings of United States stocks tended to contract with the collapse of the New York stock market in 1929, and the trend towards reduced holdings continued generally through the 1930's. From the outbreak of World War II to the end of 1951, because of restrictions on the export of capital from Canada, Canadians tended on balance to liquidate holdings. On the other hand, the tendency of United States companies to retain significant parts of rising earnings caused a substantial increase in the book value of the remaining holdings. In some instances, increased holdings resulted from exchanges of Canadian for United States securities authorized by the exchange control authorities.

The high level of investment activity in Canada in the 1950's was associated with continued repatriation of Canadian investment in United States stocks. An additional influence in this direction was the special tax credit available from 1948 to Canadian residents in respect of dividends received from taxable Canadian corporations. Nevertheless, due to the growth of undis-

tributed earnings, the book value of holdings rose in the period. To some extent, the increase reflected also acquisitions of holdings through exchange offers and through shifts in the position of some Canadian investors to a minority role in United States corporations which had previously been controlled by Canadians and classified as direct investments. The long period of repatriation of Canadian portfolio investment in United States corporations came to an end near the close of the decade.

In the decade of the 1960's there developed a renewed Canadian interest in the stocks of United States companies. The rapid growth of industries based on highly advanced technology in the fields of electronics, aerospace and communications was a feature of the United States economy in this period. Some large United States corporations, especially those with multinational operations, appeared to offer investment opportunities not available among Canadian companies, with the result that Canadian investors (especially institutional investors) tended to seek out United States equities. More fully developed investor information available in the United States, together with some liberalization of administrative restraints, were likely also of significance in attracting Canadian institutional interest. Some portfolio switching from Canadian equities occurred. Additional holdings were acquired in exchange for interests in Canadian concerns under mergers, and stock options and employee stock purchase plans involving the acquisition of United States stocks were extended to staffs of subsidiaries in Canada. Inheritances from relatives abroad led to ownership by Canadians of a greater variety of foreign securities than might otherwise have been acquired by them. Additional investments came about through the migration to Canada of owners of foreign securities. New investment media, particularly mutual funds, specifically designed to facilitate investment in foreign securities emerged.

Another swing occurred at the end of the 1960's and a period of sizeable net dispositions by Canadians of their holdings ensued. Certain market and institutional factors appear to have contributed towards the large scale reduction of Canadian holdings of United States securities which occurred in 1971 and 1972, and which continued on a lesser scale thereafter. An improvement in the Canadian balance of payments situation, together with a deterioration in that of the United States, resulted in significant upward pressure on the Canadian dollar and its unpegging in May 1970. Expectations of a continuing appreciation in the Canadian dollar, which were in fact realized, may have provided an inducement for some conversion of their foreign currency assets by residents of Canada. In addition, significant changes were introduced in 1971 in the treatment for taxation purposes of foreign source income. These included a limitation, in the form of a special tax, on foreign assets contained in the investment portfolios of certain types of deferred income trusts such as registered pension funds, registered retirement savings plans, etc.

Another important measure was an increase in the tax credit on taxable dividends from Canadian corporations; this was not matched by a corresponding increase applicable to dividends from foreign corporations.

Not all acquisitions by residents have been through the purchase of outstanding issues. Although the Canadian market is not a major one for new foreign issues, a number of them have been placed in Canada, in addition to the acquisitions by residents of new foreign issues offered abroad. The principal foreign borrowers in Canada in the postwar period have been the International Bank for Reconstruction and Development and the State of Israel.

The investments covered in Canadian portfolio investment abroad relate to the capital flows for portfolio transactions in foreign securities, described in series D35, D37, and D38, in Part III. As in the case of direct investment abroad, differences between the flows and the changes in the book values of the investments reflect a number of factors. Flows representing trade in outstanding issues occur at market values which may bear little relationship to underlying book values. Further differences may arise from fluctuations in exchange rates, from the accrual of undistributed earnings, from unidentified effects of variations in the time periods covered by reports, and from occasional instances of corporate reorganizations and of the migration of investors or shifts between direct and portfolio investment arising from changing international ownerships.

Not included in the series or reflected in Canada's international investment position are foreign securities held by Canadian insurance companies in connection with their activities outside Canada. These represent substantially the employment of funds of foreign policyholders. Nor, of course, are the foreign securities which may be held by Canadian banks, or as part of Canada's official exchange reserves by the Canadian monetary authorities, included. These are described at greater length under net official monetary assets, or under other short-term holdings of foreign exchange, both of which are discussed separately below.

Some investments of the Government of Canada having the characteristics of foreign securities are included under the series for Government of Canada credits, also described later in this Part. These are holdings of bonds of the United Nations, for which the capital flows are covered in series D40 and D44 described in Part III, and changes in holdings of United States Government medium-term non-marketable securities held by Canada under the Columbia River Treaty arrangements as described in series D48. However, the acquisition by the Government of Canada in 1966 and 1967 of bonds of the International Bank for Reconstruction and Development, in order to reduce Canada's official holdings of United States dollars under an

understanding with the United States concerning their appropriate level, and the subsequent disposition of these investments in 1968 were treated as ordinary portfolio security transactions in both the capital account and the investment position.

Sources and methods - Estimates of the value of Canadian portfolio investments abroad are based on occasional surveys, projected annually on the basis of reported transactions and estimates of the effects of retained earnings, exchange rate fluctuations and other factors.

Benchmark data in respect of holdings of portfolio investments in the United States were constructed with the help of a census of foreign portfolio investments undertaken in the interwar period by the United States statistical authorities.

The most detailed information available on Canadian holdings of foreign securities related to 1939 when residents of Canada were required to declare their holdings of foreign securities on the introduction of foreign exchange control. These declarations formed the basis for the establishment of new benchmarks. Since that time, surveys have been carried out on a number of occasions to validate the projected estimates of holdings by Canadian residents of United States corporation stocks. These surveys also yielded, of course, additional information on the composition of the holdings.

When holdings were declared at the outbreak of World War II, Canadian portfolio investment in United States stocks had a book value of \$380 million. This total comprised a great variety of United States stocks, although holdings in a relatively small number of issues of prominent United States corporations constituted a large part of the total. About 70% of the total was made up of industrial and commercial issues and about 15% was in public utility issues other than railroads. The remainder was distributed in smaller amounts among railroads, mines, financial and other companies.

A survey of Canadian holdings of stocks of about 115 United States companies was next carried out over 1953 and 1954, and was the basis of a new estimate of \$450 million for holdings of United States stocks in 1952. This survey concentrated on stock issues which had been held by Canadians in substantial amounts in 1939. It showed that holdings of individual issues had changed greatly. Among industries showing reduced holdings were railroads and public utilities in which the market interest had been less than in the case of the market leaders which were featured in the group of stocks where Canadian holdings had risen.

A further survey of holdings was carried out in 1961 and 1962. Within this period about 500 United States corporations were requested to supply figures of

the number of their shares held by residents of Canada. This list included the companies surveyed previously, other United States companies whose stocks were inter-listed on Canadian and United States stock exchanges, companies in which Canadians were known to have acquired blocks of stocks through takeover offers, and a selection of other important United States companies from *Fortune's* lists of the 500 largest United States industrial corporations and the 50 largest banks, merchandising, transportation, life insurance and utility companies. The response was well over 90% and led to establishment of a new benchmark estimate of \$827 million for the end of 1960.

This reflected an increase of \$337 million in the book value of holdings from \$490 million at the end of 1954, some \$50 million higher than the projected change. In the six-year period capital flows had recorded a net disposal of holdings (on a transactions value basis) of \$33 million. Some \$27 million of United States stocks were acquired by residents under offers in exchange for Canadian investments, transactions which are not recorded in the capital account of the balance of payments. A further addition of about \$42 million was made to Canadian portfolio holdings of United States stocks as the result of shifts in the position of Canadian investors to a minority role in some corporations which had previously been controlled by Canadians and shown as direct investments. All the foregoing factors together accounted for an increase in Canadian holdings of about \$36 million, or perhaps \$45 million on a book value basis. Allowance for variations in the exchange rate added \$12 million to the Canadian dollar value of holdings, leaving an increase of about \$275 million attributable to internally generated growth through the retention of earnings.

The estimate for the end of 1954 of \$505 million, expressed in United States funds, was based on a total of \$421 million covered through returns from the 115 United States corporations which participated, plus the provision of a further net amount estimated at \$84 million to cover holdings in other corporations and adjustments arising for nominee holdings. By comparison the estimate for 1960 was based on a total of \$488 million then invested in the group also covered for 1954, plus \$317 million for 369 companies newly approached, and an allowance of \$25 million for other holdings.

A new benchmark estimate for holdings at the end of 1966 was established from the results of a survey carried out in two phases during 1967 and 1968. The first phase took place in 1967 when 645 United States corporations were requested to supply figures on the number of their shares held by residents of Canada other than insurance companies. This list included the companies covered in earlier surveys, other United States corporations whose stocks were newly inter-listed on Canadian and United States stock exchanges, companies in which Canadians were known to have acquired

blocks of stocks through takeover offers, and a selection of other important public United States companies from *Fortune's* lists of the largest United States corporations. Considerable difficulty was experienced in this survey which unfortunately extended over a period during which there was a very rapid build-up of Canadian portfolio investment in the United States, particularly by investment funds. Because of this, a thorough review of the published holdings of funds was made which led to the selection of an additional 185 corporations in the second phase of the operation in 1968. Out of the total number of 830 corporations that were approached some 690 supplied the requested information. Furthermore, holdings of mutual funds in an additional 217 corporations were obtained from published sources. These corporations were not surveyed but the holdings of their stocks were incorporated in the final figures. In the absence of any firm evidence to the contrary the effects of nominee holdings were assumed to have been offsetting. An allowance was made, however, for certain Canadian holdings of United States stocks through foreign-based investment funds.

As in the case of the earlier work, book values used in the construction of the estimates were derived from the financial statements of the companies concerned. They covered paid-in capital, retained earnings, appraised or similar capital surpluses, less any accumulated deficits, on the basis of the consolidated balance sheet. The market value of the benchmark year holdings was based upon the reported average price for the last day of trading in 1966. For the intervening years and the years following 1966, market values of holdings were constructed on the basis of annual changes in book values, *Standard and Poor's* market price indices and the market value/book value ratio for the benchmark year. Statistics on trading in outstanding securities (recorded in the capital account of the balance of payments in terms of the actual transaction values) were not adjusted to a book value basis for use in the investment position projections for years prior to 1960 although adjustments based on new benchmark levels were reflected subsequently with other factors.

Determination of an appropriate allowance for the growth in book value per share was a crucial element in estimating the value of holdings for intersurvey years and in projecting holdings for the years after 1966. Analysis of a representative group of companies in which Canadians had holdings in both survey years, 1960 and 1966, indicated that aggregate retained earnings of these companies grew in the intervening years at the rate of over 8% annually while the book value per share, due to dilution occasioned by stock splits and stock dividends, the introduction of new capital and allocation of earnings between different classes of stock, recorded a considerably lower annual growth rate of about 5%. Of the total increase of \$1,338 million in the book value of Canadian holdings of United States stocks in the nine-year period ending 1969, about \$582 million or

43% was attributable to growth generated internally through retention of earnings. In the same period Canadians purchased on balance outstanding issues of an estimated book value of \$472 million. They also acquired some \$120 million of new issues, while about \$5 million of existing holdings were retired. These international transactions accordingly added \$587 million to the book value of holdings. About \$100 million of United States stocks were acquired by residents under offers in exchange for investments in Canada, transactions which are not recorded in the capital account of the balance of payments. An additional \$69 million of the increase in the period was accounted for by such other factors as exchange rate variations, reclassifications of holdings and revaluations.

A new benchmark estimate has been established for holdings at the end of 1972. A total of 1,676 United States corporations, a little more than twice as many as were surveyed in 1966, were requested to furnish the relevant information. Out of this number, 1,142 corporations responded. Although this represented an absolute increase of some 452 over the 1966 survey, the rate of response dropped from 83% in 1966 to 68% in 1972. Using records of past surveys and other available information including an examination of holdings of mutual funds, estimates were made for Canadian holdings in 307 non-respondent corporations and in 107 corporations that had not been surveyed. Therefore, usable figures were obtained for a total of 1,556 of the 1,783 United States corporations on which information on Canadian holdings was sought. An allowance was then made for non-response and undercoverage. As in the earlier benchmark estimate, the effects of nominee holdings were assumed to have been offsetting.

Of the total increase of \$916 million in the book value of Canadian holdings of United States stocks in the six-year period ending 1972, about \$893 million was attributable to growth generated internally through retention of earnings. International transactions including trading in outstanding issues, acquisition of new issues and retirement of existing holdings led to a net increase in book value of \$14 million. Acquisition of United States stocks by Canadian residents in exchange for investments in Canada, exchange rate variations and other factors accounted for the balance of \$9 million.

Records are maintained for identified holdings by Canadian residents of individual issues of foreign securities. As already described, this information may come from a variety of sources: direct approaches to foreign companies; analyses of public portfolios of Canadian financial intermediaries; known placements on the Canadian market; resident holdings of a portfolio nature in Canadian corporations treated as non-residents (as revealed on schedules BP-51 or BP-52, Geographical distribution of ownership of capital of Canadian enterprises); acquisitions revealed in Part II of schedule BP-21, Report of transactions between Canada and other

countries, or section B of BP-59, Capital invested abroad by Canadian enterprises, or in some cases on schedule BP-60, Canadian investment in non-Canadian corporations; acquisitions under exchange offers, etc. This individual information is supplemented where appropriate with information from section V of the BP-51. The benchmark necessarily includes a further allowance for holdings not identified by issue. As subsequent estimates are projected, individual issue detail is kept as up-to-date as possible reflecting stock dividends, stock splits and other specifically identified transactions. To the extent that factors affecting the levels of holdings in these projections cannot be allocated by issue, the estimates also include a further unallocated element representative of their net effect.

From the benchmark data, estimates of receipts of investment income are constructed for use in estimates of the balance of payments. These estimates of investment income are subsequently projected using a sample to determine the effect of changes in rates of dividends together with adjustments to take account of changes in the levels of holdings reflected in capital flow data. The benchmark detail is also used to estimate capital flows relating to acquisitions under rights offerings, retirements, etc., for use in estimates of the balance.

Evaluation - It will be apparent from the preceding description of sources and methods that estimates of the value of Canadian portfolio investment abroad present considerable difficulty. This stems in part from the problems of classifying residents and non-residents, including the consequences of extensive use of nominees in international ownership.

A special difficulty arises in respect of holdings of foreign securities by Canadian insurance companies. There are reasons for suspecting that the identification of specific holdings of foreign equities, particularly United States stocks, between those of Canadian home offices and those representing the employment of income from policies underwritten abroad, occasions great difficulty. For this reason when foreign companies have been asked to supply figures for holdings by residents of Canada, holdings of Canadian insurance companies have been expressly excluded. While it is clear that Canadian insurance companies have invested significant amounts from Canada in foreign securities, it seems likely that the consequences of excluding them from the reports are statistically much less serious than would be the inclusion of very large amounts which properly belong to insurance activities abroad. The area is one which requires further study.

Although the estimates undoubtedly leave something to be desired, it should be recorded that their present quality has been made possible only through the voluntary co-operation of a large number of publicly-held foreign corporations.

Published data sources - The amount of detail available on Canadian portfolio investment abroad is

relatively limited. Except where otherwise indicated, references below are to published tables.

Series	Year	Catalogue 67-202			
		1974	1971-73	1968-70	1926-67
Geographical distribution with stocks and bonds separately where available	1970-74	2			
	1969	2	2	2	
	1968	2		2	
	1964-67	2		2	XXIII
	1962 and 1963			2	XXIII
	1961				XXIII
	1960			2	XXIII
	1959				XXIII
	1958		2		XXIII
	1953-57				XXIII
	1952		2		XXIII
	1951			2	XXIII
	1950				XXIII
	1949			2	XXIII
	1946-48				XXIII
	1945			2	XXIII
	1926, 1930 and 1939				XXIII
United States corporation stocks, book values, factors in changes	1969-74	14			
	1968			15*	
	1939, 1945 and 1951-67 (may be unrevised)				48*
United States corporation stocks, book and market values, net dividends received	1970-74	15			
	1969	15		16*	
	1968			16*	
	1955-67 (may be unrevised)				49*
United States corporation stocks, numbers, book and market values, by size of total Canadian holdings	1966 and 1972	9*			
	1960 and 1966				50*
United States corporation stocks, numbers, book and market values, by industry groups	1966 and 1972 1960 and 1966	10*			51*

* statement.

Miscellaneous Investment Abroad

Concept and description - The category of miscellaneous investment abroad is essentially a residual one comprising all long-term Canadian investment abroad other than direct investment, portfolio investment in stocks and bonds, Government of Canada credits, and Government of Canada subscriptions to international financial agencies.

A large element in the category consists of medium-term and long-term export credits extended by Canada directly or indirectly at risk of the Government of Canada, whether financed by public or private sources. These have already been described at considerable length under series D49 in Part III and details of the flows and the amounts outstanding are published regularly.²

² See for example Table 24 in *The Canadian Balance of International Payments, 1973-74* (Catalogue 67-201) or Table 11 in *Quarterly Estimates of the Canadian Balance of International Payments, Fourth Quarter 1974* (Catalogue 67-001).

While by far the largest component of miscellaneous investment abroad is represented by export credits, there is a significant total for such items as holdings of real estate (both residential and commercial), the participation of Air Canada in the construction of terminal facilities at the John F. Kennedy International Airport in New York and of the Canadian Overseas Telecommunications Corporation in overseas cable facilities, deferred receivables including those from the takeover of Canadian direct investments abroad and (during the period of stretch-out of uranium contracts) amounts receivable by Eldorado Mining and Refining Limited, claims on foreign estates and trusts, uninsured export credits, bank and other long-term loans, and other items such as allowances for the estimated equity of Canadian members in international trade unions and of Canadian policy holders in insurance activities abroad. The related capital flows are largely covered in series D50 which, however, also includes substantial flows related to miscellaneous long-term claims on Canada by non-residents.

It has been the practice also to include in this group of items, as a negative component, an amount representing the reserve against foreign "inactive" assets (those which are not currently revenue-producing or realizable), of the Government of Canada, as published annually in schedule H, Statement of Assets and Liabilities, *Public Accounts of Canada*.

Sources and methods - Like other residual category series, that for miscellaneous investment abroad is constructed from a variety of sources.

Outstanding balances on medium- and long-term credits extended by Canada directly or indirectly at risk of the Government of Canada are derived from the sources described under series D49 in Part III to which the interested reader is referred.

Other elements of miscellaneous investment abroad present much greater difficulty. For some of those described earlier data are obtained directly from specific questionnaires, from annual reports, by direct correspondence, etc. Some part of the remaining total is derived by the accumulation of relevant elements of

the capital flows recorded in series D50 or related data from which those series have been constructed (such as the measures of Canadian bank loans abroad). A final group of elements cannot be directly related to measures of capital flows, and their quality varies greatly. Thus, estimates of residential real estate held abroad by Canadians are at best notional, and the same applies to allowances made for Canadian claims on foreign estates and trusts. The figure for the equity of Canadian members in international trade unions is a rough estimate constructed after a review of material supplied by international labour unions under the Corporations and Labour Unions Returns Act.

The final component of the series, the reserve for inactive foreign assets of the Government of Canada, is as recorded in the accounts of the Government beginning with the fiscal year 1953-54, with corresponding data for earlier years.

Published data sources - Relatively little information has been published on the composition of miscellaneous long-term investments abroad, but the three principal components, together with a regional distribution of the total, is provided in Table IV.2. Totals are published regularly in the tables listed below.

Series	Year	Catalogue 67-202			
		1974	1971-73	1968-70	1926-67
Geographical distribution	1966-74	2			
	1964 and 1965	2		2	
	1962 and 1963			2	XXIII
	1961				XXIII
	1960			2	XXIII
	1959				XXIII
	1958		2		XXIII
	1953-57				XXIII
	1952		2		XXIII
	1951			2	XXIII
	1950				XXIII
	1949		2		XXIII
	1946-48				XXIII
	1945			2	XXIII

Further detail of export credits as noted earlier, is published in balance of payments reports.

Evaluation - The category of miscellaneous investment abroad comprises a wide range of items extending

from those directly available in appropriate form from administrative records such as those of the Export Development Corporation to highly notional figures in respect of claims whose existence is incontestable but for which satisfactory quantifiable records are virtually non-existent.

TABLE IV.2. Miscellaneous Investment Abroad, 1946-74

Year	Export credits ¹	Other investments	Reserve for inactive assets	Total
millions of dollars				
1946	..	23	- 31	- 8
1947	..	21	- 31	- 10
1948	..	68	- 31	37
1949	..	62	- 31	31
1950	..	47	- 31	16
1951	..	31	- 89	- 58
1952	..	32	- 89	- 57
1953	..	34	- 89	- 55
1954	..	36	- 89	- 53
1955	..	37	- 89	- 52
1956	..	41	- 89	- 48
1957	..	36	- 89	- 53
1958	..	35	- 89	- 54
1959	..	69	- 89	- 20
1960	..	71	- 89	- 18
1961	122	75	- 89	108
1962	185	122	- 95	212
1963	257	102	- 95	264
1964	421	139	- 95	465
1965	608	146	- 95	659
1966	649	232	- 95	786
1967	544	313	- 95	762
1968	515	335	- 95	755
1969	521	363	- 95	789
1970	647	425	- 95	977
1971	875	588	- 95	1,368
1972	1,122	743	- 95	1,770
1973	1,319	952	- 80	2,191
1974	1,907	1,124	- 80	2,951

¹ Medium and long term, directly or indirectly at risk of the Government of Canada.

Government of Canada Credits

Concept and description – These investments cover most of the Government of Canada's long-term investments abroad including loans to foreign governments, described under series D41 and D44 in Part III, and holdings of United States government medium-term non-marketable securities acquired under the Columbia River Treaty arrangements described under series D48. Not included are holdings at the end of 1966 and 1967 of bonds of the International Bank for Reconstruction and Development which were acquired in order to reduce Canada's official holdings of United States dollars under an understanding with the United States concerning their appropriate level; these were treated as portfolio investments. Nor does the series include medium-term and long-term export credits financed by the Government of Canada which are included in the series for miscellaneous investment abroad which was described earlier in this section.

The series does include, however, several long-standing loans on which payments of principal and interest have not been received for many years. The amounts are offset, as we have seen, by a negative entry

under miscellaneous investments abroad representing the relevant reserve for inactive assets established in the accounts of the Government.

The series reflects some extensions of credit which were not articulated in the balance of payments. The consolidation at the time of the formal issue of notes under Part II of the Export Credits Insurance Act of accrued interest on interim credits and drawings was not reflected in current or capital transactions; the amount is given in the description under series D41. Deferrals of interest on the 1946 loan to the United Kingdom were treated similarly; they are described in the sources and methods section under series D45. There is one other case in which the series for Government of Canada credits reflects an amount which did not appear in the balance of payments. This was the assumption by the Netherlands of an obligation to pay Canada nearly \$6 million (plus interest), over a period of 10 years, in settlement of military relief extended by Canada at the close of World War II. This transaction is described in somewhat greater detail in the note on "Some Other Special Items" which appears in Part VI.

Sources and methods – The series are derived from official records.

Published data sources — Details of these assets are, of course, available at fiscal year-ends in the *Public*

Accounts of Canada. Statistical summaries on a calendar year-end basis have been published as follows:

Series	Year	Catalogue 67-202				Catalogue	
		1974	1971-73	1968-70	1926-67		
Geographical distribution	1968-74	2					
	1967	2		2	XXIII		
	1966	2					
	1964 and 1965	2		2	XXIII		
	1962 and 1963			2	XXIII		
	1961				XXIII		
	1960			2	XXIII		
	1959				XXIII		
	1958		2		XXIII		
	1953-57				XXIII		
	1952		2		XXIII		
	1951			2	XXIII		
	1950				XXIII		
	1949			2	XXIII		
	1946-48				XXIII		
	1945			2	XXIII		
	1939				XXIII		
		1931-37					67-D-52
		1930				XXIII	3
		1927-29					3
	1926				XXIII	3	
Detail	1949 and 1955					67-503	
						29*	
	1952					67-502	
						22*	
	1939, 1945-48					67-503 A	
	1926, 1939 and 1944					15	
						29*	

* statement.

Table IV.3. shows the balances outstanding on Government of Canada credits at the end of 1974, summarises the capital transactions during the period 1927 through 1974 on these series and on Government of Canada subscriptions to international financial agencies³ (see next section) and, after some special adjustments, shows the composition of the relevant balances at the end of 1974.

Evaluation — The series are derived from official records and should be complete and accurate.

Government of Canada Subscriptions to International Financial Agencies

Concept and description — These series cover capital subscriptions and advances by Canada to international financial agencies. The relevant capital flows

are described under series D42 in Part III where the agencies currently included are listed.

The series do not, of course, reflect contributions which have the character of membership assessments or grants. These are current account items. Nor do they cover the provision by Canada of resources to the International Monetary Fund, claims on which represent a component of Canada's net official monetary assets.

The values shown are the amounts paid in by Canada, and are accordingly carrying values reflected in the accounts of the Government.

Sources and methods — The series are derived from official records.

Published data sources — Details of these assets are available at fiscal year-ends in the *Public Accounts of Canada*. Statistical summaries are published on a calendar-year-end basis and will be found in *Canada's*

³ None of these agencies were in existence in 1926.

TABLE IV.3. Loans by Government of Canada to National Governments and International Organizations, 1926 - 74

	Millions of dollars	
Outstanding, end of 1926:		
Roumania	24	
Greece	7	
Belgium	5	36
Capital transactions, ¹ 1927 - 74:		
Advances	4,290	
Repayments	- 1,647	2,643
Adjustments, 1927 - 74:		
Applied against other claims under the United Kingdom Financial Settlement Act of 1946	- 166	
Interest deferred under the loan of 1946 to the United Kingdom	101	
Funding of accrued interest on drawings under Part II of the Export Credits Insurance Act (19.5) rounding, etc.	22	- 43
Outstanding, end of 1974:		
United Kingdom	932	
France	25	
Netherlands	9	
Belgium	5	
China ²	49	
Roumania ²	24	
Greece ²	7	
United Nations	4	
Bilateral loans to developing countries (detail by country is available at fiscal year end, in Public Accounts of Canada)	901	
Multilateral loans to:		
Inter-American Development Bank	72	
African Development Bank	11	
Caribbean Development Bank	6	
Andean Development Bank	5	
Asian Development Bank	3	
Caribbean Development Bank (agriculture)	2	
Subscriptions to capital:		
International Development Association	403	
International Bank for Reconstruction and Development	101	
Inter-American Development Bank	47	
Asian Development Bank	21	
Caribbean Development Bank	5	
International Finance Corporation	4	
		2,636

¹ Reflected in series D40 through D48.

² Inactive loans.

International Investment Position (Catalogue 67-202), Table 2 of the 1974, 1971 - 73 and 1968 - 70 issues and in Table XXIII of the 1926 - 67 issue.⁴

Evaluation - The series are derived from official records and should be complete and accurate.

Net Official Monetary Assets

Concept and description - Canada's net official monetary assets are made up of convertible foreign

⁴ Further detail of the years covered in these tables will be found in the section of Government of Canada credits which immediately precedes this section.

currency holdings of the Exchange Fund Account, the Receiver General for Canada and the Bank of Canada, official holdings of monetary gold, Special Drawing Rights, and Canada's reserve position in the International Monetary Fund, less any associated liabilities of a short-term nature. An extended description of them appears under series K in Part III.

These assets are valued in terms of their Canadian dollar equivalent at the dates of the estimates.

Sources and methods - These series are derived from official records.

Published data sources - Data for Canada's net official monetary assets at the end of 1964 through

1974 are found in Table 11 of *Canada's International Investment Position* (Catalogue 67-202), 1974 issue; data for 1939, 1945, 1949, 1950, 1955 and the intervening years between 1955 and 1964 are found in Table 8 of the 1971-73 and 1968-70 issues; data for the intervening years between 1945 and 1955 are found in Table XXIX of the 1926-67 issue. For subsequent year-ends (in terms of United States dollars) refer to Table 30 of *The Canadian Balance of International Payments* (Catalogue 67-201), and Table 15 in current *Quarterly Estimates of the Canadian Balance of International Payments* (Catalogue 67-001). Subsidiary detail on Canada's accounts with the International Monetary Fund is also available. (See note on supplementary data under series K in Part III.)

Evaluation — The series are derived from official records and should be complete and accurate.

Other Canadian Short-term Holdings of Foreign Exchange

Concept and description — The series reflect the net foreign currency claims of the Canadian chartered banks on non-residents, together with deposits of residents with banks abroad and foreign treasury bills held by residents (apart from those of the Canadian banking system and the official monetary authorities). The related capital flows appear as series D61 and D65 in the Canadian balance of international payments. The reader is referred for further detail to the descriptions of these series in Part III.

The totals are expressed in terms of Canadian dollars at the exchange rates applicable to the dates of estimates.

Sources and methods — The estimates of flows in respect of these claims which are used in the balance of payments are, with one exception, derived from changes in the outstanding totals, and the sources and methods have already been described in Part III. The private Canadian holdings of treasury bills are derived in part from reported transactions and in part from reported holdings. These, too, are described in Part III.

Published data sources — The totals for the series are published on a calendar year-end basis and will be found in *Canada's International Investment Position* (Catalogue 67-202), Table 1 in the 1974, 1971-73 and 1968-70 issues and in Table I of the corresponding report for 1926-67. Details of foreign currency assets and liabilities booked in Canada by Canadian chartered banks are published monthly in the *Bank of Canada Review* (Table 13). An earlier series for estimated net assets of Canadian banks outside Canada for year-ends from 1926 through 1937 will be found in Table 3 of *The Canadian Balance of International Payments, A Study of Methods and Results* (Catalogue 67-D-52).

Evaluation — The series are dependent largely on classifications of residency applied to their assets and liabilities by financial institutions in and outside Canada. It is possible that the classifications are not always appropriate for the purposes of the series.

Short-term Receivables, n.i.e.

Concept and description — The series cover estimated short-term claims of Canadians on non-residents apart from those represented by net official monetary assets and other Canadian short-term holdings of foreign exchange.

Sources and methods — The series for short-term receivables, n.i.e., represent the projection of a benchmark estimate constructed for the year 1956.⁵ Until that time no estimate for these claims had been included in the measure of Canada's international investment position.

The benchmark was constructed by a careful analysis of the year-end data reported on the schedule now identified as BP-21, Report of transactions between Canada and other countries. Each of the asset items covered in Part III of that report was examined. It will be recalled that some accounts which are formally short-term are treated in the Canadian balance of international payments as long-term. These are amounts which are intended or likely to remain outstanding for more than one year from the date incurred. Amounts reported as claims on non-residents in Part III of the predecessor of the BP-21 which had already been covered in estimates of long-term claims such as direct investment were eliminated. A benchmark for the end of 1956 having been established, series were constructed back to the end of 1945 and the benchmark has been projected forward from 1956. Essentially the year-end estimates are projected on the basis of the identified flows in series D82, Other short-term capital transactions, which relate to claims on non-residents. Series D82 is described at considerable length in Part III. (These asset flows are broken out for purposes of the joint reports made to the International Monetary Fund and the Organisation for Economic Co-operation and Development, a sample of which is reproduced in Appendix 6.)

A special problem arises, of course, in connection with the treatment of the balance of errors and omissions which is a component of series D82. Based upon the performance of this balance it was reflected as a liability until the end of 1966 but the flows since the beginning of 1967 have been accumulated into the asset series for short-term receivables, n.i.e., which is discussed here.

⁵ The construction of the benchmark for 1956 was described in *Canada's External Short-term Assets and Liabilities, 1945-1957* (Catalogue 67-504).

No geographical distribution of the series has been constructed.

Published data sources – Totals for short-term receivables, n.i.e., outstanding at year-ends will be found in Table I of *Canada's International Investment Position* (Catalogue 67-202), 1974, 1971-73 and

1968-70 issues, and in Table I of the corresponding report for 1926-67 (Catalogue 67-202).

Evaluation – The measures of short-term receivables and payables are probably the weakest to be found in the balance of payments, and this weakness is also characteristic of the estimates of outstanding totals of these claims used in the investment position.

Canada's Liabilities

Summaries of foreign long-term investment in Canada classified by type and geographical area, for 1900 through 1926, 1930, 1933, 1939, and 1945 through 1974 will be found in Table 16 and classified geographically and by type of investment for the years 1926, 1930, 1933, 1939, and 1945 through 1974 in Table 17 of *Canada's International Investment Position, 1974* (Catalogue 67-202). Additional detail is available on the following page.

The information available on the role of foreign financing in Canadian investment will be found in four sets of tables. The net use of domestic and of foreign resources in gross capital formation for the years 1946 through 1974 may be found in Table 33 in the issue of Catalogue 67-202 for 1974. The use of foreign resources in gross and net capital formation for the years 1946 and 1947 and for triennial periods from 1948 through 1974 will be found in Table 32 of the same source. The other sets of tables contain series which, at the time of writing, had been withdrawn pending review. These are direct foreign and other financing of gross capital formation, available from 1946 through 1969 in Statement 31 of the issue of Catalogue 67-202 for 1926-67, and direct foreign financing of gross and net capital formation for the years 1946 through 1949, triennial periods from 1952 through 1967, and 1968 through 1969, to be found in Statement 32 of the same source. These measures are discussed in a note in Part VII.

Foreign Direct Investment in Canada

Concept and description – The concept of foreign direct investment in Canada employed in statistics of Canada's international investment position applies to the book value of long-term investment in Canada by all residents of the country in which control is considered to lie. This differs from direct investment as used in the balance of payments which covers only flows from controlling, affiliated, or principal owners. The concept of control is discussed briefly under series D21 in Part III. The basis of valuation is described in one of the sections of Part VII.

The title of this series should be noted carefully. For purposes of most analyses, series of foreign investment are properly limited to foreign investment in Canada. Many enterprises in which foreign ownership is significant have important subsidiaries or branches

abroad. The equity of non-residents in Canadian investment abroad through ownership in Canadian companies is reflected in a separate series in Canada's external liabilities, non-resident equity in Canadian assets abroad. This must be taken together with series for foreign investment in Canada in order to arrive at totals for foreign long-term investment in Canadian enterprises.

The term "foreign ownership" is often applied synonymously with foreign investment, and includes both direct and portfolio investment. (In general an attempt is made in official publications to restrict the use of the term foreign ownership to the relationship between foreign and total capital in Canada.)

The long-term capital in enterprises controlled by non-residents may be larger than the amount of direct investment in them because of minority holdings by residents of Canada or by residents of third countries. Total foreign investment in particular industries in Canada may, however, be larger than the total of capital controlled by non-residents because foreign investment in Canadian-controlled enterprises may exceed the minority investment of Canadians in foreign-controlled enterprises.

The capital flows which affect the value of foreign direct investment in Canada are not all readily identifiable in the balance of payments. The largest part of them is to be found in series D21, Foreign direct investment in Canada, although there may be occasional transactions in that series which cover flows to or from major shareholders of enterprises which are treated as Canadian controlled and appear in the investment position series as foreign portfolio, rather than direct, investment in Canada. But flows between foreign-controlled companies and unrelated parties in the country in which control is considered to lie add to the value of foreign direct investment. These may appear in series D30 through D33 covering portfolio transactions in Canadian securities, or in series D50 covering other long-term capital transactions which would include bank or other loans from unrelated parties. Flows for Canadian direct investment abroad which are recorded in series D25 also affect the value of foreign direct investments in Canada to the extent that they are transactions of foreign-controlled enterprises in Canada. While these are the principal series in the capital account which affect in greater or lesser degree the value of

Published data sources — Foreign long-term investment in Canada.

Series	Year	Catalogue 67-202				Catalogue and reference year
		1974	1971-73	1968-70	1926-67	
Geographical distribution, by nature of ownership and type of claim	1972-74	18				
	1971	18	12			
	1968-70	18	12	12		
	1965-67	18		12	IV	
	1964	18			IV	
	1963		12		IV	
	1961 and 1962				IV	
	1960			12	IV	
	1956-59				IV	
	1955		12	12	IV	
	1951-54				IV	
	1950		12	12	IV	
	1946-49				IV	
	1939 and 1945			12	IV	
	1933				IV	
1926 and 1930			12	12	IV	
Geographical distribution, by type of investment	1972-74	19				
	1971	19	13			
	1968-70	19	13	13		
	1965-67	19		13	V	
	1964	19			V	
	1963		13		V	
	1961 and 1962				V	
	1960		13	13	V	
	1956-59				V	
	1955		13	13	V	
	1951-54				V	
	1950		13	13	V	
	1946-49				V	
	1939 and 1945			13	13	V
	1933				V	
1926 and 1930			13	13	V	
	1926-37 (unrevised)					67-D-52 I 67-D-51
	1925 and 1926					1927
	1923					1926 Notes on foreign investments in Canada
Corporate securities, geographical distribution by industry	1921					67-D-52 67-201
Direct and portfolio investment in the financial industry, geographical distribution	1974	20				
	1971-73	20	14			
	1970		14	14		
	1968 and 1969			14		
	1967			14	17* and 18*	
	1963-66				17* and 18*	
	1962					1963, 1964 and 1965 61*
	1960 and 1961					1961 and 1962 22*
	1959					1960 24*
	1956					1961 and 1962 22* 1960 24*

* statement.

foreign direct investment in Canada, the impact may not be the same. Market transactions in outstanding issues of portfolio securities take place, for example, at values which will not normally correspond to the resulting changes in underlying book values.

Among other factors in the change of foreign direct investment in Canada is the accrual to non-residents of undistributed earnings; these are described in a note in Part VII. Changes in the totals of foreign direct investment in Canada may also occur as the cumulative effect of transactions over an extensive period. The introduction to or withdrawal from Canada of a relatively small amount of capital is sometimes the culmination of a process under which control over a substantial aggregate of capital previously invested in an enterprise is deemed to shift between non-residents and residents, and accordingly between direct and portfolio investment.

Sources and methods – The basic sources of the series for the book value of foreign direct investment in Canada are the schedules BP-51 and BP-52, Geographical distribution of ownership of capital.⁶

The long-term debt reflected in section 1, Part II, of the BP-52 (or section I of the BP-51) is distributed on the basis of the reported ownership, subject, of course, to any adjustment necessary as a result of more complete information available to Statistics Canada from other sources. The records are maintained on the basis of individual issues which permit construction of benchmarks of interest payments by quarters and by currency.

Records of equity investment closely parallel in form those for long-term debt. Individual issue detail is available from section 3, Part II of the BP-52 (or section I of the BP-51). Reported figures are adjusted where appropriate to take into account known nominee holdings. Ownership distributions are applied to the appropriate book values constructed from data supplied in section 3 of Part II and from Part III of the BP-52 (section II of the BP-51).

Ownership of minority interests in Canadian-consolidated subsidiaries is reported in section 2, Part II, of the BP-52.

The country of control is established for statistical purposes on the basis of information on the schedules and other sources. (The concept has been discussed under series D21 in Part III.)

The components described above whose ownership is attributed to the country in which control is deemed to lie make up the total of foreign direct investment in Canadian corporations.

It is necessary at this stage to make allowance for that portion of foreign direct investment in Canadian corporations which is not foreign direct investment in Canada.

Schedule BP-59, Capital invested abroad by Canadian enterprises, includes in section A figures for total long-term direct investment abroad defined in the following terms:

At valuation appropriate to stage of consolidation used in completing schedules BP-51 or BP-52, Geographical distribution of ownership of capital (if applicable) otherwise use values as reflected in your own accounts.

Section B of the BP-59 which includes long-term portfolio or indirect investments calls for them to be reported at values carried in respondent's balance sheet. (Where a BP-59 is not obtained the data may be found in section V of the BP-51.)

Both direct and portfolio long-term investments abroad are then distributed proportionately to the geographical ownership of the common stock of the Canadian enterprise (or proportionately to funded debt in the case of an enterprise whose external assets greatly exceed its equity capital). This distribution then becomes a negative component in the calculation of foreign long-term investment in Canada.

That part of foreign long-term investment in Canada whose ownership is attributed to the country in which control is deemed to lie, constitutes total foreign direct investment in Canada in Canadian corporations.

To complete the estimate of foreign direct investment in Canada it is necessary to take into account investments in Canadian branches of non-Canadian corporations.

This information is ordinarily obtained from the balance sheet on schedule BP-22, Report on investment in Canada of non-Canadian corporations, where the procedure is to deduct from asset line 12, total assets in Canada, the sum of liability lines 1 through 3 covering liabilities to Canadians. (In principle a more appropriate calculation would be the sum of liability line 9 and of any long-term elements of liability lines 5 through 7, but the data received are not sufficiently consistent to support this.) There are also other sources. Among them are the BP-57, Investment in Canada by non-Canadian firms, and the BP-58, Report by non-Canadian airlines operating in Canada. In some cases branch assets are measured from administrative records. Estimates of the net assets in Canada of foreign life insurance companies are made from reports to the Superintendent of Insurance; foreign securities held among the assets in Canada are excluded.

While not used in the estimates of foreign direct investment in Canada, the elements whose ownership

⁶ All the schedules referred to in this section are reproduced in Part V.

is attributed to countries other than that in which control is deemed to lie are used elsewhere. Those attributable to other non-residents are a component of foreign portfolio investment in Canada.

The aggregate of all the elements, foreign and Canadian-owned, in respect of foreign-controlled enterprises represents in principle the total of foreign-controlled capital.

Further adjustments are, however, necessary both to eliminate major inter-corporate holdings of securities in Canadian corporations (to avoid overstatement through duplication of Canadian total long-term investment) and to put the series on an underlying book value basis.

Schedule BP-53, Ownership in Canadian companies, includes in Parts II and III carrying values in the respondents' accounts of securities of Canadian subsidiary, affiliated and associated companies that are not fully consolidated on schedules BP-51 or BP-52. These carrying values are used in conjunction with the underlying book values of the companies in which the investments are made to effect the adjustments.

Published data sources - A substantial amount of information is published on foreign direct investment in Canada. References to series for the geographical distribution by type of investment and to detail of investment in the financial industry have been shown in the general section on Canadian liabilities below. Other series follow.

Series	Year	Catalogue 67-202				Catalogue and reference year
		1974	1971-73	1968-70	1926-67	
Geographical distribution by industry	1972-74	22				
	1971	22	16			
	1969 and 1970	22	16	16		
	1968	22		16		
	1966 and 1967	22		16	VI	
	1965	22	16	16	VI	
	1964	22			VI	
	1961-63				VI	
	1960		16	16	VI	
	1956-59				VI	
	1955		16	16	VI	
	1951-54				VI	
	1950		16	16	VI	
	1946-49				VI	
	1939 and 1945		16	16	VI	
		1936 (unrevised)				
	1937 (unrevised)					1937 1-5 and 10-13
	1933				VI	
	1926 and 1930		16	16	VI	
Detailed geographical distribution	1972-74	23				
	1971	23	17			
	1970	23	17	17		
	1969		17	17		
	1968			17		
	1966 and 1967			17	VII	
	1963 and 1965				VII	
		1955, 1957, 1959 and 1961				
Factors in changes, global	1970-74	21				
	1946-69	21	15	15		
Factors in changes, United States	1970-74	24				
	1968 and 1969	24	18	18		
	1964-67	24	18	18	IX	
	1962 and 1963		18	18	IX	
	1959-61			18	IX	
	1946-58				IX	

* statement.

A considerable amount of subsidiary detail related to foreign-controlled enterprises is available:

Published Data Sources

Series	Year	Catalogue 67-202				Catalogue and reference year
		1974	1971 - 73	1968 - 70	1926 - 67	
Geographical distribution by ownership and by industry	1974	28	22	22	XIII	67-201 1961 and 1962 35* and 35A* 67-503A 6 67-D-51 1936 1-16 1937 1-4 and 10-13
	1973					
	1970					
	1967					
1945, 1954 and 1960						
1948 (United States, unrevised)						
1936 (unrevised)						
1937 (unrevised)						
Detailed geographical distribution	1967 - 74	27		21	XI XI	67-201 1963, 1964 and 1965 59* 1961 and 1962 37* and 38*
	1966					
1963 and 1965 (may be unrevised)						
1955, 1957, 1959 and 1961						
Canadian equity investment in foreign-controlled enterprises	1960					67-503 XI
	1953 (United States only)					
Number of concerns by country of control, form of organization, and industry	1974	36	25	25	XV XV	67-201 1963, 1964 and 1965 XI XI 1961 and 1962 XI 1960 XI 1959 XI 1958 XI 1957 XI 1956 XI 1955 XI 67-503 XII
	1971 - 73					
	1970					
	1968 and 1969 (unrevised)					
	1967					
	1965 and 1966					
	1964					
	1962 and 1963					
	1960 and 1961					
	1959					
1958						
1957						
1956						
1955						
1954						

* statement.

Series	Year	Catalogue 67-202				Catalogue and reference year
		1974	1971-73	1968-70	1926-67	
Number of concerns by country of control, form of organization, and industry - Concluded	1953					67-201 1954 XI
	1952					1953 IX
	1951					1952 IX
	1948					67-503A 8, 16 and 17
	1946					67-501 XLI
	1945					67-503 XII
	1944					67-201 1926-45 XXX
	1936 and 1937					67-D-52 2 67-D-51
	1936					1936 1-16
	1937					1937 1-5 and 10-13
	1945 (United States only)					67-503A 8A
Number of concerns in which foreign capital is invested, with analysis of change	1974	35				
	1971-73	35	24			
	1967-70		24			
	1964-66				26*	
Size distributions with varying detail	1962-64					67-201 1963, 1964 and 1965 63*
	1960 and 1961					1961 and 1962 24*
	1959					1960 26*
	1958					1959 20*
	1957					67-201 1958 21*
	1956					1957 20*
	1961					1963, 1964 and 1965 71*
	1960					1963, 1964 and 1965 70*
	1953					1961 and 1962 37*-48*
						1955 20*

* Statistical.

Series	Year	Catalogue 67-202				Catalogue and reference year
		1974	1971 - 73	1968 - 70	1926 - 67	
Size distributions with varying detail - Concluded	1946 and 1953					67-503 11*
	1932					67-D-51 1936 17
Manufacturing activities	1932 (United States only)	Marshall, Southard and Taylor: Canadian-American Industry, V - VII				
	1946, 1953 and 1961					67-201 1963, 1964 and 1965 pp. 84 - 98 and XVIII - XXE
	1946 and 1953					67-503 pp. 42 - 45 and XIII - XVIII
	1953					1955 p. 29
	1946 (United States only)					67-D-58
	1932 (United States only)	Marshall, Southard and Taylor: Canadian-American Industry, pp. 26 - 29 and V - VII				
Additional reference	C.D. Blyth and E.B. Carty. Non-resident Ownership of Canadian Industry. <i>The Canadian Journal of Economics and Political Science</i> , November 1956, pp. 449 - 460.					

* statement.

There are also many series related to foreign ownership and control of Canadian industries:

Published Data Sources

Series	Year	Catalogue 67-202				Catalogue and reference year
		1974	1971 - 73	1968 - 70	1926 - 67	
Book values	1972 and 1973	37				
	1971	37	26			
	1967 - 70	37	26	26		
	1965 and 1966	37	26	26		XVI
	1963 and 1964	37				XVI
	1961 and 1962					XVI
	1960		26	26		XVI
	1956 - 59					XVI
	1954 and 1955		26	26		XVI
	1952 and 1953					XVI
	1926, 1930, 1939, 1948 and 1951		26	26		XVI
Ownership, percentages	1972 and 1973	38				
	1971	38	27			
	1968 - 70	38	27	27		
	1965 - 67	38	27	27		XVII
	1963 and 1964	38				XVII
	1961 and 1962					XVII
	1960		27	27		XVII
	1956 - 59					XVII
	1954 and 1955		27	27		XVII
	1952 and 1953					XVII
	1926, 1930, 1939, 1948 and 1951		27	27		XVII

Series	Year	Catalogue 67-202				Catalogue and reference year
		1974	1971 - 73	1968 - 70	1926 - 67	
Control, percentages	1972 and 1973	39				
	1971	39	28			
	1967 - 70	39	28	28		
	1965 and 1966	39	28	28	XVIII	
	1963 and 1964	39			XVIII	
	1961 and 1962				XVIII	
	1960		28	28	XVIII	
	1956 - 59				XVIII	
	1954 and 1955		28	28	XVIII	
	1952 and 1953				XVIII	
	1926, 1930, 1939, 1948 and 1951		28	28	XVIII	
					67-D-51	
					1937 14	
Control, showing government enterprises	1937 (not comparable)					
	1972 and 1973	40				
	1971	40	29			
	1969 and 1970	40	29	29		
	1968		29	29		
	1967			29		
	1963 - 66			29	XIX	
						67-201
						1963, 1964 and 1965 69*
	1962			29	XIX	1963, 1964 and 1965 69*
	1960 and 1961				XIX	1963, 1964 and 1965 69*
1959					1963, 1964 and 1965 69*	
1948					1960 31* 67-201	
Manufacturing, petroleum and natural gas, and mining, detail	1972 and 1973	41				
	1971	41	30			
	1970	41	30	30		
	1969		30	30		
	1968			30		
	1967			30		
	1954 - 66 (may be unrevised)				XX	
						1956 XV
	1953					
	1972 and 1973	42				
	1971	42	31			
1967 - 70	42	31	31			
1963 - 66	42	31	31	XXI		
1954 - 62		31	31	XXI		
Control of manufacturing, petroleum and natural gas, and mining, detailed percentages	1972 and 1973	43				
	1971	43	32			
	1967 - 70	43	32	32		
	1963 - 66	43	32	32	XXII	
	1954 - 62		32	32	XXII	
Petroleum industry						67-201 1957 XV
	1954 and 1955					67-503
						XV III
	1945 and 1953					67-201 1954 17*
	1952 (foreign investment only) 1951					67-D-55

* statement.

Some data are also available in respect of the Canadian equity in foreign-controlled enterprises in Canada. Table XI in Catalogue 67-503 provides a distribution of the equity of Canadians in United States-controlled enterprises in Canada in 1953. Statements 37 and 38 in the issue of Catalogue 67-201 covering 1961 and 1962 provide data for the end of 1960 for the value, form and proportion of Canadian equity ownership in large United States-controlled and other foreign-controlled enterprises. There is also information on Canadian equity in the tables covering geographical distribution by ownership and by industry listed above as subsidiary detail related to foreign-controlled enterprises.

Evaluation – Estimates of the book value of foreign direct investment in Canada are believed to be reasonably complete and accurate.

A special analysis of information which became available under the Corporations and Labour Unions Returns Act was carried out in 1964. The results will be found in a note on page 65 of *The Canadian Balance of International Payments 1963, 1964 and 1965 and International Investment Position*, Catalogue 67-201. This analysis led to the addition in 1964 of about 400 companies involving accumulated foreign direct investment in Canada of \$158 million, equivalent to about 1% of the stock of foreign direct investment in Canada at the time. About half of the adjustment covered investment in real estate and other finance companies.

Government Bonds

Concept and description – This category covers foreign investment in bonds of the Government of Canada, provinces and municipalities, including all the funded debt guaranteed by them with the sole exception of railways. Railway financing has always been treated separately arising from its historical origin and importance in Canada. The basis and rationale of valuation is described in one of the sections of Part VII.

Since the investment position estimates are based upon nominal or face values of the securities, expressed at nominal rates of exchange,⁷ changes in the values of holdings differ from the actual amounts of capital which may have flowed into or out of Canada.

The capital flows related to foreign holdings of Canadian government bonds are elements of the capital

flows for portfolio transactions in Canadian securities described under series D30, D32 and D33 in Part III.

Sources and methods – Registers have been constructed over the past 50 years to record all the information available on the international ownership of the direct and guaranteed obligations of the governments of Canada, the provinces, municipalities, and their agencies. These records reflect in the first place the initial distributions of issues based upon the data sources described in respect of series D32 in Part III.

If new issues were to be held to maturity in the country where they were first owned, there would be little difficulty in estimates of foreign holdings of bonds of Canadian governments and their agencies. But, of course, this is not the situation. There is a significant volume of international after-trading of outstanding issues which is recorded in series D30. In 1972, for example, the volume of such trading in issues of Canadian governments approached three quarters of a billion dollars.

Setting aside for the moment the question of retirements, let us examine the processes whereby the effects of trading in secondary markets are reflected in the estimates. Some knowledge about the changing ownership of individual issues becomes available. Analysis of the reported portfolio holdings of foreign insurance companies and investment funds may reveal that portions of issues previously known to have been held in Canada have passed into non-resident hands, or vice versa. Individual issue records are adjusted accordingly. But for large parts of the net trade in outstanding issues only the categories specified on the schedule BP-30, Security transactions with non-residents, or on the other survey sources mentioned under series D30 in Part III, are available. The procedure is to project the estimated holdings of each category of bonds from year to year on the basis of the transactions recorded in series D30, D32, and D33, and after due allowance for price and exchange rate effects to put them on the basis of the valuations employed in estimates of holdings. The resulting total for each category is compared with the sum of the individual issue detail recording all the known information available on that basis. The difference in respect of each category, which may be positive or negative, is recorded as a net adjustment reflecting trading not identified by specific issue.

Retirements of bonds of Canadian governments held by non-residents remain to be accounted for. As each issue matures, or is called in advance of maturity either in whole or in part, the individual issue record

⁷ See note on valuation in Part VII.

is examined to establish the amount to be reflected as retirements, if necessary, on a pro rata basis geographically, and the amounts outstanding are appropriately reduced. The category total for the net trading adjustment in respect of issues not identified individually is amortized quarterly over a period of 15 years. Thus, 1.67% of any positive balance is recorded quarterly as a retirement and 1.67% of any negative balance is deducted quarterly from the recorded retirements flow.

The records of individual issues together with the trading adjustment are used to produce periodic benchmark analyses of the interest payable to non-residents by quarter and by currency. These benchmarks are used in the construction of the quarterly estimates of interest payments which are a component of series B15. In the case of the trading adjustment the interest rate applied is based upon the weighted average applying to identified issues in the category.

Published data sources – Series covering foreign investment in securities issued or guaranteed by the Government of Canada, by provinces, and by municipalities (except railways), distributed geographically, will be found in Table 19 of *Canada's International Investment Position, 1974* (Catalogue 67-202) for the years 1964 through 1974. Data for the years 1926, 1930, 1939, 1945, 1950, 1955 and 1960 will be found in Table 13 of the reports for 1971-73 and 1968-70 while data for 1933 and for the intervening years after 1945 will be found in Table V of the corresponding report for 1926-67. Data for years from 1926 through 1937 (unrevised) will be found in Table 1 of *The Canadian Balance of International Payments, A Study of Methods and Results* (Catalogue 67-D-52).

Series for the geographical distribution of ownership in Canada and abroad of net Canadian long-term funded debt, by currency of payment, for the years 1964 and 1972 through 1974 will be found in Table 26 of the issue of Catalogue 67-202 for 1974 and for the years 1963 and 1971 in Table 20 in the 1971-73 issue. Data for the years 1960, 1965, 1969 and 1970 are contained in the report of 1968-70 (Catalogue 67-202) while data for 1957 and 1967 are contained in Statement 23 of the corresponding report for 1926-67. Data for 1954 and 1964 will be found in Statement 60 of *The Canadian Balance of International Payments, 1963, 1964 and 1965 and International Investment Position* (Catalogue 67-201), for 1960 in Statement 21 of the corresponding report for 1961 and 1962, and for 1959 in Statement 22 in the corresponding report for 1960.

Similar series without, however, distributions by currency of payment exist for a number of earlier years. These will be found mainly in the annual reports,

The Canadian Balance of International Payments and International Investment Position (Catalogue 67-201), and relate to the year covered by the report, as follows: 1958 (Statement 22), 1956 (Statement 22), 1955 (Statement 23), 1953 (Statement 16), 1952 (Statement 18), and 1951 (Statement 14). Data for 1949 will be found in Statement 3 of *Canada's International Investment Position, 1926-1949* (Catalogue 67-503A).

Evaluation – The series are believed to be reasonably complete and accurate.

Other Portfolio Investment

Concept and description – This category covers investment in Canadian corporations by non-residents, other than investments in direct investment enterprises from the countries in which control of them is deemed to lie. (Some investments having similar characteristics are included in the series for miscellaneous investment which is described in the section which follows. These investments are segregated because their measurement is very difficult and less precise than is the case with respect to other portfolio investment, and because no industrial distribution is possible.)

The basis of valuation is described in one of the sections of Part VII. Changes in the values of holdings will differ from the actual amounts of capital which may have flowed into or out of Canada. In the case of debt obligations the investment position estimates are based upon nominal or face values of the securities, expressed at nominal rates of exchange. In the case of equity investments the values are those which appear in the consolidated accounts of the enterprise in which the capital is invested after adjustment to exclude long-term investment abroad by the enterprise.

The capital flows related to other portfolio holdings of Canadian securities are elements of the capital flows for portfolio transactions in Canadian securities described under series D30 through D33 in Part III, while the capital flows related to the remainder of Other portfolio investment are elements of series D50.

Shown separately for the years from 1954 through 1964 were United States investments in Canadian long-term securities through a group of special "income accumulating funds". These were referred to in the section of Part III describing portfolio transactions in Canadian securities (series D30 through D33). In the absence of information with respect to underlying book values the holdings were recorded at market values in the investment position statistics. The amounts shown for United States investment in Canadian long-term securities through these funds were slightly smaller than

their total holdings of the securities because of the existence of minor amounts of non-United States investment in the funds. A description of the operation of the funds and an analysis of their transactions were published on pages 44 through 47 of *The Canadian Balance of International Payments, 1963, 1964 and 1965 and Canada's International Investment Position* (Catalogue 67-201).

Sources and methods — Estimates of the book value of Other portfolio investment are constructed at the same time as, and in parallel fashion to, the estimates of book value of foreign direct investment in Canada, which have already been described. (There is, of course, no portfolio investment corresponding to the element covering investment in Canadian branches of non-Canadian corporations.)

Essentially the estimates cover all foreign long-term investment in Canada through ownership of Canadian enterprises, as revealed in the surveys on schedules BP-51, BP-52 and BP-59, except that classified as direct investment.

Adjustments in respect of trading in outstanding corporate bonds, paralleling those described above for government bonds, are necessary. The net adjustments are distributed rather arbitrarily by industry.

Published data sources — A substantial amount of information is published on Other portfolio investment in Canada. References to series for the geographical distribution by type of investment and to detail of investment in the financial industry have been shown in the general section on Canadian liabilities above. The detail of portfolio investment in corporate bonds appears alongside the series for government bonds described in the immediately preceding section.

Series for portfolio investment distributed geographically by industry will be found in Table 25 of *Canada's International Investment Position, 1974* (Catalogue 67-202) for the years 1964 through 1974. Data for 1926, 1930, 1939, 1945, 1950, 1955 and 1960 will be found in Table 19 of the issues for 1971-73 and 1968-70 while data for 1933 and the intervening years after 1945 will be found in Table X of the corresponding report for 1926-67.

Evaluation — The series are believed to be reasonably complete and accurate.

Miscellaneous Investment

Concept and description — The final category of series covering foreign long-term investment in Canada is described as miscellaneous investment. Included are Canadian securities, mortgages, real estate, and other assets held or administered for non-residents by trustees,

agents, nominees, private investment companies, etc. While some of these investments are similar to those covered above in the series for government bonds or other portfolio investment, the measurement of investments held through the channels covered in miscellaneous investments is necessarily less precise and it is not possible to distribute them by type and industry.

Five distinct series are constructed: Canadian securities, mortgages on Canadian real estate, real estate in Canada, Columbia River Treaty, and other investment. Each of these is described in greater detail under Sources and methods below.

Sources and methods — The estimates of holdings of Canadian securities are constructed from a variety of sources.

A substantial element of the total is derived from the schedule BP-29, Report by trust and mortgage loan companies in Canada on transactions with non-residents. Item I(a), lines 01 and 02, provide figures respectively of holdings by branches in Canada of Canadian stocks and of Canadian bonds for non-residents in management, safe custody and agency accounts, estates and trusts, and holding companies. (Liabilities to non-residents in the form of Canadian dollar guaranteed investment certificates, deposit receipts and debentures of the company which appear as item II(a), line 10, are recorded as funded debt of the trust or mortgage loan company concerned, and as such appear in other portfolio investments.)

A second important element of the series for miscellaneous investments in Canadian securities is derived from information, largely of a public nature, in respect of a number of European financial institutions which are important investors in Canada but whose holdings are known to be registered in the names of Canadian intermediaries.

A third element of the series represents investment through more than 250 non-resident-owned investment corporations. The series is constructed from a special tabulation by the Business Finance Division of balance sheets of these companies. Liabilities to shareholders and affiliates are netted against gross assets, and the remaining figure is divided into claims on Canadians and claims on non-residents using reported income from these groups as an indicator.

Other important elements of the series are derived from the capitalized value of foreign investment income tabulated by Revenue Canada from personal tax returns bearing non-resident addresses, and investment in Canadian securities held in respect of non-resident beneficiaries of private resident trusts. There are a number of other smaller items in the series providing for other holdings, and there is also some allowance for possible double-counting between specified sources.

The second published series within the category of miscellaneous investments covers mortgages on Canadian real estate. A part of this is derived from the reports on BP-29 by Canadian trust and mortgage loan companies (item I(b), line 03). There are elements for the holdings of Canadian mortgages by non-resident-owned investment corporations and by non-resident individuals derived substantially in the same manner as already described for Canadian securities. By far the major part, however, of holdings by non-residents of mortgages on Canadian real estate is represented by the holdings of United States life insurance companies. Estimates of the total holdings by United States life insurance companies are obtained from Central Mortgage and Housing Corporation; from the total is deducted the total of mortgages held by United States life insurance companies as part of their operations in Canada, derived from records of the Department of Insurance. The latter amounts are seen as domestic investments representing the employment of funds of Canadian policy holders or of the capital of Canadian branches. The remainder, however, represents foreign investment.

The component series for real estate in Canada begins with the figures reported by trust and mortgage loan companies in item I(c), line 04, of the BP-29; it will be noted that the figures are net of any related debt. Additional amounts of a relatively small magnitude are estimated for non-resident-owned investment corporations or individuals as in the case of Canadian securities or mortgages. There is a substantial figure for specific properties identified as owned by non-residents, and a further substantial allowance is made on the basis of numbers of summer residents, reports published by some provinces or in the press, etc. An addition is made to allow for other holdings less possible duplication between the sources used.

It should be noted that many other non-resident holdings of the types of investments already discussed are covered, although not similarly classified, in the earlier series for direct investment, government bonds, or other portfolio investments. Mortgage debt of Canadian enterprises which is held directly by non-resident investors is included with the investment in these enterprises, as are large amounts of real estate owned by Canadian enterprises which are classified by industrial function (those formed specifically for the holding of real estate or mortgages being grouped with the financial industry). A part of the unclassified Canadian securities component in miscellaneous investments also reflects investment in private real estate holding companies.

Miscellaneous foreign investment in Canada includes an entry in respect of the Columbia River Treaty arrangements. These were described in considerable detail under series D48 in Part III. The total of the capital received for the sale of downstream benefits and for flood damage is shown as a liability which is

being reduced by approximately 1/13 in each year beginning with 1968. Although reflected in Canada's international investment position, this amortization is not reflected in the Canadian balance of international payments.

Finally there is a group of other investments within the miscellaneous investment category. This includes the Canadian dollar balances held by Canadian trust and mortgage loan companies for non-residents in management, safe custody and agency accounts, estates and trusts, and holding companies (item I(d), line 05), of the BP-29. An estimate is included of the participation of non-residents in the petroleum and natural gas industry in Canada through investments in limited partnerships and joint ventures and in pre-payments for future deliveries; this is largely based upon the BP-19, Petroleum and natural gas industry in Canada. Some allowances are made for non-resident equity in the Canadian portions of international bridges, cable facilities, etc. The group also includes an estimate of miscellaneous liabilities to non-residents based upon the capitalized value of annuity, estate and miscellaneous income recorded on Canadian tax returns of individuals with non-resident addresses.

Published data sources — Series for foreign miscellaneous investment in Canada distributed geographically by type will be found in Table 29 of *Canada's International Investment Position, 1974* (Catalogue 67-202) for the years 1964 through 1974. The years 1953, 1955, 1960 and 1963 will be found in Table 23 of the corresponding issue for 1971-73 and the years 1952 and 1962 will be found in Table 23 of the 1968-70 issue. Data for the intervening years after 1952 will be found in Table XIV of the corresponding report for 1926-67.

Evaluation — Most of the series embraced within miscellaneous foreign investments are imprecise, reflecting difficulties of both coverage and valuation. They probably represent the best general orders of magnitude which it is possible to construct with existing resources from the mixture of data available.

This completes the description of the series making up long-term foreign investment in Canada.

Non-resident Equity in Canadian Assets Abroad

Concept and description — The existence of a substantial equity of non-residents in Canadian investment abroad through their ownership in Canadian enterprises has already been noted. Since this equity forms a part of Canadian assets abroad but is not reflected as an element of the liability represented by foreign long-term investment in Canada for reasons which have already been described, it is necessary to reflect it specifically among Canada's external liabilities.

The estimate is based upon the valuations employed in constructing the measures of Canadian investment abroad. Accordingly it tends to be somewhat larger than the corresponding deduction to arrive at foreign long-term investment in Canada since the full book value of foreign assets may not appear on the balance sheets of some Canadian companies which do not make a practice of presenting fully consolidated data.

Sources and methods – Estimates of the non-resident equity in Canadian assets abroad are constructed largely from the schedules BP-51 and BP-52, Geographical distribution of ownership of capital and the BP-59, Capital invested abroad by Canadian enterprises. The values are derived from the latter schedule. In the case of direct investment abroad they come from the total value of the respondents' interest in long-term investments abroad as valued by the subsidiary or affiliate concerned and shown in section A. In the case of portfolio or indirect investments, the values used are the carrying values of the respondent which appear in section B. These values are then distributed in accordance with the geographical distributions of ownership of the Canadian enterprises revealed on the schedules BP-51 and BP-52.

Published data sources – Series for the equity and control by geographical distribution of Canadian direct investment abroad are available for 1954 and for 1957 through 1974. The references are cited in the section for data sources related to direct investment abroad. Series in terms of hundreds of millions of dollars for non-resident equity in Canadian assets abroad back to 1939 appear in Table 1 of the issues for 1974, 1971-73, 1968-70, and 1926-67 of *Canada's International Investment Position* (Catalogue 67-202).

Evaluation – The series are believed to be relatively complete and accurate.

Official SDR Liabilities

Concept and description – This series represents the value of allocations to Canada by the International Monetary Fund of Special Drawing Rights. These instruments have been described under series J in Part III. The liability was described in a note to the 1970 financial statement of the Exchange Fund Account as representing the obligation that arises upon the termination of Canada's participation in the Special Drawing Account under Article XXX of the Articles of Agreement of the International Monetary Fund or on the liquidation of the Special Drawing Account under Article XXXI. A liability entry also appears in the Statement of Assets and Liabilities of the Government of Canada in the Public Accounts.

It is the practice within the Exchange Fund Account to express the liability in respect of Special

Drawing Rights allocated to Canada at the exchange rate applicable to the balance sheet date. On the other hand the liability which appears on the Government's balance sheet is at the values originally ascribed to the Rights. It is the general practice within the statistics of Canada's external liabilities to value long-term claims at the exchange rates applicable when they were created. The practice has been followed in this case despite the close relationship existing between the long-term liability and the holding of Special Drawing Rights in Canada's short-term external assets. The values recorded accordingly follow the Public Accounts rather than the Exchange Fund Account.

Sources and methods – The series comes from official records.

Published data sources – The series appears in Table 1 of the issues for 1974, 1971-73 and 1968-70 of *Canada's International Investment Position* (Catalogue 67-202).

Evaluation – The series is complete and accurate.

Non-resident Holdings of Canadian Dollars

Concept and description – This series is made up of Canadian dollar deposits of non-residents with financial institutions in Canada, Government of Canada demand liabilities, and holdings by non-residents of Government of Canada treasury bills.

The capital flows relating to these claims appear respectively in series D71, D72 and D74. For the most part they represent changes in the stock series employed in Canada's international investment position.

Sources and methods – The element in respect of Canadian dollar deposits of non-residents is made up of deposit liabilities to non-resident customers and correspondents of the head offices and branches in Canada of Canadian chartered banks and any net Canadian dollar liability to their branches, agencies and subsidiaries abroad. Also included are deposits in Canadian dollars accepted from abroad and "money employed" for non-residents by the Bank of Canada, and Canadian dollar deposits of non-residents with Canadian savings banks, and trust and mortgage loan companies. The sources are more fully described under series D71 in Part III.

The element comprising non-resident holdings of Canada's demand liabilities covers mainly non-interest-bearing notes payable on demand to international investment agencies. Further details are provided in the discussion of series D72 in Part III.

The final component of non-resident holdings of Canadian dollars represents holdings of treasury bills

of the Government of Canada which have been described under series D74 in Part III.

Published data sources – Series for the three principal components of non-resident holdings of Canadian dollars are available from 1964 and data for 1969 through 1974 will be found in Table 30 of *Canada's International Investment Position, 1974* (Catalogue 67-202). Data for 1968 will be found in Statement 21 of the 1971-73 edition while data for the years 1964 through 1967 will be found in Statement 21 of the corresponding report for 1968-70. Series in terms of hundreds of millions of dollars for total non-resident holdings of Canadian dollars back to 1939 appear in Table 1 of the issues for 1974, 1971-73, 1968-70, and 1926-67 of the same publication.

Evaluation – The series are dependent upon classifications accorded to depositors and transactors by Canadian financial institutions. They are believed to be reasonably complete and accurate.

Short-term Finance Company Obligations

Concept and description – This series comprises three components: holdings by non-residents of the short-term paper of sales finance and consumer loan companies, bank borrowings abroad by such companies, and advances to them from parent companies abroad. The related capital flows are covered in series D76 in respect of finance company paper and D81 in respect of the other two forms of short-term obligations. These series are described in Part III.

Sources and methods – The series for non-resident-owned holdings of Canadian finance company paper is based upon two specific inputs. Security dealers and banks in Canada identify on supplements A and B to the schedule BP-30, Security transactions with non-residents, the issuer and month of maturity of paper sold to or repurchased from non-residents. This permits the construction of a continuing inventory of such paper reflecting sales, repurchases and maturities. A second source is the quarterly schedule BP-21C, Report by Canadian finance companies. Item 3 of this return records the geographical distribution of notes of the respondent having an original term to maturity of one year or less which are held by other than affiliated companies or banks. In principle this schedule would include as foreign-held any paper which the respondent had placed abroad directly (including, of course, paper placed through non-resident dealers). The schedule BP-30, on the other hand, would reflect those instruments which passed into the hands of non-residents through Canadian dealers. The two sets of data are placed in juxtaposition in respect of each company and an estimate of total non-resident holdings is derived substantially from the larger figure for each issuer.

The series for borrowings from banks and affiliates is derived directly from the BP-21C. Item 1 of this schedule records loans and overdrafts with banks (treating foreign agencies of Canadian banks as non-residents). Item 2 records amounts owing to parent companies, head offices or affiliates abroad.

Published data sources – Two series in respect of these liabilities are available from the beginning of 1964, those for finance company paper and those for other forms of obligations. Data for the years 1967 through 1974 will be found in Table 31 of *Canada's International Investment Position, 1974* (Catalogue 67-202) while 1964 through 1966 will be found in the 1968-70 issue. The figure for Canadian finance company paper held by non-residents at the end of 1974 will be found in Table III.3 in this publication and outstanding amounts are also shown currently in the table covering transactions in selected money market instruments which appears in *Quarterly Estimates of the Canadian Balance of International Payments* (Catalogue 67-001).

Evaluation – Considerable effort has been put into the construction of these estimates and they are believed to be reasonably complete and accurate.

It may be helpful at this point to record that the introduction of a published series on short-term finance company obligations in 1964 was accompanied by some discontinuities in other components of Canada's international investment position. Following a careful examination of the statistics for sales finance and consumer loan companies, some \$450 million of their inter-company and other liabilities previously recorded as foreign long-term investment in Canada was reclassified in the data for the end of 1964 as short term (bringing the figure for short-term liabilities of Canadian finance companies to non-residents at that time to \$877 million). The classification introduced at the end of 1964 made the investment position statistics consistent with the classification of capital flows used in the balance of payments.

Short-term Payables, n.i.e.

Concept and description – This series comprises three components: holdings by non-residents of Canadian short-term commercial paper, holdings by non-residents of other short-term paper, and all other short-term payables to non-residents. The related capital flows are covered respectively in series D75, D77, and the identified flows in D82 which relate to liabilities to non-residents. The component for holdings of other short-term paper is itself sub-divided into three elements, paper issued or guaranteed by provincial and municipal governments or their agencies, bearer notes issued by Canadian banks, and short-term obligations of other financial institutions.

Sources and methods – The series for short-term paper is constructed from supplements A and B to the schedule BP-30, Security transactions with non-residents. The process has already been described in the section above dealing with the estimation from this source of holdings by non-residents of short-term finance company obligations. The method is also described in the appropriate series in the capital account in Part III.

The estimate of other short-term payables to non-residents is based on a benchmark estimate constructed for the year 1956. Until that time no estimate for these claims had been included in the measure of Canada's international investment position. The construction of this benchmark followed the procedure which has already been described earlier under the series for short-term receivables, n.i.e.

This benchmark has been projected on the basis of the recorded liability elements of series D82, Other short-term capital transactions, which have already been described in some detail in Part III. A special problem exists, of course, in connection with the treatment of the balance of errors and omissions which is a component of the series. Based upon the performance of this balance, from 1945 through 1966 it was regarded as a short-term payable. The projection of the 1956 benchmark back to 1945 and on to 1966 reflects movements in errors and omissions as well as recorded liabili-

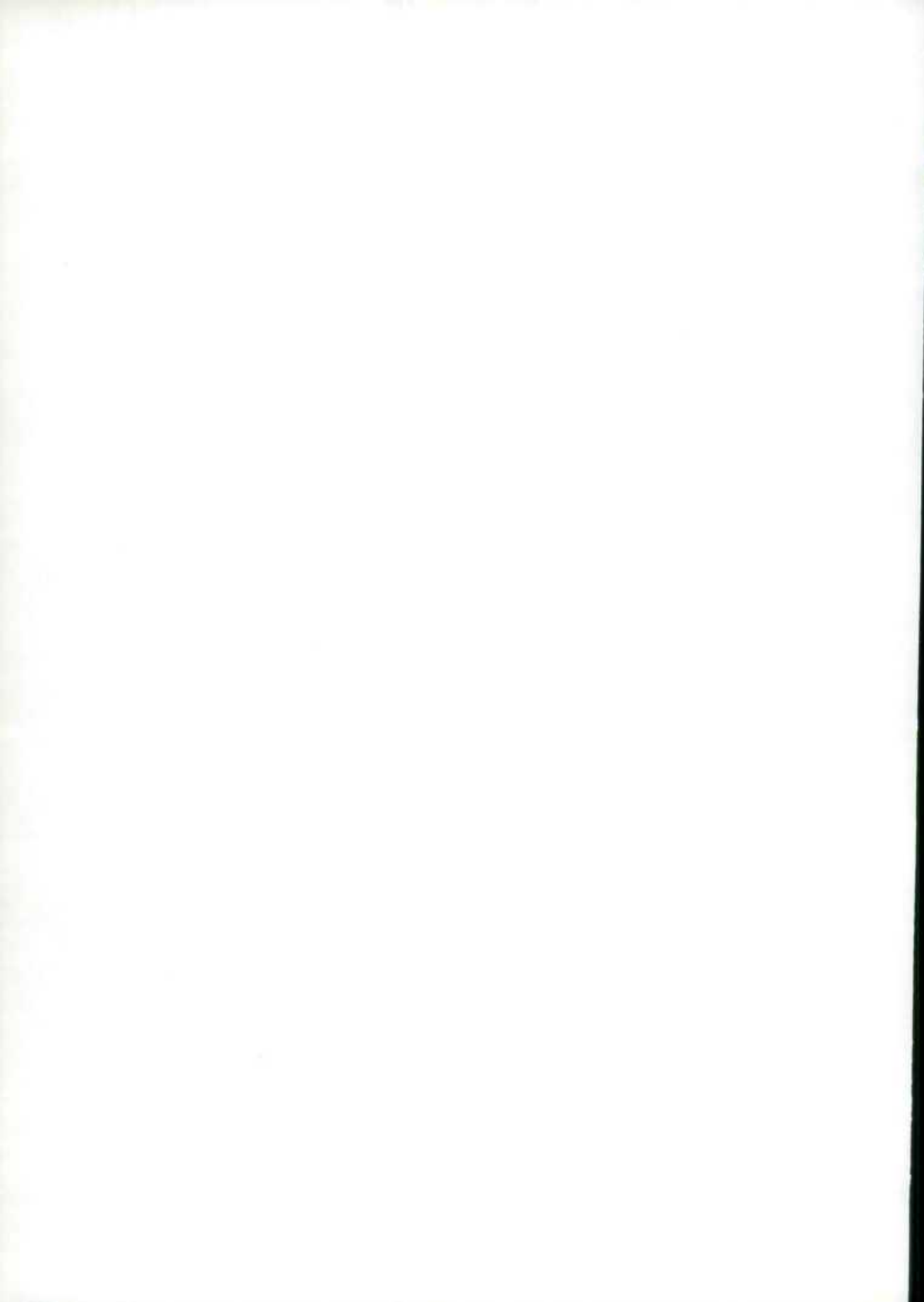
ties. Since 1967 when the accumulated balances of errors and omissions began to reflect large net outward movements, it has been regarded as a claim on the rest of the world and included in Canada's external assets.

Published data sources – Series for non-resident holdings of commercial paper, other short-term paper and short-term claims, n.i.e., for the years 1967 through 1974 will be found in Table 31 of the 1974 issue of *Canada's International Investment Position* (Catalogue 67-202). Data for 1964 through 1966 will be found in Statement 22 of the 1968-70 issue of *Canada's International Investment Position* (Catalogue 67-202). A distribution showing the types of short-term paper held by non-residents at the end of 1974 is given in Table III.3 in this publication and will now be found on a continuing basis in the table covering transactions in selected money market instruments which appears in *Quarterly Estimates of the Canadian Balance of International Payments* (Catalogue 67-001).

Evaluation – The series for short-term paper held by non-residents are believed to be reasonably complete and accurate. The residual series covering short-term payables, n.i.e., is based on the corresponding series in the balance of payments. This is one of the weakest measures in the balance of payments, and this weakness is necessarily reflected in the estimates derived for use in Canada's international investment position.

PART V

THE SURVEY SYSTEM



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Introduction

Some important elements in the balance of payments estimates are derived largely or wholly from separate statistical "finished products" such as merchandise trade or travel expenditures, both of which are dependent in varying degree on administrative records. Others are derived or produced within the Balance of Payments Division directly from administrative records, such as those relating to Canada's programme of official loans or its official international reserves. But many elements can only be produced with the help of surveys designed specifically for balance of payments purposes to elicit the required information.

The direct results of these surveys can rarely be identified directly in the published estimates. Frequently they require a considerable amount of manipulation with other data inputs or indicators. This "hand-crafting" is, of course, one of the reasons for the length of this volume.

In some respects the balance of payments statistician faces special sorts of problems. Compilers of other macro-economic series sometimes have the option of measuring a transaction from either the debit or credit side, and the statistical problems associated with each may be of quite a different order. In the case of the balance of payments, where one side of the transaction rests outside the statistical jurisdiction, the alternative may not be available, and a correspondingly greater degree of statistical ingenuity may be called for. Examples of the effectiveness and economy of measuring transactions from one side or the other will be found in the discussion in Part II relating to item D65, Resident holdings of foreign currencies abroad, and in the description of an inter-country exercise in reconciliation in Part VI.

The Balance of Payments Division's survey work involves use at the time of writing of more than 25 different questionnaires ranging in number of respond-

ents from many thousands to well below 100. The schedules are listed in Table V.1 and copies of them are reproduced later in this section. In practice some of the schedules are modified by the insertion of specific instructions or questions pertaining to the particular respondent.

Each of the questionnaires in use is identified by a number prefixed by the letters "BP". The series numbered below 50 are used primarily, but not exclusively, for the construction of estimates of items in the balance of payments. Those numbered in the 50's and 60's are used primarily, but not exclusively, in the construction of estimates of Canada's international investment position. In certain cases an alphabetical suffix is added to indicate a questionnaire which is used quarterly but which forms part of a larger survey questionnaire employed annually.

It is convenient for purposes of description to divide the particular surveys related to the balance of payments into six groups: general surveys of transactions between Canada and other countries (schedules BP-21 through BP-23), together for convenience of treatment with two specialized surveys (schedules BP-19 and BP-21RE relating respectively to the petroleum and natural gas industry and to real estate), surveys related to the freight and shipping account (schedules BP-20 and BP-24 through BP-26), surveys related to Canadian and foreign insurance companies (schedules BP-27 and BP-28), transactions of trust and mortgage loan companies (schedule BP-29), and international security transactions (BP-30).

In the descriptions no attempt is made to describe in detail the links between a specific survey and the variety of items in the balance of payments or the international investment position in which it may play a part. Chart V.1 sets this out in summary form and further detail will be found in the discussions of sources and methods for the specific items in Parts II, III, and IV.

Questionnaires Used Primarily in the Construction of Balance of Payments Series

BP-19 and BP-21 through BP-23 – It will be seen that the first of these groups covers mainly generalized surveys while the other four groups represent specialized investigations.

The BP-21, Report of transactions between Canada and other countries, is used to obtain certain basic data annually from Canadian corporations in which there is significant foreign investment or which have significant investment abroad, as well as from a few other Canadian corporations whose transactions with non-residents are important. (The questionnaire is also used in respect of a relatively small number of companies incorporated under foreign law primarily for the purpose of engaging in business in Canada.)

Returns are requested on a "Canadian-consolidated" basis covering transactions of any Canadian

subsidiaries in addition to those of the reporter. The number of questionnaires sent out in respect of the year 1974 was about 6,300 and of these about 800 were returned without significant entries.

The questionnaire is divided into four parts dealing respectively with transactions affecting long-term non-Canadian investment in the reporting entity, transactions affecting long-term investment abroad by the reporting entity, short-term Canadian assets and liabilities of the reporting entity, and certain service transactions. The schedule does not seek figures for all transactions with non-residents as some data are derived from other sources. Commodity imports and exports are obtained primarily from customs documents and freight and shipping transactions are estimated independently. Many items may not be relevant for a particular respondent.

TABLE V.I. List of Schedules Used by the Balance of Payments Division

Designation	Description	Frequency
Balance of Payments		
BP-19	Petroleum and Natural Gas Industry in Canada	Occasional
BP-20	Great Lakes - St. Lawrence Seaway Shipping Transactions	Annual
BP-21	Report of Transactions Between Canada and Other Countries	Annual
BP-21 (Supplement)	Report of Transactions Between Canada and Other Countries	Occasional
BP-21A	Report of Transactions Between Canada and Other Countries	Quarterly
BP-21C	Report by Canadian Financial Companies	Quarterly
BP-21RE	Report of Real Estate Transactions Between Canada and Other Countries	Annual
BP-22	Report on Investment in Canada of Non-Canadian Corporations	Annual
BP-22A	Report on Investment in Canada of Non-Canadian Corporations	Quarterly
BP-23	Payment of Dividends	Annual
BP-24	Report of Cargo, Earnings and Expenses of Ocean Vessels Operated by Non-resident Interests	Annual
BP-25	Report of Cargo, Earnings and Expenses of Ocean Vessels Operated by Canadian Companies	Annual
BP-26	Report on Imports of Crude Petroleum and Products, and Other Shipping Operations	Annual
BP-27	Movement of Funds Between Canadian Insurance Companies and their Branches, Agencies, Bank Accounts, and Other Companies or Persons Outside Canada	Annual
BP-28	Movement of Funds Between British and Foreign Insurance Companies Doing Business in Canada and Head or Other Offices, Companies or Persons Outside Canada	Annual
BP-29	Report by Trust and Mortgage Loan Companies in Canada on Transactions with Non-residents	Annual
BP-30	Security Transactions with Non-residents	Monthly or Quarterly
BP-30 (Supplement A)	Sales to Non-residents of Short-term Securities	Monthly
BP-30 (Supplement B)	Purchases from Non-residents of Short-term Securities	Monthly
BP-30 (Supplement C)	Purchases from or Sales to Residents of Canada for Head Office or Canadian Branch Account (Not for Account of Customers) of Securities Payable Optionally or Solely in Currencies Other Than Canadian	Monthly
International Investment Position		
BP-51	Geographical Distribution of Ownership of Capital	Annual
BP-52	Geographical Distribution of Ownership of Capital	Annual
BP-53	Ownership in Canadian Companies	Annual
BP-55	Particulars of Selected Issues of Funded Debt	Annual
BP-57	Investment in Canada of Non-Canadian Corporations	Annual
BP-58	Report by Non-Canadian Airlines Operating in Canada	Annual
BP-59	Capital Invested Abroad by Canadian Enterprises	Annual
BP-59 (Supplement)	Supplementary Schedule of Capital Invested Through a Preliminary Foreign Subsidiary	Annual
BP-60	Canadian Investment in Non-Canadian Corporations	Annual
BP-61	Investment in Canada of Non-Canadian Partnerships	Occasional



Statistics Canada Statistique Canada

Balance of Payments Division

REPORT OF TRANSACTIONS BETWEEN CANADA
AND OTHER COUNTRIES
CALENDAR YEAR, 1976

CONFIDENTIAL
BP - 21

Telephone (613) 996-2545

Please correct Name and/or Address

Telex 053*3585

Keep one copy for your file

Si vous préférez une formule française, prière de l'indiquer et de retourner celle-ci avec votre nom (lettres moulées) et titre

GUIDE

1. **Purpose** - The purpose of this form is to obtain the necessary basic data required to prepare statements of the Canadian balance of international payments. You will note that this schedule *does not ask for all* your international transactions as some data are compiled through other sources.
2. **Authority** - This survey is conducted under the Statistics Act, Chapter 15, Statutes of Canada 1970-71-72. The information submitted will be held in strict confidence and will be seen only by persons who have taken an oath of secrecy.
3. **Filing of reports**: A completed copy of the form should be returned within 30 days to **Statistics Canada, Balance of Payments Division, Ottawa, Ontario, K1A 0Z8**. Requests for extension of the filing time or for additional forms should be directed to Supervisor, Data Collection Unit. Requests for clarification of reporting requirements or for additional instructions should be directed to the International Investment Position Section. Respondents may telephone collect 613-996-2545.
4. **Consolidation** - A consolidated return covering also the transactions of Canadian subsidiaries is requested from companies incorporated in Canada, or incorporated under foreign law primarily for the purpose of engaging in business in Canada.
5. **Express all amounts to nearest thousand of Canadian dollars** - All amounts should be rounded by dropping the last three digits. If, however, the amount dropped exceeds \$500 then the reported amount should be increased by one. For example, \$1,253,756 should be reported as 1,254 on the form. Please insert a dash (-) where the amount is less than \$500 or the item is not applicable.
6. **Long term investment** - For the purpose of this return, include as long term all items intended or likely to remain outstanding for more than one year from the date incurred. Investments by parent companies or principal owners may take the form of cash, physical assets (equipment, inventory, etc.) or services. Include in Part I, item (a) funds from bank accounts in Canada of non-resident parent or principal owners as well as repayment by the latter of loans from the reporting Canadian company. Loans from the reporting company to non-resident parent or principals abroad should appear in Part I, item (a).
7. **Security transactions** - Exclude from this return all security transactions with non-residents of Canada carried out through offices in Canada of investment firms or financial institutions which are surveyed separately.
8. **Part IV** - Report amounts directly remitted, charged to accounts, settled by issue of stock, notes, etc. to creditor. **Item (b) 1 Dividend Payments** - include bonus payments and dividends paid and simultaneously reinvested and also stock dividends which should be identified as such. **Items (a) 3 and (b) 5 Receipts and Payments for Business and Miscellaneous Services and Charges** - include all commercial, financial, professional, technical, administrative or management services, including royalties, patents, copyrights, advertising, commissions, salaries, insurance premiums, equipment rentals, and all other receipts from or payments to non-residents for services. Merchandise imports and exports and freight and shipping transactions are to be omitted. Please see also special note on last page.
9. **Subsidiary**: - a company in which the reporting company owns directly and/or indirectly through subsidiaries shares constituting more than 50% of the outstanding voting rights.
10. **Effectively-controlled company**: - a company for which the operating and financial decisions are effectively controlled by the reporting company even though it owns less than 50% of the outstanding voting rights.
11. **Affiliate**: - any company which is controlled by substantially the same shareholder or group of shareholders as the reporting company.
12. **Related company**: - is a parent, subsidiary, controlled, or affiliated company.

REPORT OF TRANSACTIONS BETWEEN CANADA AND OTHER COUNTRIES - CALENDAR YEAR, 1976

CONFIDENTIAL

I. TRANSACTIONS AFFECTING LONG TERM NON-CANADIAN INVESTMENT IN REPORTING ENTITY (See Guide, Item 6)

- (a) Investment in the form of cash, physical assets or services by non-Canadian parent company or principal owners evidenced by the issue of: common or preferred stocks, bonds, debentures or notes, other
(b) Investment in securities by other non-residents not carried out through Canadian offices of investment firms
(c) Other loans from non-residents
(d) Simultaneous re-investment of Dividends Interest
(e) Other transactions (Please specify)

Table with columns: Increase in investment during 1976 (Receipts), Decrease in investment during 1976 (Payments)

II. TRANSACTIONS AFFECTING LONG TERM INVESTMENT ABROAD BY REPORTING ENTITY (See Guide, Item 6)

- (a) Investment in the form of cash, physical assets or services in branches abroad or in subsidiaries or controlled companies abroad evidenced by the issue of: common or preferred stocks, bonds, debentures or notes, other
(b) Investment in other non-Canadian securities not carried out through Canadian offices of investment firms
(c) Other transactions (Please specify)

Table with columns: Increase in investment during 1976 (Payments), Decrease in investment during 1976 (Receipts)

III. Concluded:

- (i) Deposits (including all term deposits)
(a) In banks (1) In United States, (2) In United Kingdom, (3) In other countries
(b) In other institutions (1) In United States, (2) In United Kingdom, (3) In other countries
(i) Foreign currency treasury bills and similar short term investments

Table with columns: At December 31, 1975, 1976

IV. OTHER TRANSACTIONS WITH NON-RESIDENTS BY REPORTING ENTITY DURING 1976

- (a) Receipts (Received or debited to accounts)
(1) Of interest
(2) Of dividends
(3) For business and miscellaneous services and charges
(b) Payments (Remitted or credited to accounts)
(1) Of dividends
(2) Of interest on bonds and debentures
(3) Of other interest
(4) For real estate rentals
(5) For business and miscellaneous services and charges

Table with columns: Tax withheld, Net

III. SHORT TERM NON-CANADIAN ASSETS AND LIABILITIES OF REPORTING ENTITY

- (a) Inter-company and/or inter-branch accounts
(b) Other accounts receivable from non-residents
(c) Other accounts payable to non-residents
(d) Notes with original term to maturity of one year or less held by non-residents other than related companies or banks
(e) Other short term loans and advances not reported in Part I or II
(f) Non-resident owned inventories held by you in Canada on consignment
(g) Amounts in Parts II and III above which are insured by the Export Development Corporation
(h) Amounts in Part I or II above which are also included in inter-company accounts reported in Part III

Table with columns: At December 31, 1975, 1976, Indicating country or region of changes in year exceeding \$50, Office use

- (c) Profits of unincorporated branches abroad received or transferred to branch control account, Part III, item (a)
(d) Losses of unincorporated branches abroad charged to branch control account Part III, item (a)

Table with column: Office use

V. TO BE COMPLETED BY COMPANIES ENGAGED IN THE PETROLEUM AND NATURAL GAS INDUSTRY IN CANADA -
 Calendar year 1976

Express amounts
 in thousands of
 Canadian dollars

1. Investment by non-resident limited partners in a "Limited Partnership" in which the reporting entity is the general partner..... \$ M _____
2. Investment by non-resident individuals, estates and trusts in joint ventures in which the reporting entity is operator..... \$ M _____
3. Production and revenue payments to non-resident individuals involved in joint ventures and Limited Partnerships with reporting entity \$ M _____

VI. LIST NAMES AND ADDRESSES OF SUBSIDIARY OR CONTROLLED COMPANIES IN CANADA NOT INCLUDED IN THE DATA REPORTED ON THIS FDRM:

Name	Address

Please describe briefly the nature of any exceptionally large or unusual transactions during the year.

Special Note for Companies Required to File Reports under the Corporations and Labour Unions Returns Act

The amounts recorded for the calendar year on this schedule in Part IV (Payments) should correspond in total to those reported on the CALURA Statement "Payments to Non-Residents" subject to variations caused by (1) fiscal years ending on dates other than December 31 and (2) other amounts paid to non-residents (together with applicable withholding tax) by related companies in Canada covered on the BP-21 (i.e., not listed in the section at the top of this form).

Subject to the foregoing, the following items should correspond:

Balance of Payments (BP - 21)	CALURA (Statement of Payments to Non-residents)
Part IV (b) 1 Dividend payments	Item (A)
Part IV (b) 2 Interest payments on bonds, etc.	Item (B) (i)
Part IV (b) 3 Other interest	Items (B) (ii) and (iii)
Part IV (b) 4 Real estate rentals	Item (C)
Part IV (b) 5 Payments for business and miscellaneous services and charges	Items (D) through (O)*

* plus other services (other than freight and shipping) falling outside these items (e.g. commissions), but omitting charter hire payments.

Name of Company		Address	
Name and title of responsible officer		Signature	
Telephone	Telex	Date	



Statistics Canada Statistique Canada

Balance of Payments Division

OTTAWA, CANADA

**REPORT OF TRANSACTIONS BETWEEN CANADA
AND OTHER COUNTRIES
CALENDAR YEAR, 1973**

CONFIDENTIAL

BP - 21 SUPPLEMENT

Keep one copy for your file

Telephone: Area 613/996-2545

Please correct Name and/or Address if required

Si vous préférez une formule française, prière de l'indiquer et de retourner celle-ci avec votre nom et titre

NOTE

This supplement to schedule BP-21 is part of an occasional survey to construct periodic benchmarks of components of business service payments and receipts. The supplement will provide the Balance of Payments Division with details of business service transactions by countries, net of withholding tax, on both the receipts and payments side. (Data filed under the Corporations and Labour Unions Returns Act cover payments only, include the tax withheld and do not show the countries involved. In addition they may differ due to fiscal years ending on dates other than December 31, differences in the degree of consolidation appropriate for reporting to CALURA and the Balance of Payments Division and to the exclusion of certain items from the enclosed report, e.g. charter hire receipts and payments, and the inclusion of commissions.)

(SEE OVER)

**BP - 21 SUPPLEMENT
CALENDAR YEAR, 1973**

Business and miscellaneous services and charges

RECEIPTS

Section IV (a) (3)

Express all amounts
to nearest thousand
Canadian dollars

1. Royalties, copyrights, patents, trademarks		2. Equipment rentals		3. Franchises and similar rights		4. Advertising and sales promotion		5. Scientific research and product development		6. Insurance premiums and other insurance transactions	
Country	\$ M (net)	Country	\$ M (net)	Country	\$ M (net)	Country	\$ M (net)	Country	\$ M (net)	Country	\$ M (net)
From related companies		From related companies		From related companies		From related companies		From related companies		From related companies	
From other non-residents		From other non-residents		From other non-residents		From other non-residents		From other non-residents		From other non-residents	
7. Management and administrative services		8. Commissions		9. Annuities and pensions		10. Consulting and other professional services		11. Other services (please specify)		TOTALS corresponding to IV (a) (3) of BP - 21	
Country	\$ M (net)	Country	\$ M (net)	Country	\$ M (net)	Country	\$ M (net)	Country	\$ M (net)		
From related companies		From related companies		From related companies		From related companies		From related companies		From related companies	
From other non-residents		From other non-residents		From other non-residents		From other non-residents		From other non-residents		From other non-residents	

Business and miscellaneous services and charges

PAYMENTS

Section IV (b) (5)

1. Royalties, copyrights, patents, trademarks		2. Equipment rentals		3. Franchises and similar rights		4. Advertising and sales promotion		5. Scientific research and product development		6. Insurance premiums and other insurance transactions	
Country	\$ M (net)	Country	\$ M (net)	Country	\$ M (net)	Country	\$ M (net)	Country	\$ M (net)	Country	\$ M (net)
To related companies		To related companies		To related companies		To related companies		To related companies		To related companies	
To other non-residents		To other non-residents		To other non-residents		To other non-residents		To other non-residents		To other non-residents	
7. Management and administrative services		8. Commissions		9. Annuities and pensions		10. Consulting and other professional services		11. Other services (please specify)		TOTALS corresponding to IV (b) (5) of BP - 21	
Country	\$ M (net)	Country	\$ M (net)	Country	\$ M (net)	Country	\$ M (net)	Country	\$ M (net)		
To related companies		To related companies		To related companies		To related companies		To related companies		To related companies	
To other non-residents		To other non-residents		To other non-residents		To other non-residents		To other non-residents		To other non-residents	
Name of company						Name (block letters) & Title of Officer responsible for this report				Telephone	

		Express all amounts to nearest thousand Canadian dollars	
		Increase in investment during quarter (Payments)	Decrease in investment during quarter (Receipts)
II. TRANSACTIONS AFFECTING LONG TERM INVESTMENT ABROAD BY REPORTING ENTITY DURING QUARTER			
(a) Investment in the form of cash, physical assets or services in branches abroad or in subsidiaries or controlled companies abroad evidenced by the issue of: common or preferred stocks <input type="checkbox"/> bonds, debentures or notes <input type="checkbox"/> other <input type="checkbox"/>	{	(1) United States \$ M (2) United Kingdom \$ M (3) Other (specify) \$ M	
(b) Investment in non-Canadian securities not carried out through Canadian offices of investment firms <input type="checkbox"/> Bonds and debentures (\$ M) <input type="checkbox"/> Stocks (\$ M)	{	(1) United States \$ M (2) United Kingdom \$ M (3) Other (specify) \$ M	
III. SHORT TERM NON-CANADIAN ASSETS AND LIABILITIES OF REPORTING ENTITY (Please indicate country and amount if change exceeds \$M50)			
(a) Inter-company and/or inter-branch accounts	{	(1) Debit balance (owing to Canada) \$ M (2) Credit balance (owing abroad) \$ M	At beginning of quarter At end of quarter
(b) Other accounts receivable from non-residents		\$ M	
(c) Other accounts payable to non-residents		\$ M	
(d) Amounts in Part I over or II above which are also included in inter-company accounts	{	(1) Under debit balance - III (a) 1 <input type="checkbox"/> Dr <input type="checkbox"/> Cr \$ M (2) Under credit balance - III (a) 2 <input type="checkbox"/> Dr <input type="checkbox"/> Cr \$ M	
IV. OTHER TRANSACTIONS WITH NON-RESIDENTS BY REPORTING ENTITY DURING QUARTER			
(a) Receipts: (1) Of interest (Country) \$ M (2) Of dividends (Country) \$ M			Tax withheld Net
(b) Payments: (1) Of dividends	{	Common stock \$ M Preferred stock \$ M	
Please describe briefly the nature of any exceptionally large or unusual transactions reported on this return.			
Date	Telephone Telex	Name and title of responsible officer	Signature

Express all amounts to nearest thousand of specified currency

B. SELECTED ASSETS ¹	AT END OF QUARTER CLAIMS ON RESIDENTS OF		
	United States	United Kingdom	Other Countries
1. Short-term notes, loans and advances owing by			
- nonresident related companies			
.			
- other non-residents (excluding claims on banks)			
.			

2. Changes in long-term claims (debt and equity)	TRANSACTIONS DURING QUARTER WITH RESIDENTS OF		
	United States	United Kingdom	Other Countries
- to non-resident related companies			
.			
- to other non-residents			
.			

3. DIVIDEND PAYMENTS DURING QUARTER ²	Total Dividends	Dividends paid to non-residents of Canada	
		Tax withheld in Canada	Net to non-residents ³
- Common			
.			
- Preferred			
.			

1. Item 1 refers to balances of short-term claims whereas item 2 refers to transactions during the quarter representing the acquisition and employment of long-term capital.
 2. Include bonus payments and dividends paid and simultaneously reinvested. Stock dividends should be noted separately.
 3. If any part of these funds are known to have been reinvested in Canada, please specify the amount \$ _____.

Remarks:

Date	Telephone	Name and title of responsible officer	Signature
	Telex		



Statistics Canada Statistique Canada

BP-21 RE

Balance of Payments Division
**REPORT OF REAL ESTATE TRANSACTIONS BETWEEN
 CANADA AND OTHER COUNTRIES**
 1976

CONFIDENTIAL

Retain one copy for
 your files

Please change Name or Address if incorrect

Telephone 613/995-0743
 Telex 053-3585

Si vous préférez une formule française, prière de l'indiquer et de retourner celle-ci

GUIDE

1. **Purpose:** This return is designed to provide estimates of transactions in real estate and related investments for inclusion in Canada's balance of payments and international investment position statistics.
2. **Authority:** This request is made under the authority of the Statistics Act, Chapter 15, Statutes of Canada 1970-71-72. The information you provide will be held in strict confidence and seen only by persons who have taken an oath of secrecy.
3. **Period covered:** Please report as at December 31, 1976. Respondents whose fiscal year end is other than December 31 may, however, report as at any fiscal quarter end between November 15, 1976 and February 15, 1977.
4. **Filing of returns:** A completed copy of the form should be returned to Statistics Canada, Balance of Payments Division, Ottawa, K1A 0Z8 within 30 days of receipt. Clarification of reporting requirements or instructions should be directed to the same address. Respondents may phone collect to (613) 995-0743.
5. **Coverage:** In Section 1 information is requested relating to real estate transactions during the year between residents of Canada and non-residents arranged by your firm; please include all transactions on which closing was reached during the year. In Sections 2 and 3 please report all transactions related to investments managed by your firm in which non-residents had a beneficial interest.
6. **Residency:** Non-residents are persons and corporations domiciled outside Canada, regardless of citizenship. For purposes of this return Canadian incorporated companies should be treated as residents of Canada irrespective of any non-resident investment in share capital.
7. **Real estate transactions between residents of Canada and non-residents:** Please report all transactions arranged by your firm between a principal domiciled or located in Canada and a principal domiciled or located in another country.
8. **Investment in other assets:** This should include all funds deposited in bank accounts, securities or other capital investments.
9. **Receipts and disbursements during 1976:** Settlement of accounts and all other receipts or disbursements on behalf of client companies and individuals is to be reported, including commercial, financial, professional, technical, administrative or management services, advertising, commissions, salaries, insurance premiums, etc.
10. **Disbursements to owner's account:** These take the form of transfers in Canadian or foreign currency to a non-resident client in Canada or abroad, or to the credit of a non-resident's account with a bank in Canada or abroad.

1. Real Estate Transactions between Residents of Canada and Non-residents during 1976. (See Guide item 7).

	Country of non-resident	Contract price	Non-resident equity in property	Debt owing (including mortgages)	
				Owned in Canada	Owned by non-resident (specify country)
				\$'000	
(i) Canadian Real Estate:					
(a) Acquisitions of real estate by non-residents from residents of Canada					
(b) Disposals of real estate by non-residents to residents of Canada					
(ii) Foreign Real Estate:					
(a) Acquisitions of real estate by residents of Canada from non-residents					
(b) Disposals of real estate by residents of Canada to non-residents					

Date	Area code and telephone	Telex	Name (block letters) and title of officer responsible for this report
------	-------------------------	-------	---

2. Accounts of Non-resident Individuals and Companies Incorporated Outside Canada Managed by Your Firm

NOTE: This section should not be completed if clients have filed a BP 22 return entitled: "Report on Investment in Canada of Non-Canadian Corporations", in which case list client's name and check appropriate column

Name and address of account	BP 22 filed	Investment at end of 1976				Receipts and disbursements during 1976 (see Guide item 9)					
		Equity in property	Debt (including mortgages) owing		Investment in other assets (See Guide item 8)	Receipts		Disbursements			
			To residents of Canada	To non-residents (specify country)		From residents of Canada	From non-residents of Canada	To owner's account* (see Guide item 10)	To other non-residents of Canada *	To residents of Canada	
										Non-resident withholding tax	Other disbursements

* net of withholding tax.

3. Accounts of Canadian Incorporated Companies Managed by Your Firm in which Non-resident Investment Exists

NOTE: This section should not be completed if client companies have filed a BP 52 return entitled: "Geographical Distribution of Ownership of Capital", in which case list client's name and check appropriate column

Name and address of company	BP 52 filed	Investment at end of 1976					Selected income items during 1976				
		Owner's equity		Debt (including mortgages) owing		Retained earnings	Net income after taxes	Payments to non-residents (net of withholding tax)			Withholding tax
		Owned in Canada	Owned by non-residents (specify country)	To residents of Canada	To non-residents (specify country)			Interest	Dividends	Other	

4. All other Accounts where Residency of Ownership Interest is Unknown

Name and address of account	Name and address of representative in Canada



Statistics Canada Statistique Canada

Balance of Payments Division

CONFIDENTIAL

**REPORT ON INVESTMENT IN CANADA
OF NON-CANADIAN CORPORATIONS
CALENDAR YEAR, 1975**

BP - 22

Please correct any mistakes in Name and Address

Keep one copy for your file

Telephone (613) 996-2545
Telex 013-3585

Si vous préférez une formule française, prière de l'indiquer et de retourner celle-ci avec votre nom (lettres moulées) et titre

GUIDE

1. **Purpose** - The purpose of this form is to obtain the necessary basic data required to prepare statements of the Canadian balance of international payments. This return is intended to cover data on transactions between non-Canadian corporations and their operations in Canada, including balance sheet information on the value of their Canadian assets and liabilities.
2. **Authority** - This survey is conducted under the Statistics Act, Chapter 15, Statutes of Canada 1970-71-72. The information submitted will be held in strict confidence and will be seen only by persons who have taken an oath of secrecy.
3. **Filing of reports** - A completed copy of the form should be returned within 30 days to **Statistics Canada, Balance of Payments Division, Ottawa, Ontario, K1A 0Z8**. Requests for extension of the filing time or for additional forms should be directed to Supervisor, Data Collection Unit. Requests for clarification of reporting requirements or for additional instructions should be directed to the International Investment Position Section. Respondents may telephone collect 613-996-2545.
4. **Express all amounts to nearest thousand of Canadian dollars** - All amounts should be rounded by dropping the last three digits. If, however, the amount dropped exceeds \$500 then the reported amount should be increased by one. For example, \$1,253,756 should be reported as 1,254 on the form. Please insert a dash (-) where the amount is less than \$500 or the item is not applicable.
5. **Affiliated company**: any company which is controlled by substantially the same shareholder or group of shareholders as the reporting company.
6. **Part II** - Report amounts directly remitted, charged or transferred to accounts, settled by issue of notes, etc. to creditor. Items (a) 1 and (b) 3 **Receipts and Payments for Business and Miscellaneous Services and Charges** cover all commercial, financial, professional, technical, administrative or management services, including royalties, patents, copyrights, advertising, commissions, salaries, insurance premiums, equipment rentals, and all other receipts from or payments to non-residents for services. Please see special note on last page.

BP-22

CONFIDENTIAL

REPORT ON INVESTMENT IN CANADA OF NON-CANADIAN CORPORATIONS
CALENDAR YEAR, 1975

I. TRANSACTIONS AFFECTING NON-CANADIAN INVESTMENT IN CANADA

Express all amounts to nearest thousand Canadian dollars

Increase in investment during 1975

(a) Investment through provision of cash, physical assets or services by head office	\$ M	
(b) Loans from other non-residents (Banks <input type="checkbox"/> Other <input type="checkbox"/> Country _____)	\$ M	
(c) Profits transferred to head office control account (after provision for Canadian taxes)	\$ M	
(d) Other (please specify _____ Country _____)	\$ M	
Decrease in investment during 1975		
(e) Reduction of investment by head office (Capital withdrawals, sale of assets in Canada to Canadian residents, loans to head office, etc.)	\$ M	
(f) Repayment of loans to other non-residents (Banks <input type="checkbox"/> Other <input type="checkbox"/> Country _____)	\$ M	
(g) Losses charged to head office control account	\$ M	
(h) Other (please specify _____ Country _____)	\$ M	

II. OTHER TRANSACTIONS WITH NON-RESIDENTS OF CANADA DURING 1975
(Omit merchandise imports and exports, freight and shipping transactions)

		Tax withheld	Net
(a) Receipts: (1) for business and miscellaneous services and charges. {	From head office, or affiliated companies	\$ M	
	From other non-residents	\$ M	
(2) Other (Please specify _____)		\$ M	
(b) Payments: (1) Of interest on loans and advances		\$ M	
(2) For real estate rentals		\$ M	
(3) For business and miscellaneous services and charges {	To head office or affiliated companies	\$ M	
	To other non-residents	\$ M	
(c) Profits (net) realized		\$ M	x x x x
(d) Additional tax paid under Section 219 of the <i>Income Tax Act</i>		\$ M	x x x x

III. INCOME STATEMENT

Income		
Sales of goods and services (net of returns and allowances, discounts, sales and excise taxes)	\$ M	
Deductions charged against revenue in current period		
Cost of goods sold	\$ M	
Exploration and development expenditures charged to current expenses	\$ M	
Write-offs of exploration and development expenditures previously capitalized	\$ M	
Depreciation and amortization of buildings and equipment	\$ M	
Depletion charges	\$ M	
Other operating expenses	\$ M	
Total operating expenses	\$ M	
Operating income or (loss)	\$ M	
Other income	\$ M	
Net profit (or loss) (Before provision for Canadian taxes \$ M _____)	\$ M	

BALANCE SHEET

Canadian Branch or Division

(Report below the value of your investments in Canada even though they are not organized or considered to be a branch operation)

Express all amounts to nearest thousand Canadian dollars

At December 31 or _____

ASSETS	1974	1975
1. Cash	\$ M	
2. Accounts receivable: from residents of Canada	\$ M	
3. from non-residents of Canada	\$ M	
4. Inventory	\$ M	
5. Fixed assets (net of depreciation)	\$ M	
6. Deferred exploration and development expenditures	\$ M	
Investments in Canadian corporations including subsidiary and controlled companies (please specify)		
7. _____	\$ M	
8. _____	\$ M	
9. _____	\$ M	
Other assets (please specify)		
10. _____	\$ M	
11. _____	\$ M	
12. Total Assets in Canada	\$ M	
LIABILITIES		
To residents of Canada:		
1. Accounts payable	\$ M	
Other liabilities: (please specify)		
2. _____	\$ M	
3. _____	\$ M	
To non-residents of Canada:		
4. Head office control account (Net)	\$ M	
5. Other accounts payable	\$ M	
Other liabilities: (please specify)		
6. _____	\$ M	
7. _____	\$ M	
8. _____	\$ M	
9. Total Liabilities	\$ M	

 A Office use only

Name of company _____

Head office address _____ Address in Canada _____

Principal type of activity in Canada Manufacturing, Merchandising, Petroleum & natural gas, Mining, Other, (specify) _____

Principal product or service in Canada _____ Area code and telephone _____ Telex _____ Date _____

Name (block letters) and title of officer responsible for this report _____

IV. To be completed by companies engaged in the petroleum and natural gas industry in Canada - Calendar year 1975

Express amounts
in thousands of
Canadian dollars

- 1. Investment by non-resident limited partners in a "Limited Partnership" in which the reporting entity is the general partner . . . \$ M _____
- 2. Investment by non-resident individuals in joint ventures in which the reporting entity is operator \$ M _____
- 3. Production and revenue payments to non-resident individuals involved in joint ventures and Limited Partnerships with reporting entity. \$ M _____

Please describe briefly the nature of any exceptionally large or unusual transactions reported on this return.

Special Note for Companies Required to File Reports
under the Corporations and Labour Unions Returns Act.

The amounts recorded for the calendar year on this schedule in Part II (Payments) should correspond in total to those reported on the CALURA statement "Payments to Non-Residents" subject to variations caused by fiscal years ending on dates other than December 31.

Subject to the foregoing, the following items should correspond:

Balance of Payments (BP - 22)	CALURA (Statement of Payments to Non-residents)
Part II (b) 1 Interest on loans and advances	Item (B) (ii) and (iii)
Part II (b) 2 Rental on real estate	Item (C)
Part II (b) 3 Payments for business and miscellaneous services and charges	Item (D) through (I)*

* plus other services (other than freight and shipping) falling outside these items (e.g. commissions), but omitting charter hire payments.



Statistics Canada Statistique Canada

Balance of Payments Section
OTTAWA K1A 0Z8

CONFIDENTIAL

BP - 22A

Keep one copy
for your file

REPORT ON INVESTMENT IN CANADA OF
NON-CANADIAN CORPORATIONS

Calendar quarter ending

Telephone: Area 613/996-2545
Telex 013-3585

Please correct any mistakes in Name or Address

Si vous préférez une formule française, prière de l'indiquer et de retourner celle-ci

The bureau would appreciate your assistance in its compilations of Canada's balance of international payments. Kindly return one copy of this form within three weeks. It covers a selection of the data collected annually on Schedule BP-22 and follows the same item references.

The information furnished by your firm in response to this request will be treated in strict confidence.
Authority - Statistics Act, Chapter 15, Statutes of Canada, 1970-71-72.

I. TRANSACTIONS AFFECTING NON-CANADIAN INVESTMENT IN CANADA

Express all amounts
to nearest thousand
Canadian dollars

Increase in investment during quarter -

(a) Investment through provision of cash, physical assets or services by head office \$ M

(c) Profits transferred to head office control account (after provision for Canadian taxes) \$ M

Decrease in investment during quarter -

(e) Reduction of investment by head office (Capital withdrawals, sale of assets in Canada to Canadian residents, loans to head office, etc.) \$ M

(g) Losses charged to head office control account \$ M

II. OTHER TRANSACTIONS WITH NON-RESIDENTS OF CANADA

(c) Profits (net) remitted \$ M

LIABILITIES

To non-residents of Canada:

4. Head office control account (net) \$ M

At beginning of quarter	At end of quarter

Please describe briefly the nature of any exceptionally large or unusual transactions reported on this return.

Date	Telephone	Name and title of responsible officer	Signature
	Telex		



Statistics Canada Statistique Canada

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OTTAWA KIA 0Z8
Balance of Payments Section

BP - 23

PAYMENT OF DIVIDENDS

Calendar Year,

Please correct any mistakes in Name and Address

Keep one copy for your file

Telephone: Area 613/996-2545

Si vous préférez une formule française, prière de l'indiquer et de retourner celle-ci

The bureau would appreciate your assistance in its compilations of Canada's balance of international payments and indebtedness. Kindly fill in the data requested and return to this Section at your earliest convenience in the enclosed envelope.

The information furnished by your firm in response to this request will be treated in strict confidence.

Authority - Statistics Act, Chapter 15, Statutes of Canada 1970-71-72.

Class of stock	Total dividend payments (Calendar year)	Dividends paid to non-residents of Canada	
		Tax withheld in Canada	Net payment to non-residents
	\$	\$	\$
COMMON STOCK			
PREFERRED STOCK			
.....			
.....			

NOTES

- (1) Dividends paid to shareholders in the calendar year should be reported irrespective of the date when they were declared.
- (2) Stock dividends should be noted separately.
- (3) If payments are not expressed in terms of Canadian dollars, please indicate.
- (4) Kindly mark "nil" where no payments have been made.

REMARKS

Date	Telephone	Name and title of responsible officer	Signature
------	-----------	---------------------------------------	-----------

The completed returns are examined carefully for indications of response error. They are related to the previous returns of the company, and their appropriate investment position returns (BP-51 through BP-60) are frequently reviewed with them. Details are reconciled with information collected earlier on quarterly surveys or from other sources. Where necessary further enquiries are made by correspondence, telephone or telex.

In addition to the editing arising from these reviews many *pro forma* returns are prepared internally, as described earlier in Part III covering the construction of particular series, to reflect transactions which for one reason or another were not reported. These would include, for example, the sale to non-residents of new issues of Canadian securities by corporations not surveyed, take-over transactions of which there was evidence from the investment position schedules or other sources but in which the reporter's role was passive, and capital flows imputed from investment position returns in respect of companies from which BP-21's had not been sought.

A somewhat parallel questionnaire is the BP-22, Report on investment in Canada of non-Canadian corporations through branches or divisions. The term is interpreted very broadly so that it represents in fact an activity rather than an organizational concept. The schedule contains three of the four main sections found on the BP-21, omitting that relating to long-term investment abroad. However, it also calls for a balance sheet of the Canadian branch or division which is used to verify the capital flows and to establish the value of the long- and short-term investment in Canada for purposes of the investment position.

Over 600 BP-22's were used in 1974, and of these about 200 showed no significant entries in that particular year.

Pro forma BP-21's and BP-22's prepared so that specific items as tabulated should be as complete as possible numbered about 600.

In addition to the editing and extension of these schedules a substantial amount of geographic detail derived from other records is recorded to facilitate the construction of bilateral distributions of particular items of the balance of payments.

Schedule BP-19, Petroleum and natural gas industry in Canada, is an occasional survey introduced to explore some special facets of the industry's financing. From petroleum and natural gas companies operating in Canada, it sought to ascertain capital inflows into "Limited Partnerships" under their management from non-corporate limited partners resident outside Canada, and capital inflows in the form of interest-free advance payments for future gas deliveries from United States utility companies. The results have been

used in constructing series D50, Other long-term transactions, and reflected in the Miscellaneous investments category of the international investment position as described in Part IV. The BP-21 questionnaire was subsequently amended to capture this sort of data on a continuing basis.

Schedule BP-21RE, Report of real estate transactions between Canada and other countries, provides for the reporting of investments in Canadian and foreign real estate. It is directed to a small number of individuals and firms in Canada providing an agency function in connection with the transfer or management of real property. The survey covers transactions in Canadian and foreign real estate between residents of Canada and non-residents and investment by non-resident individuals and firms in revenue-producing properties not covered by other surveys of the division. The return was first introduced in 1974 with a coverage of 370 respondents. Following analysis of completed returns this was reduced to a survey population of less than 100 for 1975.

The other schedules in the group represent either abridgements of the two extended annual questionnaires, or quarterly surveys. Thus the BP-23, Payment of dividends, is used to ascertain dividend payments by Canadian corporations (or companies incorporated under foreign law primarily for the purpose of engaging in business in Canada) whose other international transactions are not large enough to warrant the use of a BP-21 and whose dividend payments to non-residents of Canada cannot be derived by the application of publicly available dividend information to the share distributions reported on investment position schedules. About 100 were used in 1974.

Among the quarterly questionnaires, the BP-21A and BP-22A are schedules for the collection at quarterly intervals of many, but not all, of the items covered on the BP-21 and BP-22. These questionnaires are sent to much smaller numbers of companies — about 375 in respect of the BP-21A and 25 in respect of the BP-22A.

The final questionnaire in this group is the BP-21C, Report by Canadian financial companies. This quarterly return provides rather more detail of the forms of international financing of Canadian sales finance, consumer loan, lease finance, and other Canadian financial companies than appears in the generalized annual returns on BP-21. It is received from about 50 respondents.

Data from this group of questionnaires contribute to many items of the balance of payments and international investment position, as indicated in Chart V.1.

BP-20 and BP-24 through BP-26 — This group of schedules is designed to elicit information used in the construction of estimates of freight and shipping transactions, as described under series A21 and B21 in Part II.



Statistics Canada Statistique Canada

Balance of Payments Division

CONFIDENTIAL

OTTAWA K1A 0Z8

GREAT LAKES - ST. LAWRENCE SEAWAY SHIPPING TRANSACTIONS

BP-20

Calendar year:

Please correct items and/or address

Keep one copy for your file

Telephone: (613) 995-0745
Telex: 013-3585

Si vous préférez une formule française, prière de l'indiquer et de retourner celle-ci avec votre nom (lettres moulées) et titre

Statistics Canada would appreciate your assistance in the compilation of Canada's balance of international payments. Kindly fill in the data requested and return to this Division at your earliest convenience in the enclosed envelope.

The information furnished by your firm in response to this request will be treated in strict confidence.

Authority - Statistics Act, Chapter 15, Statutes of Canada 1970-71-72.

1. Total tons of cargo (excluding iron ore) outward from Canada to United States ports	.....	tons	_____
2. Total freight earnings, prepaid and collect, on above cargo (excluding iron ore)	.....	\$	_____
3. Total tons of iron ore carried from Canada to United States ports	.....	tons	_____
4. Total freight earnings, prepaid and collect, on above iron ore carried to United States ports	.....	\$	_____
5. Total tons of United States grain carried intransit from the United States to Canadian ports	.....	tons	_____
6. Total freight earnings, prepaid and collect, on above United States grain carried intransit from the United States to Canadian ports	.....	\$	_____
7. Total amount paid to non-residents for charter of vessels (specify country)	.....	\$	_____
8. Total income from non-residents for charter of vessels (specify country)	.....	\$	_____
9. Crew wages and other ship expenses paid in United States ports	.....	\$	_____
10. Total tons of cargo inward (imports) from United States to Canadian ports (excluding grain reported in item 5)	.....	tons	_____
11. Total freight earnings, prepaid and collect, on above inward cargo from United States to Canadian ports	.....	\$	_____

Any comments or qualifications which you feel might be suitably noted to this material should be appended.

Address

Date	Telephone Telex	Name and title of responsible officer	Signature
------	--------------------	---------------------------------------	-----------



Statistics Canada Statistique Canada

Balance of Payments Division

CONFIDENTIAL

OTTAWA K1A 0Z8

REPORT OF CARGO, EARNINGS AND EXPENSES OF
OCEAN VESSELS OPERATED BY NON-RESIDENT INTERESTS

BP - 24

Calendar year

Please correct any mistakes in Name and Address

Keep one copy for your file

Telephone: Area 613/995-0743

Si vous préférez une formule française, prière de l'indiquer et de retourner celle-ci avec votre nom et titre

Statistics Canada would appreciate your assistance in the compilation of Canada's balance of international payments. Kindly fill in the data requested and return to this Division at your earliest convenience in the enclosed envelope.

The information furnished by your firm in response to this request will be treated in strict confidence.
Authority - Statistics Act, Chapter 15, Statutes of Canada 1970-71-72.

Steamship Lines covered by this report _____

(Montreal offices should report for all Eastern ports including the Upper St. Lawrence and Great Lakes; Vancouver for all Western. When this is not possible, please list below the ports covered):

	Vessels operated by:					
	United States interests	United Kingdom interests	E.E.C. ² interests	Japan interests	Other O.E.C.D. ³ interests	Other foreign interests
(Include estimates of open voyage accounts as at December 31 arising from voyages during year)						
1. Total tons of inward cargo ⁴ (<input type="checkbox"/> long, <input type="checkbox"/> short or <input type="checkbox"/> measured tons)						
2. Total (prepaid and collect) inward freight earnings on above cargo						
3. Total expenses of vessels in Canada						

Supplementary questions and remarks regarding the material provided

Please indicate the amount paid for ship repairs in Canadian shipyards, if any, included in item 3 above, "Total expenses of vessels in Canada" \$M _____

Indicate the expenses which you have included in item 3 above, "Total expenses of vessels in Canada."

Instructions

- This questionnaire is intended to be completed by shipping agents or firms which perform a shipping agency function on behalf of foreign operated ocean vessels. Please give all information possible for ships entering ports under your jurisdiction, even if knowledge of their transactions in other ports is not completely known. In the case of tramp and other casual vessels with which you deal, make estimates if necessary.
- The E.E.C. group includes the following countries: Belgium-Luxembourg, West Germany, France, Italy, Netherlands, Denmark, Ireland and Greenland.
- Other O.E.C.D. includes the following countries: Austria, Finland, Greece, Iceland, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, Australia and New Zealand.
- "Inward" means to Canada from points outside of Canada. Domestic coast-wise traffic is to be excluded.
- Where the exact amount of prepaid freight revenue is unknown, please include an estimate to cover.
- "Total Expenses" is intended to include all outpayments in Canada on account of vessels in these categories for which you act as agent. Such items as: crew wages and advances, harbour charges, pilotage, rowage, wharfage, stevedoring (inward and outward when paid by vessels), agency fees, fuel and supplies, repairs, on-payment to rail and water carriers on through-traffic if an amount corresponding to the on-payments has automatically been included in inward freight earnings. Outpayments for vessels on outward and inward voyages, including vessels inward in ballast, are to be included.
- In the case of Canadian-owned ships operated by British managers under United Kingdom registry, transactions on account of these ships, other than transfers of revenues to Canada, should be reported in the same manner as transactions for other vessels operated by United Kingdom interests.

Name of company		Address	
Date	Area code and telephone	Name and title of responsible officer	Signature



Statistics Canada Statistique Canada

Balance of Payments Division
OTTAWA K1A 0Z8

CONFIDENTIAL

BP - 25

REPORT OF CARGO, EARNINGS AND EXPENSES OF
OCEAN VESSELS OPERATED BY CANADIAN COMPANIES

Calendar year

Please correct any mistakes in Name or Address

Keep one copy for your file

Telephone: (613) 995-0743
Telex: 013-3585

Si vous préférez une formule française, prière de l'indiquer et de retourner celle-ci avec votre nom et titre

Statistics Canada would appreciate your assistance in the compilation of Canada's balance of international payments. Kindly fill in the data requested and return to this Division at your earliest convenience in the enclosed envelope. The information furnished by your firm in response to this request will be treated in strict confidence. Authority - Statistics Act, Chapter 15, Statutes of Canada 1970-71-72.

Steamship lines _____

Canadian ports covered by this report _____
(e.g. Halifax, Saint John, Montreal, Vancouver, etc.)

	Tons	Thousands of dollars				
1. (a) Total tons of cargo inward from non-Canadian ports (State whether long, short, or measured tons)		x x x x x				
(b) Total tons of cargo outward to non-Canadian ports (State whether long, short, or measured tons)		x x x x x				
2. Total freight earnings (received and collect) on cargo inward to Canada from other countries	x x x x x					
	United States	United Kingdom	European ² Economic Community	Japan	Other ¹ OECD	Other foreign countries
	(thousands of dollars)					
3. Total freight earnings (received and collect) on cargo outward from Canada						
4. Total income from charter of vessels in residents of						
5. Total amount paid for charter to owners of vessels resident in ¹						
6. Total freight earnings on cargo between foreign ports unloaded in						
7. Passenger receipts from residents of						
8. Total expenses of vessels paid by Canadian operator in ²						

1. Charter payments are to be distributed geographically according to the country of residence of the party from whom the vessel was chartered.
2. The European Economic Community includes the following countries: Belgium-Luxembourg, West Germany, France, Italy, Netherlands, Denmark, Ireland and Greenland.
3. Other OECD includes the following countries: Australia, Austria, Finland, Greece, Iceland, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland and Turkey.
4. Total expenses in item 8 is intended to include all out-payments made in foreign countries by Canadian operators on account of shipping business. Such items as: crew wages and advances, harbour charges, canal dues, pilotage, towage, wharfage, stevedoring (inward and outward when paid by vessels), agency fees, fuel and supplies, repairs and on-payments to rail, water and other carriers on through traffic. Distribute expenses to U.S., U.K. and other areas according to where the payments were made. Include estimates of open voyage accounts as at December 31st arising from voyages during year.

Any comments or qualifications which you feel might be usefully added to this material would be appreciated

Name of company		Address	
Date	Telephone	Name and title of responsible officer	Signature
	Telex		



Statistics Canada Statistique Canada

Balance of Payments Division
OTTAWA K1A 0Z8

CONFIDENTIAL

BP-26

REPORT ON IMPORTS OF CRUDE PETROLEUM AND
PRODUCTS AND OTHER SHIPPING OPERATIONS

Calendar year

Please correct any mistakes
in name or address.

Keep one copy for your file.

Telephone: Area 613/995-0743
Telex: 013-3585

Si vous préférez une formule française, prière de l'indiquer et de retourner celle-ci avec votre nom et titre

Statistics Canada would appreciate your assistance in the compilation of Canada's balance of international payments. Kindly fill in the data requested and return to this Division at your earliest convenience in the enclosed envelope.

The information furnished by your firm in response to this request will be treated in strict confidence.

Authority - Statistics Act, Chapter 15, Statutes of Canada 1970 - 71 - 72.

A. IMPORTS OF PETROLEUM

Report all dollar
amounts in
thousands

1. Total tons of crude petroleum, petroleum oils and gasoline imported into Canada during the year:

(a) via Eastern ocean ports:

(i) Portland, Maine short tons (net) _____

(ii) Other Eastern ports short tons (net) _____

(b) via Western ocean ports short tons (net) _____

(c) via other ports (please specify) short tons (net) _____

2. Total cost of ocean freight paid on this tonnage:
(see instructions)

(a) via Eastern ocean ports:

(i) Portland, Maine \$M _____

(ii) Other Eastern ports \$M _____

(b) via Western ocean ports \$M _____

(c) via other ports \$M _____

3. How much of this cost was paid to owners or operators of vessels resident in:
(see instructions)

Report all dollar
amounts in
thousands

- (a) Canada \$M _____
- (b) United States \$M _____
- (c) United Kingdom \$M _____
- (d) EEC countries (excluding U.K.) \$M _____
- (e) Japan \$M _____
- (f) Other OECD countries \$M _____
- (g) All other countries \$M _____

4. State paid address of Canadian owners or operators paid in item 3. (a) above, if applicable.

5. Total expenses of vessels in Canadian ports paid by owners resident in:

- (a) United States \$M _____
- (b) United Kingdom \$M _____
- (c) EEC countries (excluding U.K.) \$M _____
- (d) Japan \$M _____
- (e) Other OECD countries \$M _____
- (f) All other countries \$M _____

6. Canadian agents to which tankers were consigned: _____

K. OTHER SHIPPING OPERATIONS

1. Total tons of cargo carried outward by your company (including petroleum and other commodities)
to non-Canadian ports.

Short tons _____

Please specify commodities: _____

2. Total freight earnings on above cargo outward from Canada to:

- (a) United States \$M _____
- (b) United Kingdom \$M _____
- (c) EEC countries (excluding U.K.) \$M _____
- (d) Japan \$M _____
- (e) Other OECD countries \$M _____
- (f) All other countries \$M _____

3. Total tons of cargo carried inward by your company (excluding petroleum reported in item A-1) from non-Canadian ports:	Short tons	_____
4. Total freight earnings on above cargo inward to Canada from other countries:	\$M	_____
5. Income from vessel charters to residents of:		
(a) United States	\$M	_____
(b) United Kingdom	\$M	_____
(c) EEC countries (excluding U.K.)	\$M	_____
(d) Japan	\$M	_____
(e) Other OECD countries	\$M	_____
(f) All other countries	\$M	_____
6. Total amount paid for charter to foreign owners of charters resident in countries other than Canada in items A-2 and A-3 (see instructions):		
(a) United States	\$M	_____
(b) United Kingdom	\$M	_____
(c) EEC countries (excluding U.K.)	\$M	_____
(d) Japan	\$M	_____
(e) Other OECD countries	\$M	_____
(f) All other countries	\$M	_____
7. Total freight earnings on cargo carried by company between foreign ports unloaded in:		
(a) United States	\$M	_____
(b) United Kingdom	\$M	_____
(c) EEC countries (excluding U.K.)	\$M	_____
(d) Japan	\$M	_____
(e) Other OECD countries	\$M	_____
(f) All other countries	\$M	_____
8. Total expenses of vessels in foreign ports paid by your company as a Canadian operator in:		
(a) United States	\$M	_____
(b) United Kingdom	\$M	_____
(c) EEC countries (excluding U.K.)	\$M	_____
(d) Japan	\$M	_____
(e) Other OECD countries	\$M	_____
(f) All other countries	\$M	_____

C. SALES OF MARINE FUELS AND LUBRICANTS

- 1. Total tons of marine fuels (bunkers) and lubricants sold to non-resident operated vessels in Canadian ports: Short tons _____

- 2. Total earnings on above sales of marine fuels and lubricants to foreign vessel operators resident in:
 - (a) United States \$M _____
 - (b) United Kingdom \$M _____
 - (c) EEC countries (excluding U.K.) \$M _____
 - (d) Japan \$M _____
 - (e) Other OECD countries \$M _____
 - (f) All other countries \$M _____

INSTRUCTIONS

The EEC includes the following countries: Belgium-Luxembourg, Denmark (including Greenland), France, Ireland, Italy, Netherlands and West Germany.

Other OECD includes the following countries: Australia, Austria, Finland, Greece, Iceland, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland and Turkey.

Item A-2 Payments for charters (bare boat, voyage or time) of vessels used by your company to import crude petroleum oils and gasoline should be included in this section.

Item A-3 Please include and specify payments made to an affiliate company in respect of vessels procured by them for use by your company.

Item B-6 is intended to cover the charter payments for vessels chartered from non-residents for purposes other than the importation of crude petroleum, petroleum oils and gasoline (covered in questions A1, A-2 and A-3), such as other import traffic, export, domestic and coastal traffic, including the movement of Canadian oil and oil products between Western and Eastern Canada. Please specify the nature of the operation covered by data provided for this question.

Any comments or qualifications which you feel might be usefully added to this material would be appreciated:

Name of Company

Address

Date	Signature of responsible officer	Telephone Telex
------	----------------------------------	--------------------

The BP-20 covers Great Lakes-St. Lawrence Seaway shipping transactions and was obtained from 15 respondents for 1974.

The BP-24 is a report of cargo, earnings and expenses of ocean vessels operated by non-resident interests, obtained from a selection of shipping companies and agents. There were about 70 respondents for 1974.

The BP-25 covers cargo, earnings and expenses of ocean vessels operated by Canadian companies. There were about 35 respondents for 1974.

The BP-26 is designed to obtain information from selected importers on import tonnage and freight payments for shipping operations by ocean vessels, particularly for crude petroleum, petroleum oils and gasoline. Schedules were obtained from about 15 importers in respect of 1974.

BP-27 and BP-28 - These schedules are used annually to obtain certain information from Canadian insurance companies and from foreign insurance companies doing business in Canada. They are not intended to provide a full analysis of insurance company transactions, but seek rather to elicit information to fill gaps in the measures constructed from other sources. It should be noted moreover that the surveys were designed many years ago in consultation with a committee from the industry. Among the considerations involved was to ensure that the burdens on respondents were not excessive in relation to the importance of the data to be obtained. Accordingly the process reflects some assumptions and conventions which may no longer be entirely valid.

The data appearing on these schedules undergo a considerable amount of manipulation before they are ready to be used as inputs to the construction of specific series of the balance of payments. The description which follows is accordingly more extensive than for many of the other schedules whose importance is greater, but whose relationship to published series could more easily be dealt with in Parts II, III and IV.

The schedule BP-27 (obtained from about 30 Canadian companies in 1974) is deceptively simple. In brief it seeks to measure the movements of funds between Canadian insurance companies and non-residents, distinguishing branches, agencies and bank accounts abroad from other non-residents. Some movements are specifically excluded. Sales or purchases of securities through brokers or other security dealers in Canada will, for example, already have been covered on their monthly reports on BP-30, and payments of dividends to foreign shareholders will have been determined from public sources and the BP-51 or BP-52, or alternatively through the BP-21 or BP-23. The ways in which movements of funds may occur are described on the schedule.

The processing of Part A dealing with movements between Canadian insurance companies and their branches, agencies and bank accounts abroad is unusual. The convention adopted when the questionnaire was introduced in 1952 was that a position for long-term capital employed abroad had been established during the period of exchange control. Thereafter an accumulated net inflow of funds to Canada on a company-by-company basis in Part A of the schedule was treated as an element of miscellaneous income in series A23 of the current account. (The character of miscellaneous income has been described at greater length under series A23 and B23 in Part II.) On the other hand an accumulated net outflow of funds from Canada was treated as the provision of additional capital and was included as a capital outflow in series D50, Other long-term capital transactions. To the extent that accumulated net inflows of funds to Canada were subsequently reduced through outflows, these outflows were applied as negative receipts of miscellaneous income in the current account until a zero position was reached and only thereafter as capital outflows. Correspondingly, when an accumulated balance of net outflows which had been recorded as capital was reduced by inflows, these inflows were recorded as capital until a zero position was reached and thereafter attributed to miscellaneous income.

This approach produced credible results for a period of years. When, however, large and irregular movements appeared the methodology was altered. In view of the rather arbitrary nature of the convention, and the erratic impact of large movements on the current account balance, and indeed on the gross national product, a three-year moving average was run through the series which would otherwise have been incorporated in miscellaneous income receipts. The deviation between the original construct and the moving average of the current and two immediately preceding years was taken into D50 as a capital movement.

In Part B of the BP-27 there were reported movements of funds between Canadian insurance companies and non-residents of Canada not already covered in Part A. The principal transactions covered premiums, claims and expenses. The receipts are assumed to represent premiums and reflected in series A23 of the current account while payments representing claims and expenses are reflected in series B23. The convention thus treats both premiums and claims as being on current account which ignores their capital element. In fact, however, the amounts of business written in Canada for non-residents are not sufficiently large to warrant full articulation of these transactions.

The BP-28 in corresponding fashion seeks out the movement of funds between foreign insurance companies doing business in Canada and non-residents. It was used to cover about 80 companies in 1974.

Balance of Payments Section
OTTAWA K1A 0Z8

BP - 27

**MOVEMENT OF FUNDS BETWEEN CANADIAN INSURANCE COMPANIES AND THEIR BRANCHES,
AGENCIES, BANK ACCOUNTS, AND OTHER COMPANIES OR PERSONS OUTSIDE CANADA**

Calendar year ending:

Please correct any mistakes in Name or Address

Keep one copy for your file

Telephone: Area 613/996-2545

Si vous préférez une formule française, prière de l'indiquer et de retourner celle-ci

Statistics Canada would appreciate your assistance in its compilations of capital movements and Canada's balance of international indebtedness. Kindly fill in the data requested and return to this Section at your earliest convenience in the enclosed envelope.

The information furnished by your firm in response to this request will be treated in strict confidence.
Authority - Statistics Act, Chapter 15, Statutes of Canada 1970-71-72.

Every movement of funds to or from Canada should be included except those resulting from:

- Purchases or sales of securities through brokers or other security dealers in Canada.
- Payments of dividends to foreign shareholders.

Among transactions to be included in Part A are:

- Funds remitted from foreign branches.
- Transfers to or receipt in Canada of income or principal on investments held outside Canada and on foreign investments held in Canada.
- Transfers to or receipt abroad of income or principal on Canadian investments held in Canada.
- Funds sent to Canadian offices for investment or from Canadian offices for investment, lodgement with branches, etc.

Among transactions to be included in Part B are:

- Funds sent to or from Canada in settlement of premiums, claims, and expenses.

MOVEMENT OF FUNDS

A. Between Canadian insurance companies and branches, agencies, and bank accounts abroad.

- 1. INFLOWS of funds to Canada
- 2. OUTFLOWS of funds from Canada

B. Between Canadian insurance companies and policy holders, beneficiaries, and other companies or persons outside Canada not included above.
(Approximate figures will suffice)

- 1. INFLOWS of funds to Canada
- 2. OUTFLOWS of funds from Canada

BETWEEN CANADA AND			
United States	United Kingdom	Other countries	All countries Total
(Express all amounts to nearest thousand Canadian dollars)			
Office use only			
Part B need not be completed unless in the opinion of the company the net movement would exceed \$100,000.			
Office use only			

Any comments or qualifications which you feel might be usefully added to this summary should be appendant.

Name	Telephone	Name and title of responsible officer	Signature
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While similar to the BP-27 used in respect of Canadian insurance companies, the questionnaire is somewhat more complex. It is divided into three parts. As in the case of the BP-27, there is no attempt to cover all transactions of the respondents, some of which would have been measured in other ways. The sale or purchase of new or outstanding securities offered publicly in Canada through brokers or other security dealers in Canada will have been reported on the BP-30, and remittances from Canada of income or principal on Canadian securities held outside Canada will have been calculated from the investment position records.

Parts A and B closely parallel the corresponding parts of the BP-27. Part A measures flows between offices or operations in Canada and foreign offices. The forms which these movements may take tend to be more varied than in the case of the Canadian companies and are spelled out in somewhat greater detail. In practice this part of the questionnaire picks up some transactions which call for special treatment. They are described below, but it would be more helpful to readers to first describe the treatment of the movements generally reported. In general, the convention adopted was the same as that followed in respect of Canadian companies. From the introduction of these returns in 1952, a net accumulated inflow to Canada on a company-by-company basis is regarded as a capital inflow and recorded as an element of series D50 in the capital account. An accumulated net outflow of funds from Canada is regarded as a payment of miscellaneous income included in the current account under series B23. If an accumulated inflow is reduced by subsequent outflows, those outflows are treated as capital until a zero position is reached, and only thereafter as miscellaneous income. If a net accumulated outflow of funds from Canada is reduced by subsequent inflows, these inflows are regarded as covering losses and reduce miscellaneous income payments in series B23 until such time as a zero accumulation is indicated, and only thereafter as capital inflows.

As noted above, the data reported in Part A contain some other items which are segregated and require special treatment. Some reports include inflows representing premiums on group insurance placed by foreign parent companies in respect of employees in Canada of their Canadian subsidiaries, through the foreign home office of the insurance company. It is assumed that these premiums have been reflected in the service charges reported on BP-21 as having been paid to their parent companies by the Canadian subsidiary companies. The return of the premiums to Canada is accordingly reflected as a reduction in the series B23 which includes business service payments to non-residents.

Another type of transaction which is sometimes reflected in Part A and which requires special treatment is the provision to or withdrawal from the Canadian

operations of Canadian securities. Foreign insurance companies are required by law to maintain in Canada assets in respect of their liabilities to residents of Canada. Holdings of the securities and other Canadian assets built up from premiums and investment income in Canada are considered to be assets of the Canadian operations and as such are not reflected in the balance of payments or in Canada's international investment position. Foreign insurance companies may, however, also hold Canadian securities in the capacity of non-resident investors. These may have originated from the premiums or related investment income on business outside Canada or from free reserves of the companies. Such security holdings represent foreign investment in Canada and the acquisition or disposition of them together with related investment income transfers represent, from the Canadian point of view, international transactions. At times, in order to maintain their asset positions in Canada, companies may find it necessary to introduce funds from abroad or, conversely, they may find that the assets held in Canada in respect of their Canadian liabilities are in excess of their requirements. An appropriate adjustment sometimes takes the form of a transfer of Canadian securities between a "resident" and a "non-resident" position. A transfer of Canadian securities from the foreign home office to the Canadian operations is articulated as a receipt of equivalent funds (which is treated in the normal manner described above) and an outflow of funds from Canada for the repatriation of Canadian securities (which is then carried into series D30 of the capital account covering trade in outstanding Canadian securities). When excess holdings of Canadian securities are shifted from the Canadian operations, a similar articulation is made.

There are two further types of special transactions which have sometimes appeared in Part A. Income and principal on Canadian mortgages held in respect of non-Canadian business sometimes appear with transfers of funds from Canada in Part A. The income element is disregarded because a direct aggregative estimate of mortgage interest paid to non-residents is constructed. The principal element is in effect transferred to Part C2 of the BP-28 which is discussed below. The final element which requires special treatment arises from the occasional inclusion in Part A2 of reimbursements from Canada for claims settled by home offices abroad in respect of Canadian policies. Such entries are in effect used with the data from Part B2.

We turn now to Part B of the BP-28 which covers transfers between offices in Canada and non-residents. Part B in respect of the BP-27, which is parallel, has already been described in some detail. On the BP-28, however, the inflows of funds to Canada represent substantially the settlement of claims (rather than premiums) and the outflows represent premium settlements (rather than claims).

Balance of Payments Division
OTTAWA K1A 0Z8

BP - 29

REPORT BY TRUST AND MORTGAGE LOAN COMPANIES IN CANADA
ON TRANSACTIONS WITH NON-RESIDENTS

Calendar year ending:

Please correct any mistakes in Name and Address

Keep one copy for your file

Telephone: Area 613/996-2545

Si vous préférez une formule française, prière de l'indiquer et de retourner celle-ci avec votre nom et titre

The information furnished by your firm in response to this request will be treated in strict confidence.

Authority - Statistics Act, Chapter 15, Statutes of Canada, 1970-71-72.

INSTRUCTIONS AND DEFINITIONS

1. This report is to be filed in respect of every branch in Canada of a trust or mortgage loan company.
2. Part I may be completed as of some date other than December 31st (in which case this should be noted on the form). Reasonable estimates will suffice for the items in Parts III and IV. All the figures should be compiled and reported in terms of thousands of Canadian dollars.
3. In order to reduce further the work involved in completion of the schedule any analysis required to produce information for Parts I, III and IV, aside from the security transactions, may be limited to individual accounts having a capital value of \$50,000 or more.
4. **Residency:** Non-residents are persons and corporations domiciled outside Canada, regardless of citizenship. Such persons are normally not liable for Canadian income taxes (other than non-resident withholding tax). The country of residence of holding companies and trusts is established by the residence of their beneficial owners. Where this is not known, residence of holding companies and trusts should be determined by the residence of the current income beneficiaries.
5. **Responsibility for reporting:** All transactions, withdrawals and other remittances to and from Canada arranged outside the country by trust companies either as principal or agent should be reported whether they pass through its accounts or not. The trust company in Canada which actually executes or arranges the transactions, withdrawals and other remittances outside Canada is to report the transaction.
6. **Methods of valuation:** It is requested that the following valuation methods be used: for equities, the lower of cost or market value; for bonds, par value; for mortgage loans, amounts owing; for real estate, cost less mortgage owing.
7. **Insurance Companies:** The business in Canada of foreign insurance companies is regarded as that of a "branch" resident in Canada. Accordingly holdings of, or transactions in connection with securities, mortgages, etc. deposited in Canada under Insurance Acts or otherwise held in respect of liabilities to Canadian policy-holders are regarded as those of Canadians and are not to be reported. **Mortgage holdings of United States life insurance companies for their own account** are derived from other sources and should be omitted entirely from this report.
8. **Remittances:** Remittances to be included in Parts III and IV may take the form of transfers in Canadian or foreign currency to a non-resident client in Canada or abroad, or to the credit of a non-resident client's account with a bank in Canada or abroad. Remittances effected in the form of transfers of securities should not be reported. Payments of interest, dividends and principal as disbursing agents, remittances to foreign countries on behalf of residents (e.g. benevolent contributions or travel funds), and receipts of interest, dividends and principal on foreign or Canadian foreign-pay securities are not to be reported.
9. **Income remittances:** If data on income remitted to non-residents are not available, estimates may be used. For this purpose income tax returns may be helpful.
10. **Security Transactions:** The bureau receives monthly reports of international transactions in securities from branches and offices in Canada of banks, brokers, investment dealers, certain trust companies and certain mutual and pension funds. For this reason, trust and mortgage loan companies should report only transactions with others outside Canada (including brokers and investment dealers) which were not made through a branch or office in Canada of an agency reporting monthly.

Any comments or qualifications particularly with respect to changes vis a vis your previous return would be appreciated.

Express all amounts to nearest thousand Canadian dollars

		For residents of:			
		(1) United States	(2) United Kingdom	(3) Other countries	(4) All foreign countries
I. Value¹ of assets managed or held at year-end beneficially for non-residents by branches in Canada, in management, safe custody, and agency accounts, estates and trusts, and holding companies:					
	01				
(a) Canadian securities	{ Stocks				
	{ Bonds				
(b) Mortgage loans to Canadians	03				
(c) Real estate in Canada (less applicable debt owing)	04				
(d) Canadian dollar balances	05				
(e) Foreign securities	{ United States stocks				
	{ United States bonds				
	{ Other securities				
(f) Other foreign assets	09				
II. Value¹ of liabilities of reporting company at year-end to non-residents - exclude amounts reported in Part I:					
(a) Canadian dollar guaranteed investment certificates, receipts and debentures of the company	10				
(b) Canadian dollar deposit accounts	11				
III. Remittances from Canada during the year:					
(a) Income remitted to non-residents on assets in Canada held in management, safe custody and agency accounts, estates and trusts and holding companies	12	To United States	To United Kingdom	To other countries	To all foreign countries
Capital withdrawals from:					
(b) Estates and trusts	13				
(c) Other management, safe custody and agency accounts and holding companies, mutual funds, pension funds, etc.	14				
Cost of securities purchased direct from brokers, investment dealers and others outside Canada: (Disregard this section if reported monthly on Schedule BP - 30)					
(a) Canadian securities	{ Stocks				
	{ Bonds (includes guaranteed investment certificates)				
(e) Foreign securities	{ United States stocks				
	{ United States bonds				
	{ Other securities				
	19				
IV. Remittances to Canada during the year:					
(a) Income remitted to Canada on foreign assets held in management, safe custody and agency accounts, estates and trusts and holding companies	20	From United States	From United Kingdom	From other countries	From all foreign countries
(b) Fees and other administrative charges	21				
(c) Capital transferred to management, safe custody, and agency accounts, estates and trusts, and holding companies	22				
Proceeds of securities sold direct to brokers, investment dealers, and others outside Canada: (Disregard this section if reported monthly on Schedule BP - 30)					
(d) Canadian securities	{ Stocks				
	{ Bonds (includes guaranteed investment certificates)				
(e) Foreign securities	{ United States stocks				
	{ United States bonds				
	{ Other securities				
	27				

Name of company _____ Branch _____

Address _____

Name and title of responsible officer _____ Signature _____ Telephone _____ Date _____

¹ See instruction 6.
9-1200-11.1

Balance of Payments Division
OTTAWA, K1A 0Z8

BP-30
CONFIDENTIAL

SECURITY TRANSACTIONS WITH NON-RESIDENTS

For month of _____

Name and Address

TELEX 015-3585

Name and title of responsible officer	
Signature	Telephone
If no transactions in month check here <input type="checkbox"/>	

If Name and Address does not appear in above space, please insert.

Si vous préférez une formule française, prière de l'indiquer et de retourner celle-ci
Authority - Statistics Act, Chapter 15, *Statutes of Canada* 1970-71-72.

INSTRUCTIONS

1. **Object of the return** - This return is intended to cover international transactions in securities. The guiding principle is a change in ownership from residents of one country to residents of another. International transactions ordinarily involve a movement of funds from one country to another, but include also exchanges of securities involving purchases and sales between residents and non-residents.
 - 1.1 For additional forms or clarification of the reporting requirements or instructions, contact the Balance of Payments Division collect at Area 613/996-2545.
2. **Responsibility for reporting** - All transactions arranged by a firm either as principal or agent should be reported whether they pass through its accounts or not. These will include transactions with Canadian borrowers carried out through international affiliates. The institution or firm in Canada which actually executes or arranges the security transaction outside Canada is to report the transaction. If, for example, a bank sells a security through a Canadian firm for a client in London, and the firm in turn sells the security in New York, the bank is to report a purchase from the United Kingdom and the firm is to report a sale to the United States, even though each may be aware of the complete transaction.
 - 2.1 If firm "A" purchases a security through firm "B", which is a Canadian branch of a United States firm, firm "A" is to make no report because, insofar as it is directly concerned, the security is purchased through a firm in Canada; if the security is purchased in the United States by firm "B", the latter will report the transaction.
 - 2.2 Reports are submitted in respect of offices in Canada by members of the Investment Dealers' Association of Canada, the Canadian Bankers Association*, Canadian stock exchanges, foreign investment houses operating in Canada, and other financial institutions and investors in Canada who engage directly in transactions with dealers or brokers abroad, e.g. trust companies, investment funds and some non-financial corporations.
 - 2.3 Firms which are members of more than one of the groups listed above are requested to report on a consolidated basis and to ensure that double counting does not occur.
3. **Nationality** - All transactions between a principal domiciled or located in Canada and a principal domiciled or located in another country are to be covered, regardless of the nationality of the vendor or the purchaser. For example, a sale by a vendor located in Canada to a foreign branch of a Canadian firm is to be reported whereas if the purchaser was a Canadian branch of a foreign firm the transaction would not be recorded.
 - 3.1 *Insurance Companies* - The business in Canada of foreign insurance companies is regarded as that of a Canadian "branch". Accordingly transactions in connection with securities deposited in Canada under Insurance Acts or otherwise held in respect of liabilities to Canadian policy-holders are regarded as transactions with Canadians and are not to be reported. Similarly, the business abroad of Canadian insurance companies is regarded as that of a non-resident branch and transactions between Canada and such branches are to be reported.
 - 3.2 *Non-Resident Owned Investment Companies and Investment Trusts* - The country of residence of holding companies is established by the residence of their beneficial owners where known.
 - 3.3 Eurobond Issues are issues organized by an international syndicate commissioned to place the securities simultaneously in more than one country and expressed in one or more key currencies.
 - 3.4 Instructions regarding the statistical classification of the nationality of investors and securities for the purposes of this return may be obtained as per paragraph 1.1.
4. **Transactions** - In general all securities are classified by the country of incorporation of the issuer. Neither the currency in which a security may be denominated nor the currency in which the transaction may be consummated has significance for the purpose of this return. However, securities of Canadian incorporated companies whose principal operations are outside Canada should be classified as "foreign".
 - 4.1 *Location* - Location of a bond, debenture, or share certificate is not relevant; for example, a purchase by a non-resident from a Canadian is to be reported regardless of whether the security is to be lodged in Canada or delivered abroad. Similarly a sale to a non-resident for delivery, against payment, to a bank in Canada should be reported by the dealer, as a change of ownership between Canada and a foreign country has occurred. (For special treatment of insurance company transactions see paragraph 3.1).
 - 4.2 *New Issues* include new, refunding, and conversion issues. For practical purposes the dividing line between new and outstanding issues may be taken as immediately after wholesale distribution by the originating group or purchasing syndicate. An issue is classed as outstanding, therefore, after it has been distributed at wholesale to a selling group. (Rights, warrants, and all mutual fund shares are to be treated as outstanding securities).
 - 4.3 *Redemptions* - Repurchases from non-residents by governments or corporations of their own bonds, debentures, or stock are to be reported, but maturing bonds or debentures, and issues called for complete or partial redemption are to be excluded.

*Members of the CBA should exclude sales to or purchases from non-residents for Meed Office or Canadian branch account (not for account of customers) of securities payable optionally or solely in currencies other than Canadian, which will be reflected as changes in asset items 9 to 14 inclusive of the monthly Statutory Return pursuant to the Bank Act.

Express all amounts in nearest thousand Canadian dollars - See Instruction 5.

Express all amounts in nearest thousand Canadian dollars - See Instruction 5.

Type of Security			SALES						PURCHASES						
			(1) To United States	(2) To United Kingdom	(3) To Continental Europe	(4) To Japan	(5) To Other Countries	(6) TOTAL	(7) From United States	(8) From United Kingdom	(9) From Continental Europe	(10) From Japan	(11) From Other Countries	(12) TOTAL	
1. OUTSTANDING BONDS, DEBENTURES, NOTES, ETC. (Original term over one year)	Canadian issues	Government of Canada direct	01											01	
		Government of Canada guaranteed	02												02
		Provincial Government direct	03												03
		Provincial Government guaranteed	04												04
		Municipal	05												05
		Railway, not guaranteed by government	06												06
		Other (including corporate)	07												07
	United States issues	Government	08												08
		Eurobond	09												09
		Other	10												10
	United Kingdom issues	Government	11												11
		Other	12												12
	Other Foreign issues	Eurobond	13												13
		Other European	14												14
		Other	15												15
2. OUTSTANDING COMMON AND PREFERENCE STOCKS (including rights)	Canadian	16												16	
	United States	17												17	
	United Kingdom	18												18	
	Continental Europe	19												19	
	Japan	20												20	
	All Other Countries	21												21	
TOTAL - Items in Parts 1 and 2			22											22	
3. SHORT TERM SECURITIES (Original term one year or less)	Government of Canada issues	23												23	
	Canadian commercial paper	24												24	
	Canadian finance paper	25												25	
	Other Canadian issues	26												26	
	Foreign issues	27												27	
4. NEW ISSUES OF CANADIAN SECURITIES (Original term over one year, identify separately if amount over \$50,000)	Bonds, debentures, notes, etc. (Use back page if necessary)	28												28	
		29												29	
		30												30	
		31												31	
	Common and preference stocks	32												32	
5. NEW ISSUES OF UNITED STATES SECURITIES	Government	33												33	
	Bonds	Eurobond	34											34	
		Other	35											35	
	Common and preference stocks	36												36	
6. NEW ISSUES OF United Kingdom and other foreign countries (Specify category)		37												37	
		38												38	
		39												39	

INSTRUCTIONS (Concluded)

- 4.4 *Buy-Backs* - Buy-back transactions are considered for the purposes of this survey to be a short term agreement of sale of a security which specifies both the date and price of repurchase. Transactions should be included in the appropriate categories but need not be specifically segregated.
- 4.5 *Short Term Securities* - Schedule BP-30 should be used in conjunction with supplements A and B to Schedule BP-30 for reporting transactions in these instruments. Bankers' acceptance should be included with the category "Canadian commercial paper"; provincial and municipal treasury bills and chartered bank term notes should be included with the category "Other Canadian issues". Negotiable certificates of deposit issued by non-residents should be included in foreign issues.
- 4.6 *Timing* - Delivery dates are a more appropriate basis for the compilation of this return than are contract dates. Where practical reasons necessitate the general use of contract dates it is essential that arrangements be made to adjust the returns to a delivery basis in respect of buy-back and other important deferred delivery transactions.
5. **AMOUNTS TO BE REPORTED** - All values should be expressed in terms of Canadian currency and rounded to thousands by dropping the last three digits. If however, the amount dropped exceeds \$500, the reported amount should be increased by one. For example, \$1,253,756 should be reported as 1,254 on the form. It will be assumed that blank spaces represent amounts of less than \$500 or of zero. Where more convenient, a firm having extensive transactions on a U.S. dollar basis may report them on a separate monthly schedule duly marked "expressed in United States dollars".
- 5.1 *Transactions executed outside Canada* - Report as sales the amount credited on transactions for a Canadian client or for your own account (proceeds of sales less commissions and taxes outside Canada). Report as purchases the amount debited for these accounts (cost of purchases plus commissions and taxes).
- 5.2 *Transactions executed in Canada* - Report as sales the amount debited on transactions for a non-resident purchaser (cost of securities plus commissions and taxes in Canada). Report as purchases the amount credited on transactions for a non-resident seller (proceeds of sales less commissions and taxes in Canada).
- 5.3 *Margin Accounts* - Transactions in margin accounts should be treated in exactly the same manner as other transactions.

Please describe briefly the nature of any exceptionally large or unusual transactions reported on this return.



Statistics Canada Statistique Canada

Balance of Payments Section

OTTAWA K1A 0Z8

SALES TO NON-RESIDENTS OF
SHORT-TERM SECURITIES¹

Month:				
	02	04	05	06
	Mo.	Yr.		

Supplement A to Schedule BP-30

Authority - Statistics Act, Chapter 15, Statutes of Canada 1970-71-72.

Security	Description of each issue								
	Borrower	Date of Maturity	United States	United Kingdom	Continental Europe	Other Western Hemisphere	Other countries		
					<i>Please specify country</i>				
07-09		10-12	13-16	17-22	23-28	29-34	35-40	41-46	
			Specify month and year	Express all amounts to nearest thousand Canadian dollars ²					
			Mo. Yr.						
GOVERNMENT OF CANADA ISSUES	Treasury Bills	111							
		111							
		111							
		111							
		111							
		111							
		111							
		111							
		111							
		111							
	Other Short-term Issues ³	112							
		112							
CANADIAN FINANCE COMPANY PAPER		120							
		120							
		120							
		120							
		120							
		120							
		120							
		120							
		120							
		120							
		120							
		120							
		120							
		120							
		120							
		120							
		120							
		120							
		120							

¹ File original name of item you are borrowing.

² See instruction 3 of BP-30.

³ Specify date of issue in the last column of table.

SALES TO NON-RESIDENTS OF SHORT-TERM SECURITIES¹

Security	Description of each issue								
	Borrower	Date of Maturity	United States	United Kingdom	Continental Europe	Other Western Hemisphere	Other Countries		
							13-16	17-22	23-28	29-34	35-40	41-46
	07-09	10-12	Specify month and year	Express all amounts to nearest thousand Canadian dollars ²					
CANADIAN COMMERCIAL PAPER			Mo. Yr.					Bankers' acceptances	
	131								
	131								
	131								
	132							Other Canadian commercial paper	
	132								
	132								
	132								
	132								
	132								
OTHER CANADIAN ISSUES								Banks (e.g. bearer demand notes)	
	141								
	141								
	141								
	141								
	142							Governments (unless indicated elsewhere)	
	142								
	142								
	143							Government enterprises	
	143								
	143								
	143								
	144							Corporations (e.g. mortgage loan companies)	
	144								
144									
144									
FOREIGN ISSUES ⁴								Treasury bills	
	151								
	151	United States Treasury Bills							
	151								
	152							Foreign commercial paper - Banking	
	152								
	152								
153							Foreign commercial paper - Non-banking		
155									

⁴ If the foreign security is registered, please specify by (R).



Statistics Canada Statistique Canada

Bureau of Payments Section
OTTAWA K1A 0Z8

**PURCHASES FROM NON-RESIDENTS OF
SHORT-TERM SECURITIES¹**

Month:	02	03	05	06
	Feb.	Mar.	May	Jun.

Supplement B to Schedule BP-30

Annex B - Recueil des données, Chapitre 15, Statutes of Canada 1970-71-72.

Security	Description of each issue							
	Borrower	Date of Maturity	United States	United Kingdom	Continental Europe	Other Western Hemisphere	Other Countries	
					Please specify country			
		13-16	17-22	23-28	29-34	35-40	41-46	
07-09		10-12	Express all amounts to nearest thousand Canadian dollars ²					
		Specify month and year						
		Me.	Me.					
		Yr.	Yr.					
211	TREASURY MENT OF CANADA ISSUES	Treasury Bills						
211								
211								
211								
211								
211								
211								
211								
212				Other Short-term Issues ³				
212								
220	CANADIAN FINANCE COMPANY PAPERS							
220								
220								
220								
220								
220								
220								
220								
220								
220								
220								
220								
220								
220								
220								
220								

¹ 1200-15, 1 (1964)

² With original term of one year or less.

³ See Instruction 5 of BP-30.

⁴ Specify date of issuance and business month.

PURCHASES FROM NON-RESIDENTS OF SHORT-TERM SECURITIES¹

Security	Description of each issue							
	Borrower		Date of Maturity	United States	United Kingdom	Continental Europe	Other Western Hemisphere	Other Countries
						<i>Please specify country</i>		
07 - 09	10 - 12		13 - 16	17 - 22	23 - 28	29 - 34	35 - 40	41 - 46
Express all amounts to nearest thousand Canadian dollars ²								
CANADIAN COMMERCIAL PAPER	231		Mo.	Yr.			Bankers' acceptances	
	231							
	231							
	232						Other Canadian commercial paper	
	232							
	232							
	232							
	232							
	232							
	232							
OTHER CANADIAN ISSUES	241						Banks (e.g. bearer demand notes)	
	241							
	241							
	241							
	241							
	242						Governments (unless indicated elsewhere)	
	242							
	242							
	243						Government enterprises	
	243							
	243							
	243							
	244						Corporations (e.g. mortgage loan companies)	
	244							
244								
244								
FOREIGN ISSUES ³	251	United States Treasury Bills					Treasury bills	
	251							
	251							
	252						Foreign commercial paper - Banking	
	252							
	252							
	253						Foreign commercial paper - Non-banking	
	253							

¹ If the foreign issuer is a corporation, please specify by (C.A.)

Part C of the BP-28 has no counterpart in the returns for Canadian companies. It reflects the movements of funds between foreign offices (including their bank accounts in Canada) and companies or persons in Canada not covered elsewhere on the return or specifically excluded. The inflows are subdivided into two components. The first covers the acquisition of new issues of Canadian securities. The totals are not ordinarily tabulated but the individual issues listed are used as one of the elements in the construction of series D32, New issues of Canadian securities. Other inflows which cover primarily the acquisition of mortgages but would cover also other investments in Canada including real estate and outstanding securities, together with the reported outflows of the funds from Canada, form elements of series D50 or D30 of the capital account.

BP-29 - This schedule, a report by trust and mortgage companies on transactions with non-residents, is obtained annually. In 1974 it covered about 55 respondents and their branches, if any, in Canada. The questionnaire is divided into four parts. The first of these seeks the value of assets managed or held at the year-end beneficially for non-residents of Canada, in management, safe custody and agency accounts, estates and trusts, and holding companies. The figures contribute to the estimates of miscellaneous investment in Canada described in Part IV and through them influence some of the estimates of capital and income flows. This part of the return also seeks information about foreign assets held for non-residents, which is used primarily in the interpretation of stock estimates derived from foreign sources where such holdings might appear to be beneficially owned by Canadians. The second part of the schedule deals with liabilities of respondents to non-residents in the form of Canadian dollar deposit accounts, guaranteed investment certificates, deposit receipts, debentures, etc. These are used in the investment position and are also the source of capital account entries in series D50 for the guaranteed investment certificates and D71 for deposits.

The other two parts of the schedule deal with remittances. Income remittances become components

of miscellaneous income receipts and payments. The questionnaire also picks up figures for receipts of fees and other administrative charges which become a part of business service receipts recorded in series A23. In addition there will have been fees and other administrative charges which have been offset against income remittances, and an imputation of these is accordingly made and used to increase both miscellaneous income payments and business service receipts.

Capital withdrawals from estates and trusts are treated as transfers of inheritances becoming an element of series B30, while other capital transfers (apart from those related to security transactions) are reflected in series D50. The international security transactions are, of course, incorporated into series D30 or D35 as appropriate.

It will be noted that the reports do not seek to obtain the full international security transactions of respondents; some of these will have been reported on BP-30 by Canadian intermediaries and are expressly excluded for this reason, while in the case of respondents with a significant volume of international securities transactions those carried out directly with non-residents are reported by them monthly on BP-30 rather than annually on BP-29.

BP-30 - This schedule together with supporting supplements covers international transactions in securities of more than 30 types and is obtained from approximately 150 respondents. It is the only monthly survey carried out by the Division. Respondents include brokers, other security dealers, and banks in Canada, as well as investment funds, pension funds and other large institutional investors who make a practice of directly executing or arranging security transactions outside Canada. The basic questionnaire is supplemented where appropriate by schedules providing further details of transactions in short-term securities.

Information from the schedules plays a part in the construction of many items in the balance of payments and investment position as indicated in Chart V.1 and described earlier in Parts III and IV.

Questionnaires Used Primarily in the Construction of International Investment Position Estimates

We turn now to the group of schedules shown in Table V.1 which are primarily related to estimates of Canada's international investment position. We have already seen that the schedules directed to the collection of balance of payments data become elements in the construction of estimates of Canada's international assets and liabilities. In parallel manner the questionnaires used primarily for the investment position also provide inputs to estimates for the balance of payments. These links appear in Chart V.1.

As in the case of the balance of payments questionnaires, it may be useful to group for purposes of description those for the investment position. Schedules BP-51 through BP-58 and BP-61, which relate primarily to Canada's external liabilities (foreign investment in Canada), will be dealt with as one group. Finally, this Part V will conclude with descriptions of Schedules BP-59 and BP-60 which collect data in respect of Canadian investment abroad.

While the following descriptions refer to companies or corporations as the respondents, the data sought from them are generally on a consolidated or enterprise basis.

BP-51 through BP-58 and BP-61 — The BP-51 and BP-52 are both basic questionnaires dealing with the geographical distribution of ownership of the capital of Canadian companies. (The term is defined to cover also companies incorporated under foreign law substantially for the purpose of engaging in business in Canada. It is frequently easier for such companies to supply data for the corporation as a whole rather than to articulate a Canadian branch operation which substantially corresponds to the total company. The treatment of unincorporated branches in Canada of non-Canadian corporations, involving the use of BP-22, although technically more appropriate, creates more difficulty than the use of schedules BP-52 and BP-21, those normally used for Canadian corporations.)

The schedule BP-52 is in fact the basic questionnaire. It provides material about the corporation and the geographical distribution of its long-term liabilities and equity. This questionnaire was directed to about 7,500 corporations in 1974. The BP-51, now used as an alternative, was for many years the basic questionnaire. The latter provides somewhat less detail of the value and distribution of long-term capital than the BP-52 but picks up figures for short-term indebtedness and for certain non-Canadian assets of the respondent. The form is now used in respect of companies approached for the first time and of a group of Canadian corporations which are treated specially either because they have no significant assets or operations within Canada or because within the survey system major parts of the investment in them are measured through other techniques. References to some of the situations involved will be found in the note on non-Canadian companies and other special situations in Part VI.

The schedule BP-53 provides information on the Canadian subsidiaries or affiliates of respondent companies as well as other major investments in other Canadian companies. It is sent to about 2,500 respondents annually on a revolving basis.

Schedule BP-55 is used to up-date the ledger records covering the foreign ownership of funded debt of provinces, municipalities and their enterprises. The form and maintenance of these records has been described in Part IV. The schedule also provides elements of series D32, New issues of Canadian securities, and D33, Retirements of foreign-held Canadian securities, as described in Part III. It is obtained annually from about 175 entities.

Schedule BP-57 reports on the value of investments in Canada by non-Canadian firms. The BP-57 is normally used to establish the existence of such investments. If the amounts as established are significant the required information is thereafter normally obtained on schedule BP-22. For smaller undertakings the information would continue to be reported on the BP-57 schedule. About 50 schedules BP-57 were obtained in 1974.

The BP-58 is a report by non-Canadian airlines operating in Canada, providing in addition to the value of their assets and liabilities in Canada some freight and shipping and business service items. There were about 45 respondents for 1974.

The BP-61 provides balance sheet data on investments in Canada of non-Canadian partnerships.

BP-59 and BP-60 — The BP-59 is used to obtain information on Canadian capital invested abroad by Canadian enterprises. Separate details are obtained for subsidiaries, affiliates and other investments (mainly unincorporated branches). The principal industry is ascertained together with the forms of long-term investment abroad. The totals are provided on two valuation bases. The first is that followed by the subsidiary or affiliate abroad. This is the value used in the construction of estimates of the book value of direct investment abroad. A total is also obtained on the basis of the valuation appropriate to the stage of consolidation used in completing schedule BP-51 or BP-52, if applicable, or otherwise at the values reflected in the respondent's accounts. It will be recalled from Part IV that estimates of external liabilities are made representing long-term investment in **Canada**; the second valuation is the basis appropriate for the deduction made from the book value of long-term capital employed in Canadian corporations to eliminate elements employed outside Canada. The related liability entry for the equity of non-residents in Canadian assets abroad, which covers substantially the same assets, is, however, based on the valuations reflected in the accounts of the subsidiary or affiliate abroad, and thus consistent with the values employed on the asset side of Canada's international investment position.

The schedule BP-59 also collects information on long- and short-term portfolio (or similar) investments of substantial size. These entries are used to identify capital flows which have not been covered through other sources and to make appropriate provision where necessary for any equity of non-residents in these assets through their investment in the respondent. About 1,500 enterprises received schedules BP-59 in respect of 1974. While the typical respondent reported only one or a few investments abroad, the numbers ranged up to well over 100.

Balance of Payments Division
OTTAWA K1A 0S5

CONFIDENTIAL

BP-51

GEOGRAPHICAL DISTRIBUTION OF OWNERSHIP OF CAPITAL

of companies incorporated in Canada, or incorporated under foreign law substantially for the purpose of engaging in business in Canada

1975

Please report for your fiscal year (normal business year ending at any time between April 1, 1975 and March 31, 1976).

Keep one copy for your file

Telephone: (613) 946-2545
Telex: 913-3585

Please enclose any address changes in French or English

Si vous préférez une formule française, prière de l'indiquer et de retourner celle-ci avec votre nom (lettres moulées) et titre

Statistics Canada would appreciate your assistance in its compilations of capital movements and Canada's balance of international indebtedness. Kindly fill in the data requested and return to this Division at your earliest convenience in the enclosed envelope.

The information furnished by your company in response to this request will be treated in strict confidence.

Authority - Statistics Act, Chapter 15, Statutes of Canada 1970-71-72.

SECTION I - DISTRIBUTION OF OWNERSHIP OF SECURITIES AND OBLIGATIONS OF YOUR COMPANY

Identify each class or issue separately	Total issued and outstanding	Owned in Canada	Owned in United States	Owned in United Kingdom	Owned in other countries
	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares
Common or capital stock					
Preferred stock					
Bonds, debentures, notes, etc. ¹	\$	(% total)	(% of total)	(% of total)	(% of total)
(In the case of non-registered securities, give your closest estimate.)					
Other long-term indebtedness ² Specify bank borrowing	\$	\$	\$	\$	\$

¹ Include issues of wholly-owned Canadian subsidiaries. Notes held by banks should be shown as "Other long-term indebtedness".
² Incurred or likely to remain outstanding for more than one year from the date incurred, including mortgages, accumulated advances from a parent company, and all other forms of indebtedness which may be considered as investment in your company and its Canadian subsidiaries. Indicate rate of interest, term, description, and currency of payment.

Short-term indebtedness:	\$	\$	\$	\$	\$
Parent and/or affiliates					
Others:					

SECTION II - VALUE AS AT END OF LAST FISCAL YEAR OF CAPITAL AND SURPLUS OF YOUR COMPANY FROM CONSOLIDATED BALANCE SHEET. (if more convenient, enclose report and check)

Canadian dollars

CONTRIBUTED CAPITAL:

Preferred stock	
Common or capital stock	
Capital surplus (paid-in, donated, appraisal surplus, discount on issue of shares, etc.). If discount, check <input type="checkbox"/>	

RETAINED EARNINGS:

Surplus	
Deficit	

Note: If data supplied is not from consolidated balance sheet, please indicate

PLEASE COMPLETE BOTH SIDES



Statistics Canada Statistique Canada

Balance of Payments Division

CONFIDENTIAL

GEOGRAPHICAL DISTRIBUTION OF OWNERSHIP OF CAPITAL

BP - 52

of enterprises incorporated in Canada, or incorporated under foreign law substantially for the purpose of engaging in business in Canada

1975

Please return this form to the address of company

Keep one copy for your file

Telephone (613) 976-2545

Telex 013-3585

Si vous préférez une formule française, prière de l'indiquer et de retourner celle-ci avec votre nom (lettres moulées) et titre

GUIDE

- Authority:** This request is made under the authority of the Statistics Act, Chapter 15, Statutes of Canada 1970-71-72. The information you provide will be held in strict confidence and seen only by persons who have taken an oath of secrecy.
- Purpose:** This request is made to assist in the compilation of international capital movements and Canada's balance of international indebtedness. The related forms Ownership in Canadian Companies (BP-53) and Capital Invested Abroad by Canadian Enterprises (BP-59) are designed to obtain data on the inter-corporate links of respondent enterprises and their investments abroad.
- Filing of reports:** A completed copy of the form(s) BP-52, (BP-53 and BP-59 if applicable) should be returned within 30 days to Statistics Canada, Balance of Payments Division, Ottawa, Ontario K1A 0Z8. Requests for extension of the filing time or for additional forms should be directed to Supervisor, Data Collection Unit. Requests for clarification of reporting requirements or for additional instructions should be directed to the International Investment Section. Respondents may telephone collect 613-996-2545.
- Reporting unit:** For reporting companies having subsidiaries or effectively-controlled companies it is intended that these reports represent a consolidation and be completed on a fully consolidated basis except where specific instructions indicate otherwise. Companies included in the consolidation are normally those that your company has included in the preparation of its consolidated financial statements. The names of Canadian subsidiaries consolidated in these reports are to be listed on the related form BP-53, Part I and non-Canadian subsidiaries on the Form BP-59. While it is recognized that consolidation may not always be practicable it should be noted that companies not included may be surveyed separately.
- Period covered:** If possible please report as at your fiscal quarter ending between November 15, 1975 and February 15, 1976. Companies unable to comply should report as at their fiscal year ending between April 1, 1975 and March 31, 1976.
- Express all dollar amounts to nearest thousand of dollars:** All amounts should be rounded by dropping the last three digits. If, however, the amount dropped exceeds \$200 then the reported amount should be increased by one. For example, \$1,253,756 should be reported as 1,254 on the form. Please insert a dash (-) where the amount is less than \$500 or the item is not applicable. Unless otherwise specified, all amounts should be reported in Canadian dollars.
- Long-term debt:** Report only the debt of Canadian companies included in the consolidation. Please give your closest estimate of the geographical distribution of non-registered securities. Long-term notes held by banks should be shown under "Other Long-term Indebtedness". In general all debt with an original term to maturity of one year or more or likely to remain outstanding for more than one year, including mortgages and accumulated advances from the parent company, should be reported. Individual issues should be identified and outstanding amounts reported in thousands of units of currency of payment.
- European Economic Community (EEC) Countries:** Report data for the United Kingdom separately from "Other EEC Countries". Included in other EEC countries are: Belgium, Luxembourg, Republic of Ireland, West Germany, Netherlands, Denmark (including Greenland, Faeroe Islands), France (including Monaco and Andorra), Italy (including San Marino, Vatican City).
- Contributed surplus:** Surplus resulting from transactions in the company's own stock: from miscellaneous stock transactions and changes, from shareholders' contributions, from contributions by members, from distributions of stock dividends and similar actions ordered by the board of directors by which some portion of retained earnings is reclassified as part of the capital of the corporation and thus credited to the capital stock and paid-in surplus accounts.

DEFINITIONS

Canadian enterprise: Company or family of companies engaging in business in Canada which, as a result of common ownership are controlled or managed by the same interests.

Controlling shareholders or group of shareholders: is defined as any shareholder or group of affiliated shareholders which in your opinion is capable of exercising control through ownership of securities or by other means. Shareholders in a controlling group may include related companies and may reside in more than one country.

Subsidiary: a company in which the reporting company owns directly and/or indirectly through subsidiaries shares constituting more than 50% of the outstanding voting rights.

Effectively-controlled company: a company for which the operating and financial decisions are effectively controlled by the reporting company even though it owns less than 50% of the outstanding voting rights.

Affiliate: any company which is controlled by substantially the same shareholder or group of shareholders as the reporting company.

Associated: any company in which the reporting company owns directly and/or indirectly through subsidiaries or effectively-controlled companies at least 5% but less than 50% of the voting rights and is not an effectively controlled company or affiliate.

Related company: is a parent, subsidiary, controlled, affiliated or associated company.

PART I. GENERAL

1. Date of incorporation	2. Federal, Provincial or other charter (specify)	3(a) Fiscal year end	3(b) Period end to which this report relates
--------------------------	---	----------------------	--

4. Canadian address (Head office or chief place of business in Canada)

5. Principal type of activity Manufacturing Petroleum & natural gas Merchandising Mining
 Other (specify) _____

6. Principal product or service _____

7. Is this schedule accompanied by schedule BP-53 "Ownership in Canadian companies"? yes no
 If no, does the reporting company have any ownership in shares or debt securities of other Canadian companies? yes no

8. Is this schedule accompanied by schedule BP-59 "Capital Invested Abroad by Canadian Enterprises"? yes no
 If no, does the reporting company or any of its Canadian subsidiaries have capital invested abroad other than foreign currency cash balances and/or trade receivables?
 yes, please describe briefly _____ no

Express all amounts to nearest thousand Canadian dollars

PART II - Canadian Subsidiary or Effectively-Controlled Companies NOT FULLY CONSOLIDATED in BP-51 or S2 Schedule.

Office use only	Name and Mailing Address	Percentage of capital stock owned by your company and/or consolidated companies		Total value of investment as reflected in your own books (\$'000)		
		Common stock %	Preferred stock %	Common stock	Preferred stock	Other securities or advances

PART III - Ownership in Canadian Affiliated Companies

Office use only	Name and Mailing Address	Percentage of capital stock owned by your company and/or consolidated companies		Total value of investment as reflected in your own books (\$'000)		
		Common stock %	Preferred stock %	Common stock	Preferred stock	Other securities or advances

PART IV - Ownership in Canadian Associated or Other Canadian Companies
 Please list all other companies (excluding companies listed in PARTS I, II and III) in which an investment of at least 5% of any class of stock is held by your company or its consolidated Canadian subsidiary or effectively-controlled companies.

Office use only	Name and Mailing Address	Percentage of capital stock owned by your company and/or consolidated companies		Total value of investment as reflected in your own books (\$'000)		
		Common stock %	Preferred stock %	Common stock	Preferred stock	Other securities or advances

Date	Telephone	Name (block letters) and title of officer responsible for the completion of this report
	Telex	



Statistics Canada Statistique Canada

Balance of Payments Division
OTTAWA K1A 0Z8

CONFIDENTIAL

BP - 55

Please correct any mistakes in Name and Address

Telephone:
Area 613/996-2545
Telex 013-3585

Si vous préférez une formule française, prière de l'indiquer et de retourner celle-ci

Statistics Canada would appreciate your assistance in the compilation of Canada's balance of payments and international investment position through the completion of columns 7 to 12 of this form in respect of the particular issues listed. In addition, data is requested for all new issues delivered in the last calendar year. The information furnished will be treated in strict confidence.

Name and title of responsible officer

Telephone Number



Statistics Canada Statistique Canada

Balance of Payments Division
OTTAWA K1A 0Z8

**INVESTMENT IN CANADA OF
NON-CANADIAN CORPORATIONS
1975**

CONFIDENTIAL

BP - 57

Please correct Name and/or Address

Keep one copy for your file

Telephone (613) 996-2545
Telex 013-3585

Si vous préférez une formule française, prière de l'indiquer et de retourner celle-ci avec votre nom (lettres moulées) et titre

GUIDE

1. **Purpose** - The purpose of this form is to obtain the necessary basic data required to prepare statements of the Canadian balance of international payments. This return is intended to collect balance sheet information on the value of assets and liabilities of operations in Canada carried out by non-Canadian corporations.
2. **Authority** - This survey is conducted under the Statistics Act, Chapter 15, Statutes of Canada 1970-71-72. The information submitted will be held in strict confidence and will be seen only by persons who have taken an oath of secrecy.
3. **Filing of reports** - A completed copy of the form should be returned to Statistics Canada, Balance of Payments Division, Ottawa K1A 0Z8 within 30 days of receipt. Clarification of the reporting requirements or instructions should be directed to the same address. Respondents may phone collect to (613) 996-2545.
4. **Express all amounts to nearest thousand of Canadian dollars** - All amounts should be rounded by dropping the last three digits. If, however, the amount dropped exceeds \$500 then the reported amount should be increased by one. For example, \$1,253,756 should be reported as 1,254 on the form. Please insert a dash (-) where the amount is less than \$500 or the item is not applicable.

1. Date and place of incorporation of your company _____

2. Canadian address (chief place of business in Canada) _____

3. Date of beginning of operation in Canada _____

4. Principal type of activity in Canada

Manufacturing

Petroleum & natural gas

Merchandising

Mining

Other (specify) _____

5. Principal product or service rendered in Canada _____



BALANCE SHEET

Canadian Branch or Division

(Report below the value of your investments in Canada even though they are not organized or considered to be a branch operation)

Express all amounts to nearest thousand Canadian dollars

At December 31 or _____ 19 ____

	1974	1975
ASSETS		
1. Cash	\$ M	
2. Accounts receivable: from residents of Canada	\$ M	
3. from non-residents of Canada	\$ M	
4. Inventory	\$ M	
5. Fixed assets (net of depreciation).....	\$ M	
6. Deferred exploration and development expenditures	\$ M	
Investments in Canadian corporations including subsidiary and controlled companies (please specify)		
7.	\$ M	
8.	\$ M	
9.	\$ M	
Other assets (please specify)		
10.	\$ M	
11.	\$ M	
12. Total Assets in Canada	\$ M	
LIABILITIES		
To residents of Canada:		
1. Accounts payable	\$ M	
Other liabilities: (please specify)		
2.	\$ M	
3.	\$ M	
To non-residents of Canada:		
4. Head office control account (Net)	\$ M	
5. Other accounts payable	\$ M	
Other liabilities: (please specify)		
6.	\$ M	
7.	\$ M	
8.	\$ M	
9. Total Liabilities	\$ M	



Office use only



Any comments or qualifications which you feel might be usefully added to this material would be appreciated.

Date	Area code and telephone	Telex	Name (block letters) and title of officer responsible for this report
------	-------------------------	-------	---



Statistics Canada Statistique Canada

Balance of Payments Division

OTTAWA K1A 0Z8

CONFIDENTIAL

BP - 58

**REPORT BY NON-CANADIAN AIRLINES
OPERATING IN CANADA**

Calendar Year

Please correct any mistakes in Name or Address

Keep one copy for your file

Telephone: Area 613/996-2545

Si vous préférez une formule française, prière de l'indiquer et de retourner celle-ci avec votre nom (lettres moulées) et titre

Statistics Canada would appreciate your assistance in the compilation of Canada's balance of international payments and indebtedness. Kindly fill in the data requested and return to this Division at your earliest convenience in the enclosed envelope.

The information furnished by your firm in response to this request will be treated in strict confidence.

Authority - Statistics Act, Chapter 15, Statutes of Canada 1970-71-72.

Express all amounts
to nearest thousand
Canadian dollars

- 1. Total expenditures in Canada (include wages and salaries paid to residents of Canada, operations and maintenance of buildings and offices, aircraft services, fuel and oil purchases, taxes, commissions, agency expenses, and other expenditures in Canada) \$M
- 2. Freight and express revenues received for commodities carried to Canada, whether pre-paid or collect. (Exclude revenue from traffic originating in Canada and from intransit traffic) \$M
- 3. Passenger revenues from tickets sold in Canada \$M
- 4. (a) Total value of assets in Canada (net of depreciation on equipment) \$M
- (b) Total value of liabilities of Canadian operation:
 - (i) To residents of Canada \$M
 - (ii) To head office \$M
 - (iii) To other non-residents of Canada \$M

Any comments or qualifications which you feel might be usefully added to this material would be appreciated

Name of company		Address	
Date	Area code and telephone	Name and title of responsible officer	Signature



Statistics Canada Statistique Canada

Balance of Payments Division
OTTAWA K1A 0Z8

CONFIDENTIAL

BP - 59

CAPITAL INVESTED ABROAD BY
CANADIAN ENTERPRISES
1975

Keep one copy for your file

Telephone (613)996-2545
Telex 013-3585

Please correct any mistakes in Name or Address

Si vous préférez une formule française, prière de l'indiquer et de retourner celle-ci avec votre nom (lettres moulées) et titre

Statistics Canada would appreciate your assistance in making compilations of Canada's balance of international indebtedness. Kindly fill in the data requested and, at your earliest convenience, return in the enclosed envelope to the Balance of Payments Division. Additional copies of this form will be supplied on request.

The information furnished by your enterprise in response to this request will be treated in strict confidence.

Authority - Statistics Act, Chapter 15, Statutes of Canada 1970-71-72.

GUIDE

1. **Period covered.** If possible please report as at your fiscal **quarter** ending between November 15, 1975 and February 15, 1976. Companies unable to comply should report as at their fiscal **year** ending between April 1, 1975 and March 31, 1976.
2. **Long-term Investment.** For the purposes of this return include as long-term all items intended or likely to remain outstanding for more than one year from the date incurred.
3. **Express all amounts to nearest thousand of Canadian dollars.** All amounts should be rounded by dropping the last three digits. If, however, the amount dropped exceeds \$500 then the reported amount should be increased by one. For example, \$1,253,756 should be reported as 1,254 on the form. Please insert a dash (-) where the amount is less than \$500 or the item is not applicable.
4. **Foreign business corporations.** For the purposes of this return include details of foreign business corporations (as defined under the Income Tax Act) and companies incorporated in Canada with similar characteristics - i.e., whose assets (except securities and cash) and business operations are entirely outside Canada.
5. **Other intercompany claims.** Include any items which appear as a liability to your company in the books of the subsidiary or affiliate, such as notes, mortgages, accumulated advances and all other forms of indebtedness which may be considered as investment from Canada in the company abroad.
6. **Subsidiaries abroad.** For the purposes of this return a subsidiary abroad is defined as a company incorporated outside Canada or a foreign business corporation (as defined above) in which the reporting Canadian company owns 50 per cent or more of the common or voting stock.
7. **Affiliates abroad.** For the purposes of this return include as investments in affiliates abroad: (1) your company's investments in, and claims against, any company incorporated outside Canada (or foreign business corporation as defined above) in which your company owns at least 10 per cent but less than 50 per cent of the common or voting stock, and (2) your company's investment in, and claims against, any company incorporated outside Canada or foreign business corporation (as defined above) which is controlled by substantially the same shareholders as the reporting Canadian company. Report the name and address of each company incorporated outside Canada which is controlled substantially by the same Canadian shareholders as your company.
8. **Unincorporated branches abroad.** To calculate net assets abroad, deduct firm's total liabilities to non-residents from total assets outside Canada. Include in the latter all foreign assets of your company (net of book depreciation). If engaged in petroleum or mining exploration, include in assets deferred exploration and development costs to be applied against income of future years.
9. **Miscellaneous direct investments abroad.** Include your company's investments outside Canada which are not incorporated as a separate company or considered a branch operation (e.g. agencies, warehouses, mining claims, real estate, etc.).

CAPITAL INVESTED ABROAD BY CANADIAN ENTERPRISES
SECTION A. DIRECT INVESTMENT

Note: See front page for detailed definitions and instructions.

Express all amounts to nearest thousand Canadian dollars.

BASIS OF CONVERSION	
Unit of foreign currency	Cdn. \$ equivalent
United States \$	
United Kingdom - pound	
Other - specify	

TYPE OF INVESTMENT	NAME AND ADDRESS (Include foreign business corporations and mark "F.B.C.")	PRINCIPAL INDUSTRY AND PRODUCT OR SERVICE	If you are aware of investments in any of these companies by other Canadian residents check below Office use only	Report only the value of long-term investments abroad of your company and of other fully consolidated Canadian companies										SHORT-TERM INVESTMENTS ABROAD							
				Stock - issued and outstanding (Use values shown in last report of issuing company)				Retained earnings - surplus (deficit)	Capital surplus or discount (paid-in, donated, appraisal surplus, discount on issue of shares, etc.)	Funded debt (Calculate at par or nominal value)		Other long-term inter-company claims		Totals		At valuation appropriate to stage of consolidation used in completing schedules B(P-5) or S(P-5) (if applicable) otherwise use values as reflected in your own accounts		(Report your company's short-term investments in, and claims against, its subsidiaries and affiliates abroad)			
				Common		Preferred				Rate of interest	Rate of interest	As valued by subsidiary or affiliate	Rate of interest								
				% of issue held	\$'000	% of issue held	\$'000	Bracket negative amounts \$'000	\$'000					\$'000	\$'000	\$'000	\$'000	Rate of interest			
1. Subsidiaries abroad																					
2. Affiliates abroad																					
3. Unincorporated branches, miscellaneous direct investments etc.	Description		Office use only																		

* "GEOGRAPHICAL DISTRIBUTION OF OWNERSHIP OF CAPITAL"
 3-1200-54.1

(OVER)

SECTION B. PORTFOLIO OR SIMILAR INVESTMENTS

(Report value as carried on your balance sheet of holdings of obligations of foreign governments, municipalities, and non-Canadian corporations which are not subsidiary to or affiliated with your company.)

COUNTRY OF INVESTMENT	LONG-TERM				SHORT-TERM		
	Common stock	Preferred stock	Bonds or debentures		Loans and advances	Treasury bills and treasury notes	Other loans and advances
			Government	Other			
United States (Specify separately each investment of \$500,000 or more.)			(Report in thousands of Canadian dollars)				
United Kingdom (Specify separately each investment of \$500,000 or more.)							
Other Countries (Specify by country and each investment of \$500,000 or more separately.)							

Note: Have the values of your portfolio or indirect investments changed materially within the previous year? Yes No
 If so, indicate whether change was caused mainly by:
 (a) Revaluation (b) Acquisition of additional holdings from outside Canada
 (c) Sale of holdings outside Canada (d) Other reasons (specify)

Remarks:

Canadian address (Head office or chief place of business in Canada):				Period end to which this report relates
Date	Area code and telephone	Telex	Name (block letters) and title of officer responsible for this report	

**SUPPLEMENTARY SCHEDULE OF
CAPITAL INVESTED THROUGH
A PRIMARY FOREIGN SUBSIDIARY**

Please correct Name and/or Address

Keep one copy for your file

Telephone (613) 996-2545
Telex 053-3585

Si vous préférez une formule française, prière de l'indiquer et de retourner celle-ci avec votre nom (lettres moulées) et titre

GUIDE

1. The purpose of this supplementary schedule is to collect information on the book value of Canadian direct investments abroad when the investments, held by a primary foreign subsidiary, are located in a third country.
2. **Primary foreign subsidiary** - For the purpose of this return, a primary foreign subsidiary is defined as a company incorporated outside Canada in which a Canadian company directly owns 50% or more of the common or voting stock.
3. **Foreign business corporation** - For the purpose of this return a foreign business corporation (See Guide item 4 of form BP-59) should also be treated as a primary foreign subsidiary.
4. **Secondary foreign subsidiary or affiliate** - For the purpose of this return, a secondary foreign subsidiary is defined as a company incorporated outside Canada in which a primary foreign subsidiary directly owns 50% or more of the common or voting stock while a secondary foreign affiliate is one in which a primary foreign subsidiary directly owns at least 10% but less than 50% of the common or voting stock.
5. **Unincorporated branch** - To calculate net assets, deduct total liabilities to non-residents from total assets outside Canada. Include in the latter all foreign assets (net of book depreciation). If engaged in petroleum or mining exploration, include in assets deferred exploration and development costs to be applied against income of future years.
6. **Miscellaneous direct investments** - Include investments which are not incorporated as a separate company or considered a branch operation (e.g. agencies, warehouses, mining claims, real estate, etc . . .)
7. **Express all amounts to nearest thousand Canadian dollars** - All amounts should be rounded by omitting the last three digits. For example \$1,253,756 should be reported as \$1,254 on the form. Please insert a dash (-) where the amount is less than \$500 or the item is not applicable.
8. **Authority** - This survey is conducted under the Statistics Act, Chapter 15, Statutes of Canada 1970 - 71 - 72. The information submitted will be held in strict confidence.
9. **Complete one form for each applicable primary foreign subsidiary.** Additional forms will be supplied on request.

CONFIDENTIAL

BP - 60

Balance of Payments Division

OTTAWA K1A 0Z8

**CANADIAN INVESTMENT IN
NON-CANADIAN CORPORATIONS**

Please correct Name and Address

Keep one copy

Telephone: Area 613/996-2545
Telex: 013-3585

Si vous préférez une formule française, prière de l'indiquer et de retourner celle-ci avec votre nom (lettres moulées) et titre

Company

Among the responsibilities of Statistics Canada is the preparation of estimates of Canada's international investment position. For this purpose it is necessary for us to collect certain data with respect to non-Canadian corporations in which Canadians may have significant ownership.

We solicit your assistance in this survey by providing the information requested below, and returning the enclosed duplicate of the form. Your reply will be held in strict confidence and will not be used in any way which would disclose information concerning the company or its principals.

Data for end of last calendar year, if possible, or most recent fiscal period: _____ 19____

Value as shown
in most recent
consolidated
balance sheet

Approximate per cent
held by residents
of Canada

Liabilities

Long term debt: _____ \$ _____ %

Shareholders' Equity

Capital stock (issued and fully paid)

Preferred shares: _____ \$ _____ %

Common shares: _____ \$ _____ %

Paid-in (or Capital) surplus: _____ \$ _____

Retained earnings: _____ \$ _____

Total dividends paid last year to shareholders resident in Canada: _____ \$ _____

Remarks:

Date	Telephone Telex	Name and title of responsible officer	Signature
------	--------------------	---------------------------------------	-----------



Statistics Canada Statistique Canada

Balance of Payments Division
OTTAWA K1A 0Z8

**INVESTMENT IN CANADA OF
NON-CANADIAN PARTNERSHIPS**

CONFIDENTIAL

BP - 61

Please correct Name and/or Address

Keep one copy for your file

Telephone (613) 996-2545
Telex 053-3585

Si vous préférez une formule française, prière de l'indiquer et de retourner celle-ci avec votre nom (lettres moulées) et titre

GUIDE

1. **Purpose** - The purpose of this form is to obtain the necessary basic data required to prepare statements of the Canadian balance of international payments. This return is intended to collect balance sheet information on the value of assets and liabilities of operations in Canada carried out by non-Canadian partnerships.
2. **Authority** - This survey is conducted under the Statistics Act, Chapter 15, Statutes of Canada 1970 - 71 - 72. The information submitted will be held in strict confidence and will be seen only by persons who have taken an oath of secrecy.
3. **Filing of reports** - A completed copy of the form should be returned to Statistics Canada, Balance of Payments Division, Ottawa K1A 0Z8 within 30 days of receipt. Clarification of the reporting requirements or instructions should be directed to the same address. Respondents may phone collect to (613) 996-2545.
4. **Express all amounts to nearest thousand of Canadian dollars** - All amounts should be rounded omitting the last three digits. If, however, the amount dropped exceeds \$500 then the reported amount should be increased by one. For example, \$1,253,756 should be reported as 1,254 on the form. Please insert a dash (-) where the amount is less than \$500 or the item is not applicable.

1. Head office address _____

2. Canadian address (chief place of business in Canada) _____

3. Date of beginning of operation in Canada _____

4. Principal type of activity in Canada

- Manufacturing
 Petroleum & natural gas
 Merchandising
 Mining
- Other (specify) _____

5. Principal product or service rendered in Canada _____

BALANCE SHEET

Report below the value of partnerships investments in Canada

Express all amounts to nearest thousand Canadian dollars

At December 31 or _____ 19 ____

ASSETS

\$'000

- 1. Cash
- 2. Accounts receivable: from residents of Canada
- 3. from non-residents of Canada
- 4. Inventory
- 5. Fixed assets (net of depreciation)
- 6. Deferred exploration and development expenditures
- Investments in Canadian corporations (please specify)
- 7. _____
- 8. _____
- 9. _____
- Other assets (please specify)
- 10. _____
- 11. _____
- 12. Total Assets in Canada

LIABILITIES

- To residents of Canada:
- 1. Accounts payable
- Other liabilities (please specify)
- 2. _____
- 3. _____
- To non-residents of Canada:
- 4. Accounts payable
- Other liabilities (please specify)
- 5. _____
- 6. _____
- 7. _____
- 8. Equity of partners
- 9. Total Liabilities



Office use only



Any comments or qualifications which you feel might be usefully added to this material would be appreciated.

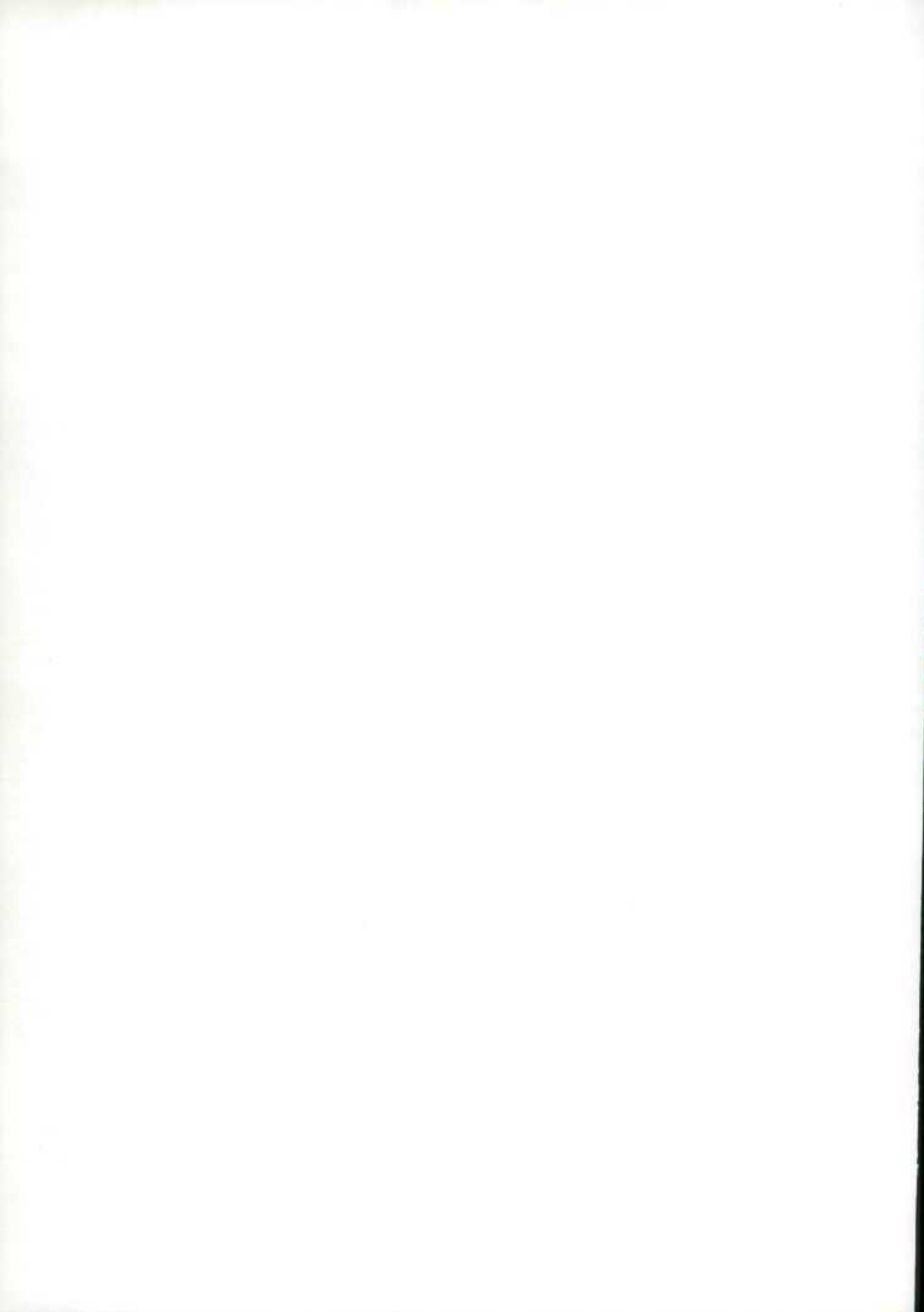
Date	Area code and telephone	Telex	Name (block letters) and title of officer responsible for this report
------	-------------------------	-------	---

It will be noted that the BP-59 obtains information from Canadian enterprises in respect of their investments abroad. There are, however, also some instances of significant direct investments abroad by individuals and other investors who do not receive the BP-59. These cases are not many in number and the essential information is obtained directly from the non-Canadian corporation on schedule BP-60.

The schedule BP-59 supplement is used to elicit information on direct investments abroad where complex corporate structures are involved. Some Canadian direct investors abroad hold their investments in several countries through a holding company located in a foreign country. An attempt is made through this questionnaire to attribute such investments to the countries in which they are actually located.

PART VI

SOME SPECIAL ITEMS



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Introduction

This part describes a number of special situations including brief references to some of the unusual problems which have been encountered in the construction of balance of payments estimates.

The first section has been entitled "Inter-country Exercises in Reconciliation". It describes in considerable detail protracted studies of measurements of the United States-Canada balance of payments statistics as constructed from each side of the border. Differences in the measures have at times played an important part in United States-Canada relations. While the practical implications for policy were its primary *raison d'être*, the work will probably be of interest to readers who are concerned with the more general problems of measurement of the balance of payments. The studies are believed to comprise by far the most comprehensive examination of counterpart measures anywhere in the world to date. They illustrate one sort of technique

Inter-country Exercises in Reconciliation

Unlike most statistical series, those for the balance of payments and the international investment position of a country have, in principle, a mirror image in the counterpart series of trading partners abroad.

From time to time, the confrontation or combination of elements of the two measures has led to substantial improvements in one or both of them. From time to time, too, the development of matching counterpart series has suggested the possibility of considerable economies of effort through use by one country of estimates constructed in another. Significant data exchanges do in fact occur between some countries, including Canada and the United States.

Although the League of Nations and later, the International Monetary Fund have given strong leadership to efforts to introduce standard frames and concepts, it has not in practice proved possible to produce estimates which are so consistent to be fully interchangeable. There are many reasons statistics covering transactions of one country with another must fit consistently into an overall frame which reflects the major interests and concerns of the compiling country. The needs and priorities of a particular country will often not correspond precisely with those of its trading partners. Administrative procedures, which affect in important degree those statistical series based on them, may differ. Institutional structures will also differ.

For these reasons estimates will be made, and normally published, by a country in a form reflecting the perception of its particular needs and concerns. To the extent this differs from internationally established

which has been used successfully in the validation of data and the identification of weaknesses in the statistical process.

The second section is devoted to a brief look at the use of the basic balance as an analytical measure. It provides details of some of the special transactions which might be taken into account in the construction of such a series for Canada. The results suggest that those refinements which are possible do not lead in the Canadian situation to conclusions which are greatly different from those derived by a crude examination of the sum of the balances on current account and on capital transactions in long-term forms.

There follows then a section on the statistical treatment of Newfoundland prior to its union with Canada in 1949.

Part VI then concludes with a series of short references to items in the balance of payments whose nature occasioned special consideration.

standards and formats, the data will be reworked so far as is possible for international use. Nevertheless economic and financial discussions even between international organizations and their member countries seem invariably to focus on the national rather than the international statistical series.

Statisticians, particularly those of Canada and the United States, have long taken a keen interest in the relationship of counterpart measures. This interest reflects a number of concerns. At the technical level the progress made in measurement, analysis and presentation may spark similar innovations in counterpart countries. Exploration may reveal statistical errors and gaps which can be corrected, or may suggest the use of a single component measure by both countries, either for reasons of superior quality or of economy. Quite apart, however, from the advantage to a country of improving its own series, there are reasons – which have become more compelling with the passing years – for wishing to have series which, if not precise mirror images, are at least reconcilable. (Sharp-pencilled, knowledgeable experts have on occasion found that by relating data from independent sources they could derive greater insight or knowledge than was the intention of the authorities. Thus, for example, in the long period in the 1940's when little information was currently released on Canada's official holdings of gold and foreign exchange, their trend could usually be clearly discerned by astute users of United States statistics.) Recent efforts to develop econometric models which transcend national borders have been made extremely difficult by the existence of unexplained differences in counterpart measures. And finally, of paramount and critical im-

portance politically, is the need for international economic and financial negotiations to proceed from a common perception of the facts by both parties.

Somewhat similar considerations apply at the multinational level. If the national data reflecting statistical inaccuracies imply in the aggregate significant global imbalances, the possibility of harmonizing national policies to achieve viable results becomes remote indeed. Multilateral solutions of such statistical imbalances, apart from the concepts-and-frame approach, are not very practical, and progress therefore is dependent largely on national improvements, stemming in part from bilateral explorations.

The earliest explorations of this sort were naturally into those large international aggregates which were developed earliest, and for which great detail was available, namely merchandise trade statistics. The statistical problems related to these immense flows have been the subject of study for many years, and they have continued to be important.

Bilateral comparisons of data in Canada have not been confined to trade with the United States. In the early 1930's analyses published by the Bureau made reference to discrepancies with the United Kingdom, Germany and Japan, offering some explanations for them. But the larger part of the work was directed to the United States, due both to the importance of the magnitudes involved and the advantages of proximity which reduced problems of time lags and facilitated communication between the statisticians. Contemporary issues of the official trade statistics reports contain some of the results of these investigations.

Early Canadian files related to the development of balance of payments statistics contain many memoranda assiduously comparing United States measures for Canada with Canadian measures, not only of trade but of invisibles and capital movements. This work greatly assisted in the development of statistics of the Canadian balance of payments. There were apparently some pay-offs to the United States as well. *The Balance of International Payments of the United States in 1930*,¹ for example, contains a number of indications of close collaboration between the two countries. Some of this went back several years, but the 1930 report is of particular interest.

"The marked similarity between American figures for exports to Canada and Canadian figures for imports from the United States suggests that goods in this trade are usually valued by both countries f.o.b. point of origin - despite the instructions to American customs collectors to require that export declarations include freight charges to boundary or to vessels. The discovery of the huge invisible American export involved is credited to S.

Parkinson of Toronto University² and Herbert Marshall of The Dominion Bureau of Statistics."

This problem was to recur and to be rediscovered almost 40 years later.

The resolution of statistical discrepancies appears, however, to have remained largely a technical concern of the statisticians until wartime and immediate postwar financial arrangements brought the data more directly into the policy area, with resulting discussions between Canadian officials and their opposite numbers in both the United Kingdom and the United States. Then, with changing conditions, the policy concern lapsed for a time but the close collaboration of statisticians, particularly in Canada and the United States, continued.

It will be recalled that during the 1960's the United States authorities took a number of important measures to improve their balance of payments position. The first of these, introduced in July 1963 and promulgated in September 1964, was the introduction of an interest equalization tax on the acquisition of foreign securities by United States residents. Further measures were taken in 1965 with the introduction of guidelines applying to United States investment abroad. While arrangements were made to mitigate the effects on the Canadian economy, these programmes placed growing attention on the two countries' measures of the balance of payments vis-à-vis each other.

With these developments, the rising concerns of the statisticians were joined by those of Ministers and of officials of policy departments and agencies. Discussions within the Joint United States-Canadian Cabinet Committee on Trade and Economic Affairs led to the creation both of a joint Canada-United States Committee of Senior Officials on the Balance of Payments and, in the autumn of 1963, of a closely related Technical Working Group on Canada-United States Balance of Payments Statistics.

The initial representation on the latter group from the United States side was from the Treasury, the Federal Reserve Board, and the State Department, while Canada was represented by the Department of Finance and the Bank of Canada. In later meetings statistical experts from the Office of Business Economics of the United States Department of Commerce and the Dominion Bureau of Statistics participated and the responsibility for progress was rapidly concentrated in these officers, although one further meeting of the whole group was convened.

From 1965 on, continuing detailed comparisons of the two sets of statistics were carried out on a systematic basis. Initially the concentration was largely on capital flows, but with widening discrepancies becoming evident in measures of the current account, the exercise was extended to it as well.

¹ United States Department of Commerce, Bureau of Foreign and Domestic Commerce, Finance and Investment Division. United States Government Printing Office, Washington, 1931.

² Actually J.F. Parkinson, later a senior officer of the Department of Finance. (The report also credits Professor Kenneth W. Taylor of the University of Toronto with suggesting a method of computing United States payments to Canadian railways.)

Current Account

The evolution of the reconciliation of the current account may most easily be described in four phases. The first arose from efforts growing directly out of the Technical Working Group on Canada-United States Balance of Payments Statistics. The second resulted from the work of the United States-Canada Trade Statistics Committee. The third involved the synthesis of both these thrusts. The final phase involved the on-going utilization of the results in current balance of payments estimates.

Phase 1 – The progress made under the Technical Working Group is illustrated in Chart VI.1. As gaps or deficiencies were identified, they were remedied by improved methodology or in some cases by the continuing exchange of data for incorporation in both Canadian and United States sets of estimates. Since Canada had already been exploiting to a greater extent than the United States the use of partner country data, refinements of United States data as a result of the exercise tended to be somewhat larger than in the case of Canada. As an example, Canada had long obtained from United States sources estimates of pension receipts but had not supplied to the United States figures for Canadian pension payments to that country, an item for the estimation of which the United States had no firm basis.

The two major improvements during this phase in the direction of reconciliation were made in mid-1969 and were described in the *Survey of Current Business*³ in the following terms:

“Merchandise exports . . . have been adjusted upwards back to 1946 by adding inland freight charges on shipments to Canada. The Foreign Trade Statistics Regulations of the Census Bureau stipulate that inland freight and insurance charges should be included in the value of the merchandise reported on the Shipper's Export Declaration. A recent sample study of export shipments to Canada made by the Census Bureau revealed that for most of such shipments these charges were not properly reflected in the export values shown on the declarations. On the basis of information obtained from this study and from other sources, a factor was derived by which the reported values on exports to Canada were revised upward.

“Merchandise imports . . . have been revised downward back to 1965 to correct for an overvaluation of assembled vehicles imported from Canada under the provisions of the U.S.-Canadian Automotive Products Trade Act of 1965. Although the values of such vehicles imported from Canada are recorded in the Census Bureau trade statistics in accordance with statutory requirements of the Bureau of Customs – that is, at the Canadian wholesale

(dealer's) price – these values overstate the actual transactions prices charged by the Canadian subsidiaries (the exporters) to their U.S. parent organizations (the importers).”

The identification of these particular problems had very substantial effects which are apparent in the chart. The two together led to reductions in the United States deficit on merchandise trade (adjusted to a balance of payments basis) which by 1968 reached U.S. \$528 million. They shifted the United States perception of their current account position with Canada from a deficit to a surplus. The continuing importance of these two adjustments will be evident from the fact that for 1974 they together aggregated well over \$ 1 billion.

Although these efforts brought the previous estimates of the balance on current account much closer together, there continued to be differences, some explainable, some not. Of those which were explainable, some were a matter of classification of particular transactions within the bilateral balance of payments estimates for Canada and the United States. Others represented differences in geographic classification, notably the treatment by Canada of Puerto Rico and the United States Virgin Islands independently of the United States and the assignment of goods consigned to Canada from the United States but originating in Central or South America to the country of origin. But even when adjustments for these conceptual differences were made, there remained large differences in the current account which could not on the basis of information then available be explained. The reconciliation work carried out at an aggregative level by the Technical Working Group suggested that the problems centred largely around the measures of Canadian imports and United States exports of commodities. While the joint Canada-United States Committee of Senior Officials on the Balance of Payments urged the importance of resolving the problem, the massive volume of trade data to be reviewed and reconciled presented a formidable problem.

Phase 2 – The fears which had led those concerned with the balance of payments in both countries to initiate attempts at reconciliation soon proved well founded. A time of reckoning came with the introduction in August 1971 by the United States of new severe measures to protect its balance of payments. The circumstances have been described by the then United States Ambassador to Canada.⁴

“I will never forget the confrontation between Secretary Connally and Minister Benson at the time of Prime Minister Trudeau's visit to Washington on December 6, 1971. They both discovered that they were talking about two entirely different sets of figures. . . . Incredible

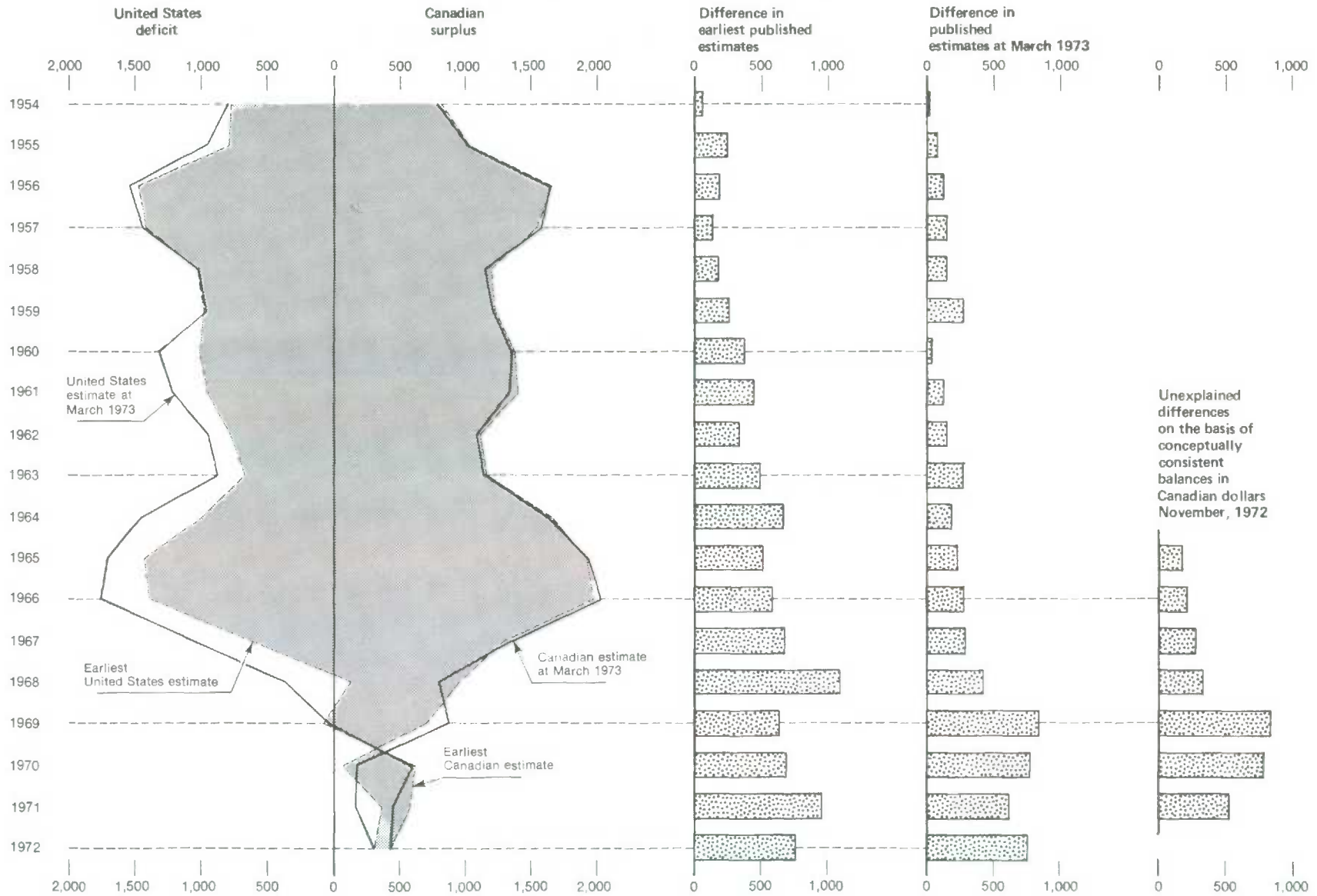
³ United States Department of Commerce. *Survey of Current Business*, June 1969, p. 44, Washington, 1969.

⁴ Adolf W. Schmidt, United States Ambassador to Canada. *Never Friendlier or Never More Hostile? The Canadian Banker*, No. 4, 1973, Toronto, 1973.

Chart VI. 1

Canada-United States Current Account Measures, 1954-1972

(millions of United States dollars)



Note: A consistent set of measures would be reflected in full symmetry when Cdn. \$1.00 equals U.S. \$1.00

as it seems, this situation had been going on for a number of years, but had only recently become an important factor in our imbalance of payments."

The aggregative adjustments of trade data arising from the earlier work had been used only within the context of balance of payments statistics. They were not apparent in the frequent and regular releases of trade data in either country, which were the subject of continuing controversy. Thus in 1971 users of these data for 1970 saw a Canadian trade surplus in United States statistics of U.S. \$2 billion which was almost \$1 billion larger than appeared to users of Canadian trade statistics. The adjusted balance of payments figures for merchandise trade at that time, although bad enough, were only U.S. \$0.5 billion apart, and the measures of the current account balance as a whole were U.S. \$0.8 billion apart.

The situation is well illustrated in Chart VI. 2 (which, however, extends the data to 1973 and also shows the reconciled estimate which was to emerge only later). From the developments of August 1971 came the impetus for a concerted effort by those responsible for trade statistics in the two countries. The centre of reconciliation activity now shifted to the United States-Canada Trade Statistics Committee.

A massive confrontation of trade data ensued. The work in respect of 1970 was begun in December 1971, and completed within a year.⁵ Results of studies in respect of 1971 and 1972 were released in November 1973.⁶ While on-going assimilation of some results into basic trade series was possible from the beginning of 1973, in the absence both of greater detail and of

⁵ *The Reconciliation of U.S.-Canada Trade Statistics, 1970.* A report by the U.S.-Canada Trade Statistics Committee published jointly by the United States Department of Commerce, Bureau of the Census, and by Statistics Canada.

⁶ *The Reconciliation of U.S.-Canada Trade Statistics: 1971 and 1972.* A report by the United States Department of Commerce, Bureau of the Census, and by Statistics Canada. Washington, D.C., December, 1973. Reports for latter years have been published year by year and quarterly reports have been published since the first quarter 1975.

information in respect of sub-annual periods, it was not possible at this stage to introduce the major adjustments which would have been necessary to put currently published figures on the same footing conceptually or in terms of measurement. It was noted that despite the insights into the data revealed by the work, most public attention continued to be focused on the balances as originally published.

A comprehensive reconciliation for 1973 was completed and released in January 1975.⁷ With release of the monthly trade data for April 1975,⁸ estimated aggregates on a balance of payments basis (as described under series A1 and B1) incorporating adjustments based on the reconciliation exercise were introduced. These are currently published by Statistics Canada in the *Daily*⁹ only, but may also be found in the *Bank of Canada Review*, and are available in CANSIM matrix number 30.

The work of reconciliation is an on-going process. The balance of this section illustrates highlights of the findings for 1974 and no attempt is made to go in depth into the material covered in the reports themselves.

The results of the work in respect of 1974 appear in Table VI.1. In interpreting them, it should be borne in mind that the basic trade figures published in the two countries employ conceptual frameworks which differ significantly from the concepts used to arrive at reconciled final figures. The framework used for the reconciliation was chosen as the most practicable approximation to balance of payments principles which could be applied consistently to trade flows. The choice of the conceptual framework significantly affected the level of the agreed measures.

The adjustments shown in Table VI.1 may be summarized roughly as follows:

⁷ *Statistics Canada Information Release*, January 20, 1975.

⁸ *Statistics Canada Daily*, May 23, 1975 (Catalogue 11-001E).

⁹ *Statistics Canada Daily* (Catalogue 11-001E).

Adjustments	Southward flow as published by		Northward flow as published by	
	Canada	United States	Canada	United States
	millions of U.S. dollars			
Data attributed to other countries	+ 53	+ 269	+ 130	-
Data attributed to other types of transactions	- 204	- 69	- 320	- 104
Non-receipt of documents, timing and valuation differences, and errors	+ 470	- 420	- 415	+ 1,306
Total	+ 319	- 220	- 605	+ 1,202

Chart VI. 2

A Comparison of Two Measures of the Canadian Bilateral Trade Balance with the United States, 1965-1973

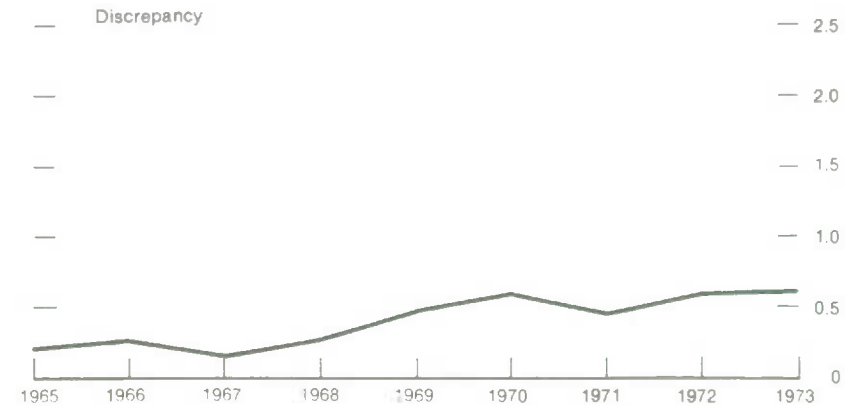
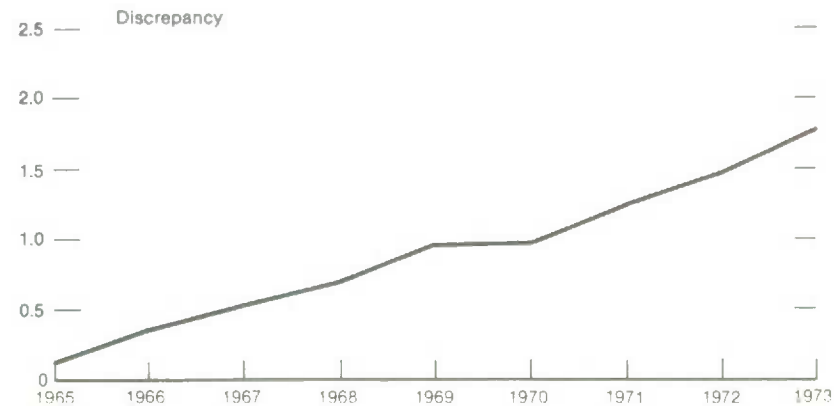
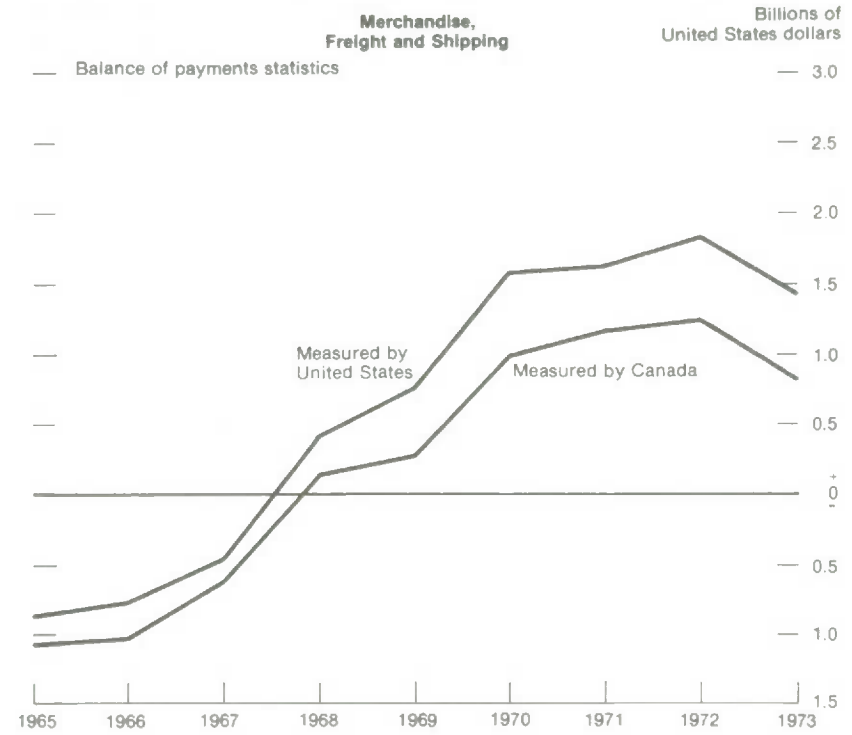


TABLE VI.1. Reconciliation of the Measures of the Trade Flows Between the United States and Canada in 1974

Item	Southward flow as published by		Northward flow as published by		Canadian surplus as published by		Notes
	Canada	United States	Canada	United States	Canada	United States	
	millions of U.S. dollars						
Published totals	21,743	22,282	21,739	19,932	4	2,350	
Adjustments							
Trade definition	- 144	+ 6	- 248	+ 14			Adjustment to harmonize definitions of "merchandise trade transactions". Example of adjustments made to United States statistics for trade definition are deductions of natural gas shipments from Western to Eastern Canada through the United States and of grains shipped to Canadian storage warehouses pending transshipment to overseas countries. Adjustments made to Canadian statistics included deductions of import transactions of a temporary character and for tooling charges included in Canadian import and export figures for motor vehicles and parts.
Valuation	- 20	- 751	- 404	+ 10			Apart from minor inconsistencies in pricing, adjustments reflect differences between the values established for customs duty and transactions values.
Non-receipt of documents	+ 300			+ 1,345			Provides for inclusion of shipments for which statistical documents are not received.
Transportation charges	- 60	- 75	- 72	- 118			Deductions cover identifiable transportation charges included either to the port of exit or to the ultimate destination. (United States export figures are defined to include internal transportation charges.) The conceptual framework to which the figures were reconciled called for valuation f.o.b. point of lading in the exporting country.
Timing	+ 178	+ 158	- 44	+ 6			Adjustment to harmonize time periods covered by published figures.
Errors (net)	+ 10	+ 173	+ 34	- 55			Adjustment for processing or respondent errors discovered during the reconciliation program.
Puerto Rico	+ 53		+ 19				Addition of trade with Puerto Rico to Canadian data for trade with the United States.
Other adjustments	+ 2	+ 269	+ 110				Addition to United States imports of goods of third country origin re-exported from Canada to the United States. (United States import figures generally credit the country of origin.) Addition to Canadian figures of imports credited to a Central or South American country of origin but consigned to Canada from the United States.
Total adjustments	+ 319	- 220	- 604	+ 1,202			
Reconciled totals	22,062		21,134		928		

Note: Each figure is rounded independently.

Statistical problems, apart from those of classification, are revealed to have contributed to a difference of U.S. \$2,611 million in the basic bilateral trade measures of the two countries in 1974.

	Millions of U.S. dollars
Canadian trade surplus:	
As published in Canada	4
As published in United States	2,350
Difference	2,346
Due to geographic classification	- 346
Due to transaction classification	81
Due to non-receipt of documents, timing and valuation differences, and errors . .	2,611

Phase 3 - As the work of the Trade Statistics Committee became available, the balance of payments experts in the two countries again picked up their task of reconciling the current account balances. The implications of the new trade data for merchandise trade and other series as used in the balance of payments had to be determined, and the remaining problems resolved. The results in respect of 1970 were released by the Canadian and United States authorities on March 28, 1973, and in respect of 1971 and 1972 on March 7, 1974.¹⁰ The reconciled data for 1973 were released on February 18, 1975, while the 1974 results appeared on July 23, 1975.¹¹ They are shown in Chart VI.3. A summary of data in respect of 1974 appears in Table VI.2.

The results for 1974, established by the study, indicated a bilateral current account deficit for Canada of U.S. \$1.7 billion. This compares with the Canadian published current account balance which indicated a Canadian deficit of U.S. \$1.6 billion, and with the United States published data which indicated a United States surplus of U.S. \$1.2 billion.

In the Canadian data, the net reconciliation adjustment to 1974 receipts resulted in a rise of \$315 million, largely reflecting increases of \$120 million to merchandise exports and \$430 million to other services which more than offset a reduction of \$230 million in receipts for inland freight. Canadian payments rose \$450 million, comprising net additions of \$85 million to merchandise imports and \$455 million to other services and a net reduction of \$90 million to inland freight.

For reconciliation purposes, the principal adjustments to 1974 published data for United States balance of payments transactions with Canada were as follows:

¹⁰ Reproduced in *The Canadian Balance of International Payments, 1972* (Catalogue 67-201).

¹¹ Reproduced in *The Canadian Balance of International Payments, 1973 and 1974* (Catalogue 67-201).

United States receipts were increased \$925 million as a result of net additions of \$770 million to services, and \$165 million to unilateral transfers, and a net reduction of \$10 million to merchandise exports (including freight charges in the United States and non-monetary gold). United States payments were increased \$490 million, reflecting net additions of \$330 million to services, \$155 million to unilateral transfers, and \$5 million to merchandise imports. (A net addition of \$305 million in non-monetary gold and other goods more than offset a net reduction of \$300 million in freight charges in Canada.)

It should be emphasized that these reconciliation adjustments reflect large classification changes to put the data on a common basis as well as measurement errors.

Phase 4 - With completion of the comprehensive reconciliations for 1973, it became possible to incorporate on an on-going basis within Canadian balance of payments estimates the relevant changes. This work was first reflected in publications in mid-1975¹² with series extended back to 1971. Some were conceptual, some involved measurement, and some reflected changes in area allocations. The more important changes have been referred to elsewhere in this volume.

Thus the situation in respect of current account statistics, which had attracted serious attention for a decade, has been substantially remedied.

Capital Account

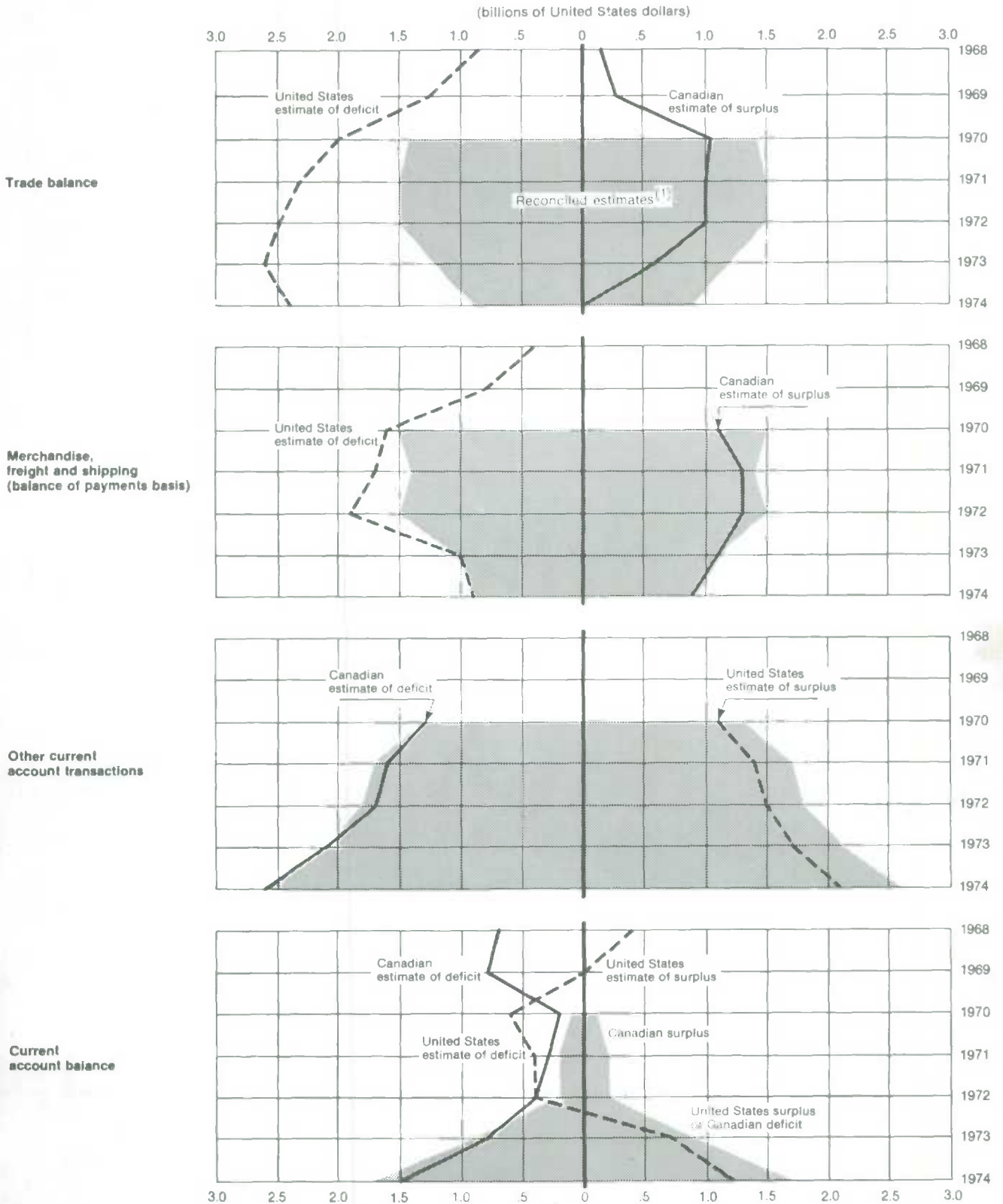
While work on the reconciliation of data for movements of capital between Canada and the United States has not yet reached the stage where agreed figures have been produced, a considerable amount of progress has been made. Differences within individual items which are not yet explainable are in some cases relatively large, but undoubtedly reflect, in part at least, unidentified differences in classification which are offsetting within the capital account as a whole.

Taking capital movements of all types (including official monetary movements), unexplained differences in the years 1965 through 1972, as computed at the time of writing, averaged about \$625 million. The extremes occurred in 1969, when Canadian data in relation to United States data showed an unexplained excess of \$200 million of inflows from the United States, and in 1972 when a difference of about \$1,600 million in the opposite direction was indicated. These startling differences appear, however, to be largely a reflection of the larger problem of errors and omissions in the balance of payments estimates as a whole. As described under series D82 in Part III, the balance of the errors and omissions between Canada and all countries has by convention been shown in Canada with

¹² *Quarterly Estimates of the Canadian Balance of International Payments, First Quarter 1975* (Catalogue 67-001).

Chart VI. 3

Canada-United States Current Account Measures, 1968-1974



(1) Reconciled estimates for upper three sections do not correspond precisely in concept with the national series shown. The conceptual differences are largely offsetting within the current account balance.

TABLE VI.2. Summary of Reconciled Data on Current Account Transactions
Between Canada and the United States, 1974

	Canada			Reconciled data	United States				
	Published data	Reconciliation adjustments			Reconciliation adjustments	Published data			
	billions of Cdn. dollars	billions of U.S. dollars							
Southbound (Canadian receipts)									
Goods and services	25.3	25.8	+ 0.3	26.1	+ 0.3	25.8			
Trade series (customs basis)	21.4	21.9	+ 0.2	22.1	- 0.2	22.3			
Balance of payments adjustments	0.3	0.3	-	-	-	+ 0.4			
Merchandise exports, balance of payments basis	} 21.6	22.1	+ 0.1	{ 22.1	+ 0.3	{			
Non-monetary gold							0.1	-	} 22.7
Inland freight							0.5	- 0.3	
Other services	3.6	3.7	+ 0.2	{ 3.4	+ 0.3	3.1			
Unilateral transfers	0.3	0.3	-	0.3	+ 0.2	0.1 ¹			
Total	25.5	26.1	+ 0.3	26.4	+ 0.5	25.9			
Northbound (Canadian payments)									
Goods and services	26.9	27.5	+ 0.4	27.9	+ 0.8	27.2			
Trade series (customs basis)	21.4	21.8	- 0.7	21.1	+ 1.2	19.9			
Balance of payments adjustments	- 0.7	- 0.7	-	-	-	+ 1.9			
Merchandise imports, balance of payments basis	} 20.6	21.1	+ 0.1	{ 21.1	-	{			
Non-monetary gold							-	-	} 21.8
Inland freight							0.7	-	
Other services	6.3	6.4	+ 0.4	{ 6.1	+ 0.8	5.3			
Unilateral transfers	0.2	0.2	-	0.2	+ 0.2	¹			
Total	27.1	27.7	+ 0.4	28.1	+ 0.9	27.2			
Southbound balances									
Trade series (customs basis)	-	-	+ 1.0	+ 0.9	- 1.4	+ 2.3			
Merchandise balance of payments basis (including non-monetary gold)	1.0	1.0	+ 0.1	+ 1.1	+ 0.2	} - 1.3			
Services	- 2.7	- 2.7	- 0.2	- 2.9	- 0.7				
Unilateral transfers	0.1	0.1	-	+ 0.1	-	0.1			
Current account ²	- 1.5	- 1.6	- 0.1	- 1.7	- 0.4	- 1.2			

¹ Net balance only published.

² Canadian deficit/United States surplus -, Canadian surplus/United States deficit +.

Note: Detail may not add to total because of rounding. Table based on published reports on the reconciliation of Canadian and United States trade and balance of payments statistics. See accompanying text.

capital movements to and from the United States.♦ In the United States on the other hand, errors and omissions are reflected with multilateral settlements and are not considered explicitly in bilateral estimates. If the errors and omissions item is removed from Canadian series for transactions with the United States, the unexplained difference in the totals of capital account transactions from 1965 through 1972 falls to an average of about \$75 million. The range is also greatly reduced, falling between somewhat over \$400 million of Canadian receipts apparently not reflected in United States data in the year 1969 and about \$600 million in the opposite direction in 1970; the proximity of these extremes may indicate a timing difficulty. Parenthetically it may be noted these results might be taken as some support for a view that the errors and omissions balance in Canadian estimates does not relate to transactions with the United States.¹³ The financial relationships existing between Canada and the United States are, however, extensive and pervasive. In the balance of payments estimates of each country there exist large balances of errors and omissions. The relatively close approximation at the aggregative level of the recorded data for capital flows between the two countries cannot confidently be used as evidence of the validation of both estimates, or the conclusion that in each case problems of errors and omissions lie with other countries.

The remainder of this note is devoted to a description of the differences within the principal items of which a summary of the data for 1972 is provided in Table VI.3. While a number of causes have been identified, not all of them have been quantified. The explanations may accordingly apply to identified differences related to classification or data uses, or to the unexplained balance.

Direct investment – The basic definitions of direct investment used in the two countries are similar but the United States series is somewhat broader in concept than the Canadian. In terms of United States direct investment in Canada, the United States statistics are generally intended to cover all investment by United States residents in controlled companies, while the Canadian statistics cover only transactions of a long-term character with principal owners. Among the more important factors contributing to differences in the two sets of statistics are the following:

- Sales of new issues of securities of United States-controlled companies in Canada to unrelated United States residents are considered in the United States statistics as direct investment, but in the Canadian statistics as new security issues and hence as portfolio investment. A similar difference occurs in the case of retirements.

¹³ Since the available reconciled data for the current account had the effect of increasing rather than reducing the errors and omissions balance in the Canadian estimates as a whole, they provided little solace.

- In the United States statistics, receivables, payables, and other short-term items between United States-controlled companies in Canada and their parent companies are included in direct investment. In the Canadian series they are included in direct investment only if they are likely to remain outstanding for more than one year; otherwise they are included with short-term capital. ✓
- There are undoubtedly some instances in which the character of ownership of specific companies (for example, whether or not they are non-resident controlled) is regarded differently in the balance of payments presentations of the two countries. In addition there are probably some differences in treatment in practice of transactions relating to secondary foreign organizations, such as overseas subsidiaries of Canadian subsidiaries of United States corporations.
- In the Canadian statistics transfers of capital in connection with the operations in Canada of United States insurance companies and United States-controlled finance companies usually appear in “other long-term capital movements” or in some instances in short-term capital movements. In the United States statistics such transfers are usually included with direct investment.
- In both countries the usual treatment of profits and losses of unincorporated Canadian branches of United States companies is to show an increase or reduction in the value of the direct investment in the Canadian branches and an increase or reduction in investment income. In the case of profits and losses on branch operations of United States petroleum companies, however, the treatment is different. In the United States statistics these are treated like any other branch operations. In the Canadian statistics, on the other hand, profit and loss entries were not permitted to affect the figures until the individual companies reached an accumulated profit position. (This treatment was based on the view that the losses arose largely from amortization and other write-offs for tax considerations in the United States of which only limited counterparts were found in the financial statements of Canadian corporations.)

Similar considerations apply to the respective United States and Canadian series for Canadian direct investment in the United States.

Comparing series for direct investment in Canada, the Canadian data for the eight years 1965 through 1972 have, with a single exception, shown net receipts not identified anywhere in United States data. Over the period unexplained differences have averaged about \$80 million. In the case of Canadian direct investment in the United States, Canadian data show inexplicably larger capital outflows from Canada in all but one of the eight years, averaging about \$45 million.

TABLE VI.3. Summary of Data on Capital Account Transactions
Between Canada and the United States, 1972

	Published data		Differences	Due to		
	Canada	United States ¹		Classifications	Data	Unexplained
	billions of Cdn. or U.S. dollars					
Current account	- 0.4	0.4	+ 0.8		0.1	0.7 ²
Capital movements:						
Direct investment:						
United States direct investment in Canada . . .	0.6	0.4	- 0.2	0.2		- 0.4
Canadian direct investment abroad	- 0.1	- 0.1	-			
Portfolio security transactions:						
Canadian securities	0.5	0.7	+ 0.2			0.2
United States securities	0.3		- 0.3			- 0.3
Other long-term capital	0.1	0.3 ³	+ 0.2	- 0.1		0.5
Total capital movements in long-term forms	1.3	1.2	- 0.1	0.1		- 0.2
Canadian short-term liabilities		0.4 ³	+ 0.3		- 0.4	0.8
Canadian short-term assets	- 0.1 ⁴	- 0.6 ³	- 0.5	- 0.1		- 0.5
Canadian balance of errors and omissions with all countries	- 1.6	...	+ 1.6			1.6
Total capital movements in short-term forms	- 1.6	- 0.2	+ 1.4	- 0.1	- 0.3	1.8
Total capital movements	- 0.4	1.0	+ 1.3	-	- 0.3	1.6
Multilateral settlements	0.8					
United States balance of errors and omissions with Canada . . . . .	...	- 1.4	- 2.2		0.2	- 2.4

¹ Canadian conventions, i.e., + sign represents net capital inflow to Canada and net capital outflow from United States.

² Prior to reconciliation of current account.

³ Selected to correspond to definitions in use in Canada.

⁴ Includes official monetary movements.

Security transactions – Again the basic concepts employed in the two countries are similar but the treatments of some specific types of transactions are different. The problem of drawing the line between direct investment and new issues of securities has been mentioned above.

In Canada, information on new issues of Canadian securities sold to non-residents and payable in Canadian dollars as well as those payable in United States dollars is obtained on a current basis from investment dealers, chartered banks, various other confidential and public sources, on a less frequent basis from insurance companies, published portfolios, and after some time from many reporting debtors. Information on trade in outstanding securities is obtained on a monthly basis from investment dealers (including foreign investment houses operating in Canada), chartered banks, members of the stock exchanges, and some investment funds and institutions. Estimates of retirements of non-resident holdings of Canadian securities are based on information available on the geographical distribution at the time of the original sale of each security adjusted by an estimate of trade in the outstanding issue during its lifetime. The Canadian statistics may miss some private sales of securities which are placed directly with United States investors by Canadian borrowers without the services of investment dealers operating in Canada. The Canadian statistics pick up only some of the transactions in outstanding securities which are handled for Canadian residents by United States dealers not operating in Canada.

The United States Treasury collects information from United States banks, brokers and dealers on purchases and sales of long-term securities by foreigners. These reports cover transactions in outstanding issues, new issues and redemptions. Data on new issues of securities are estimated independently from information obtained from the Securities Exchange Commission and from the market. Estimates of retirements of United States resident holdings of foreign securities are based on the distribution of securities at time of issue. Trade in outstanding securities is a residual series obtained by deducting new issues and retirements from total purchases and sales and making some further adjustments for official transactions shown elsewhere. There may be some difficulty in identifying purchases by United States residents of new issues of Canadian securities denominated in Canadian dollars; such purchases therefore may be included with trade in outstanding issues. There seems to be one fairly important omission in the United States coverage of securities transactions: no information is received on the sales and purchases of securities handled directly by Canadian brokers and dealers for United States residents.

The Canadian statistics on security transactions are collected in considerable detail. Separate data are obtained for transactions in Government of Canada

securities, both direct and guaranteed, provincial both direct and guaranteed, municipal, railway and other Canadian bonds and stocks, United States bonds and stocks, United Kingdom bonds and stocks, and other foreign bonds and stocks. The United States authorities collect data on trade in securities under five headings: United States Government bonds and notes, other United States bonds, United States corporate stocks, foreign bonds, and foreign stocks. From these statistics it is not possible to segregate trade with Canadian residents in Canadian bonds and stocks from total trade with Canadian residents in all non-United States bonds and stocks.

Two major types of security transactions have been treated differently in the two sets of statistics. In the Canadian statistics foreign branches and agencies of Canadian life insurance companies are treated as non-residents, and Canadian branches and agencies of foreign life insurance companies are treated as residents. In the United States statistics the definitions of residents and non-residents are understood to be comparable, but in practice it is very difficult to identify security transactions of United States branches of Canadian life insurance companies. As a consequence the transactions of these branches may be included with those of their Canadian home offices and treated as trade with non-residents. There would be no comparable entry in the Canadian statistics.

There was also a difference from 1954 through 1964 in the treatment of some Canadian incorporated investment funds which were set up by United States interests to purchase Canadian and other foreign securities. In the Canadian statistics these funds were treated as residents of the United States. When they issued or redeemed shares there was no entry in the Canadian balance of payments, but when they purchased Canadian securities in Canada the transactions were recorded as non-resident purchases of securities. In the United States statistics, on the other hand, these funds were treated as residents of Canada. When they issued shares to United States residents this transaction was included with sales of securities by foreigners, but when the fund then bought Canadian securities no entry was made in the United States balance of payments statistics. If a fund dealt only in Canadian securities the difference in the statistical treatment in the two countries was mainly one of timing, apart from the inclusion in the Canadian statistics of purchases of securities financed through the retention of investment income and capital profits. If a fund sold some of its Canadian security holdings to Canadian residents and bought European securities from European residents the Canadian statistics showed a capital outflow while the United States statistics recorded no capital movement.¹⁴

¹⁴ A further description of these United States "Income Accumulating Funds" will be found under series D30 through D33 in Part III.

In the case of series covering transactions in portfolio Canadian securities, Canadian data in all but one of the eight years show net receipts below the payments reflected in United States data, the average short-fall being about \$100 million. Of this almost half appears to relate to the retirement of maturing Canadian securities, measurement of which from the United States side probably presents particular difficulties. In the case of non-Canadian securities the discrepancy is in the opposite direction. From 1965 through 1967 Canadian data appeared to reflect payments to the United States which were not identifiable as receipts there, but a marked change occurred in 1968 and subsequent years through 1972 when Canadian data showed substantial receipts which could not be identified as payments from the United States side. On average these amounted to about \$110 million per annum.

Comparisons of gross transactions reported in the two countries have been made in respect of 1971 and 1972. The United States data reflect much larger volumes of sales and purchases of Canadian stocks than do Canadian data, and this is also true for Canadian sales of bonds and debentures. (This is rather surprising as the hypothesis might be advanced that Canadian data should be more comprehensive in the case of Canadian securities and United States data more comprehensive in the case of United States securities because of incomplete coverage of the direct dealing in foreign markets of some investors.) On the other hand Canadian repurchases of Canadian bonds and debentures, as seen from Canada, are larger than as seen from the United States. As noted earlier, maturities of Canadian securities seem to be more complete in Canadian than in United States data.

Canadian series for trading in United States stocks, again rather surprisingly, show substantially higher volumes of transactions than are reported in the United States. The reverse is the case in respect of United States non-governmental bonds, where United States data reveal volumes of trading several times those recorded in Canada. The amounts involved are so large as to raise questions as to whether they are not related to the problem of insurance company classification mentioned earlier.

Other long-term capital movements—Canadian statistics have included such items as long-term bank loans, mortgage loans, stretch-out payments under uranium contracts, and transfers of funds by insurance companies. It is understood that transfers of funds by

insurance companies are recorded as direct investment flows in the United States statistics. Canadian data for 1967, 1968, and 1973 include flood control payments under the Columbia River Treaty, which are treated as current payments by the United States (see description under series D48 in Part III). On the other hand progress payments on certain types of major capital equipment are treated as current account transactions by Canada but as capital in the United States.

In five out of the eight years the unexplained differences in respect of this group of transactions indicated net payments by Canada which were not identifiable in United States receipts. The average for all eight years amounted to about \$105 million.

Summary of capital movements in long-term forms—If transactions in long-term capital are considered in total, problems of drawing lines within or between the direct, portfolio, and other long-term capital categories disappear. Because of the offsetting nature of the discrepancies in respect of the groups of transactions described above, the net unexplained discrepancy tends to be relatively small. Canada's average net receipts from transactions in long-term forms fell about \$65 million below the indicated payments by residents of the United States. This situation was prevalent in six of the eight years but in the atypical years the amounts involved were quite substantial.

Capital movements in short-term forms—Comparisons of measures of capital movements in short-term forms are complicated by the different treatments of errors and omissions noted earlier. ♦ In all but one of the eight years examined, the unexplained balances implied net payments by Canada which were not identifiable in United States data, and in the other year the balance was in fact negligible. The annual average approached \$600 million. When, however, the balance of errors and omissions is omitted from the Canadian data, there were four years in which the Canadian unexplained balance was positive and four in which it was negative. The net balance over the eight years averaged less than \$15 million. It has already been noted that there is no way of ascertaining at this stage whether the improvement achieved by disregarding the errors and omissions in Canada's estimates means that they are not appropriate to the United States account or that they have a counterpart in United States source estimates.

Analytic Balances (with Special Emphasis on the "Basic Balance")

The search for useful analytical measures within the structure of the balance of payments has been the subject of much attention and debate.¹⁵

The literature is replete with references to balances of many sorts—overall balances, reserve movements balances, extraordinary financing balances, liquidity balances, autonomous and compensating transactions balances, balances on regular types of transactions, and official settlements balances, to name a few.

¹⁵ A partial list of references appears at the close of this section.

The subject received considerable attention from the Review Committee for Balance of Payments Statistics (the Bernstein Committee) which reported to the United States Bureau of the Budget in April 1965.¹⁶ In its report the Committee indicated that most users of balance of payments statistics who were canvassed offered suggestions about the concept and measurement of surpluses and deficits. Many asked for a simple, clear, straightforward definition of the balance of payments deficit. As one financial writer put it to the Committee: "All I want is one number, with no if's, but's, or maybe's."

The Committee's response is well worth repeating.

To those who yearn for simplicity, our main answer must be a disappointing one. No single number can adequately describe the international position of the United States during any given period. The definition of an international surplus or deficit is an analytical problem rather than an accounting problem. The appropriate focus of analysis will change with changing circumstances and with the nature of the particular problem being analyzed. Data must therefore be compiled and presented in a form that facilitates a wide variety of analyses. Furthermore, useful analysis of the international position is rarely possible on the basis of balance of payments data alone; internal developments and policy objectives here and abroad need also to be taken into account.

The Committee's comment, although placed in the context of the international position of the United States, is no less valid in application to other countries.

Although such measures have not been widely used in Canada, and are not featured in official publications, this note examines the application of the concept of the "basic" balance to the Canadian situation, and provides incidentally a sampling of some of the special transactions which might be taken into consideration in the construction of such a series.

The basic balance has recently been described by the International Monetary Fund in the following terms:

Roughly defined as the balance of current and long-term capital transactions, the basic balance is intended to measure longer-term tendencies in the balance of payments and to show a balance that has not been distorted by fluctuating, easily reversible, or speculative factors.¹⁷

¹⁶ Review Committee for Balance of Payments Statistics (Report to the Bureau of the Budget). *The Balance of Payments Statistics of the United States - A Review and Appraisal*. Washington, 1965.

¹⁷ *Glossary: Terms used in Balance of Payments Analysis* (Part I), IMF Survey, November 12, 1973. A more detailed description appears in paragraphs 161 through 164 of the Fourth Edition of the IMF *Balance of Payments Manual*, published in 1977, subsequent to the writing of this section.

The concept of the basic balance or balance on basic transactions was first adopted by the United States Department of Commerce in its seminal study *The United States in the World Economy*.¹⁸ It included all current transactions and long-term capital movements, and excluded all short-term capital movements, errors and omissions, and gold movements.

In its review of a variety of concepts the Bernstein Committee observed¹⁹ that many economic analysts find it helpful to consider certain classes of international transactions as "basic" and to strike a balance on these transactions to indicate the overall payments position. Balances of this type have been calculated for many countries and have appeared in many statistical presentations.

The Committee recorded as advantages claimed for a balance on "basic" transactions the following:

- it separates transactions that show long-term changes from those that do not;
- it separates transactions that are fairly stable in the short run from those that are volatile and possibly erratic;
- it separates transactions that respond to broad economic forces from those that are either sensitive to short-run changes in credit conditions and in expectations or else respond more or less passively to the balance on all other transactions.

The Committee recognized the importance of analytical distinctions between erratic movements and trends, and between responses to transitory circumstances and responses to broad and pervasive economic forces that change only slowly. But it concluded that these analytical distinctions were matters of degree, not kind, and more important, they could not be made on the basis of standard statistical categories, at least for the United States.

They noted that there had been persistent trends in short-term private capital movements as well as in so-called "basic" transactions, and there had often been large transitory elements in merchandise trade, in other current transactions and in long-term portfolio investments as well as in movements of short-term private capital.

The statistical separation of short-term from long-term capital itself is imperfect, and in the Committee's view of limited analytical significance. Large flows of short-term capital lurk within direct

¹⁸ United States Department of Commerce. *The United States in the World Economy*. Washington, 1943.

¹⁹ Review Committee for Balance of Payments Statistics (Report to the Bureau of the Budget). *The Balance of Payments Statistics of the United States - A Review and Appraisal*. Washington, 1965.

investments and transactions in long-term securities, while credits that are nominally short term may be repeatedly renewed.²⁰

Movements of certain types of short-term capital are often closely related to merchandise trade and to other "basic" transactions which they finance, so that it cannot be said that the two generally respond to different sets of forces.

Finally, the Committee noted the difficulties caused in this type of classification by the existence of major balances of errors and omissions.

In the light of all these complexities, the Committee concluded that the balance on "basic" transactions computed in any standard way is unlikely to provide an analytically useful summary indicator of the overall position, although specialists may find it a helpful partial balance in particular contexts. It implies sharper analytical distinctions between, and greater independence among, particular categories of transactions than exist in the real world. While the primary task of balance of payments analysts is to form judgements about the way in which the underlying situation is developing, these judgements are not greatly facilitated in practice by the use of the balance on "basic" transactions.

Høst-Madsen noted²¹ that in the International Monetary Fund's analysis of developments in world payments, a partial balance is frequently drawn under the name of "basic balance".

"In this context the basic balance usually covers current and long-term capital transactions, from which certain transactions may be eliminated on an ad hoc basis. But it is often difficult, as a practical matter, to know which items to eliminate, and we cannot go very far in that direction without making the analysis cumbersome.

"Another difficulty with this approach is that even the items excluded from the basic balance may have a long-term trend which must be taken into account in the ultimate appraisal of the balance of payments . . . In spite of the inherent difficulties of this approach, a balance of the more basic transactions will often be illuminating. Many of the differences of view as to how surplus or

deficit should be defined have to do with the failure to distinguish clearly between a balance of the more basic transactions and the ultimate balance that should be in equilibrium over the long run."

Kindleberger,²² on the other hand, rejects the basic concept as misleading when applied to the United States since it fails to take account of international financial intermediation between closely joined capital markets.

When a revised presentation of the United States balance of payments was introduced in 1971²³ it was emphasized that no single balance could adequately represent the underlying balance of payments position of the United States. The presentation of a spectrum of balances would permit a more accurate description of the evolving pressures on the dollar and of developments in the United States payments position. For analytical purposes trends in the balances were quite often more significant than their levels.

The new presentation provided for three groups of balances. The second of these groups covered the two central balances - the balance on current account and long-term capital, and the net liquidity balance. The latter is the sum of the balance on current account and long-term capital, plus flows of short-term non-liquid private capital, allocations of SDRs, and errors and omissions. It is financed by changes in liquid claims and liabilities.

The United States experts recognized that there were some special financial transactions (other than changes in non-liquid liabilities to foreign official agencies, which were taken into account), which might legitimately be allowed to affect the balance on current account and long-term capital. For others the situation was more equivocal. However, the conclusion was reached that, because of data inadequacies and conceptual ambiguities, there is no systematic way of organizing the accounts to isolate the influence of these transactions.

They recorded a number of the deficiencies of the balance on current account and long-term capital. Nevertheless, given the need for indicators of underlying trends, it was concluded that a combination of this balance and the net liquidity balance, particularly when they move together, are the best available, although neither is of a theoretical or statistical quality sufficient to carry the weight of being the balance of payments, nor is there a presumption that either should be zero.

²² Charles P. Kindleberger. *Measuring Equilibrium in the Balance of Payments*. Journal of Political Economy, November-December 1969.

²³ David T. Devlin. *The U.S. Balance of Payments: Revised Presentation*. Survey of Current Business, June 1971. United States Department of Commerce, Washington, 1971.

²⁰ It may be noted that in contrast to United States measures of long-term flows, Canadian data exclude from direct investment amounts intended or likely to remain outstanding for one year or less from the date incurred, and include with long-term credits balances intended or likely to remain outstanding for more than one year. But, of course, no such subdivision is possible in respect of transactions in long-term securities by portfolio investors.

²¹ Poul Høst-Madsen. *Balance of Payments: Its Meaning and Uses*. IMF Pamphlet series No. 9, 1967. See also: *Asymmetries Between Balance of Payments Surpluses and Deficits*. IMF Staff Papers, Vol. IX, No. 2, July 1962.

While the series achieved some measure of official recognition, albeit with reservations, it continued to attract severe criticism from some experts, e.g., Edward M. Bernstein, the Chairman of the Review Committee, who expressed criticism in his article, *Fifty Years of U.S. Balance of Payments Statistics*.²⁴

In 1976 an Advisory Committee on the Presentation of (United States) Balance of Payments Statistics concluded that recent developments and difficulties had combined to reduce the economic significance of three major overall balances (including the balance on current account and long-term capital) then being published. It recommended publication, as memorandum items, of the balance on goods and services, the current account, and separate data for transactions in United States official reserve assets and in foreign official assets in the United States (without striking a net balance of the two).²⁵

An inter-agency Committee on Balance of Payments Statistics agreed with all of the recommendations except deletion of the merchandise trade balance and the balance on goods, services and remittances. The Office of Management and the Budget accepted the recommendation that these two partial balances should be published as memorandum items, in addition to those items recommended by the Advisory Committee.²⁶

Possibly these changes can be seen as confirming the words of the 1965 Committee that "the appropriate focus of analysis will change with changing circumstances and with the nature of the particular problem being analyzed".²⁷

This approach is followed by the Fourth Edition of the International Monetary Fund's Balance of Payments Manual which states that, "no statistical measure of payments balance can be used as a substitute for qualitative appraisal in examining the state of an economy's balance of payments, although several balances taken in combination can certainly be helpful in conveying a summary impression of the main elements".²⁸

We turn now to a presentation of specific Canadian data. The first panel of Chart VI.4 shows the current account balance and the balance of capital transactions in long-term forms from 1926 and 1927 respectively to 1974.

²⁴ Edward M. Bernstein, *Fifty Years of U.S. Balance of Payments Statistics*, Survey of Current Business, July 1971. Part II, Anniversary Issue, The Economic Accounts of the United States: Retrospect and Prospect) United States Department of Commerce.

²⁵ Report of the Advisory Committee on the Presentation of Balance of Payments Statistics, *Survey of Current Business*, June 1976, United States Department of Commerce, Washington, 1976.

²⁶ *Ibid.*

²⁷ *Op. cit.*, p. 18.

²⁸ IMF, *Balance of Payments Manual*, Fourth Edition, Washington, 1977.

In examining the results it is necessary to keep in mind some of the special situations which influenced them. From the fall of 1939 until nearly the end of 1951 foreign exchange control existed in Canada. The exchange value of the Canadian dollar floated from the fall of 1950 until mid-1962 and again from mid-1970.

The wartime years were affected not only by the existence of controls, but also by special wartime financial arrangements particularly between Canada and the United States and Canada and the United Kingdom.

The arrangements worked out under the Hyde Park Declaration of April 1941 led to the production in Canada of certain kinds of munitions, strategic materials, aluminum and ships required by the United States. This assisted indirectly in solving the exchange problem which Canada faced arising from enormous purchases of war supplies and other goods in the United States.²⁹ (It may be noted that in February 1918 a similar principle had been accepted in connection with the war of 1914-18.)³⁰

The basic balance with the United Kingdom was, of course, entirely an administrative outcome as various intergovernmental arrangements came into play to provide the Canadian dollar financing required by its allies in the prosecution of the war. The current account balance was determined by the supply and demand conditions of highly organized war economies. Official financing arranged to meet it took a succession of forms. Repatriation by the authorities from the United Kingdom of Canadian securities was prominent from the early days of the war until 1942. During 1940 and 1941 there was a substantial accumulation by the Canadian authorities of sterling; much of this was converted into an interest-free Canadian dollar loan in 1942. Substantial official contributions began with a gift of \$1 billion to the United Kingdom in 1942 followed by mutual aid to meet the sterling area's net deficiency of Canadian dollars.³¹ With only one exception of significance this financing appeared either in the current account or as capital transactions in long-term forms. This exception, covering the accumulation in 1940 and 1941 of sterling, a capital transaction in a short-term form, and its subsequent conversion in 1942 into a long-term loan, stands out noticeably in the Chart VI.4.

²⁹ For a description of the Hyde Park Declaration see: Robert W. Reford, *Merchant of Death? Behind the Headlines*, October 1968. Canadian Institute of International Affairs, Toronto.

Jon B. McLin, *Canada's Changing Defence Policy, 1957-63*, p. 173, Johns Hopkins Press, Baltimore, 1967.

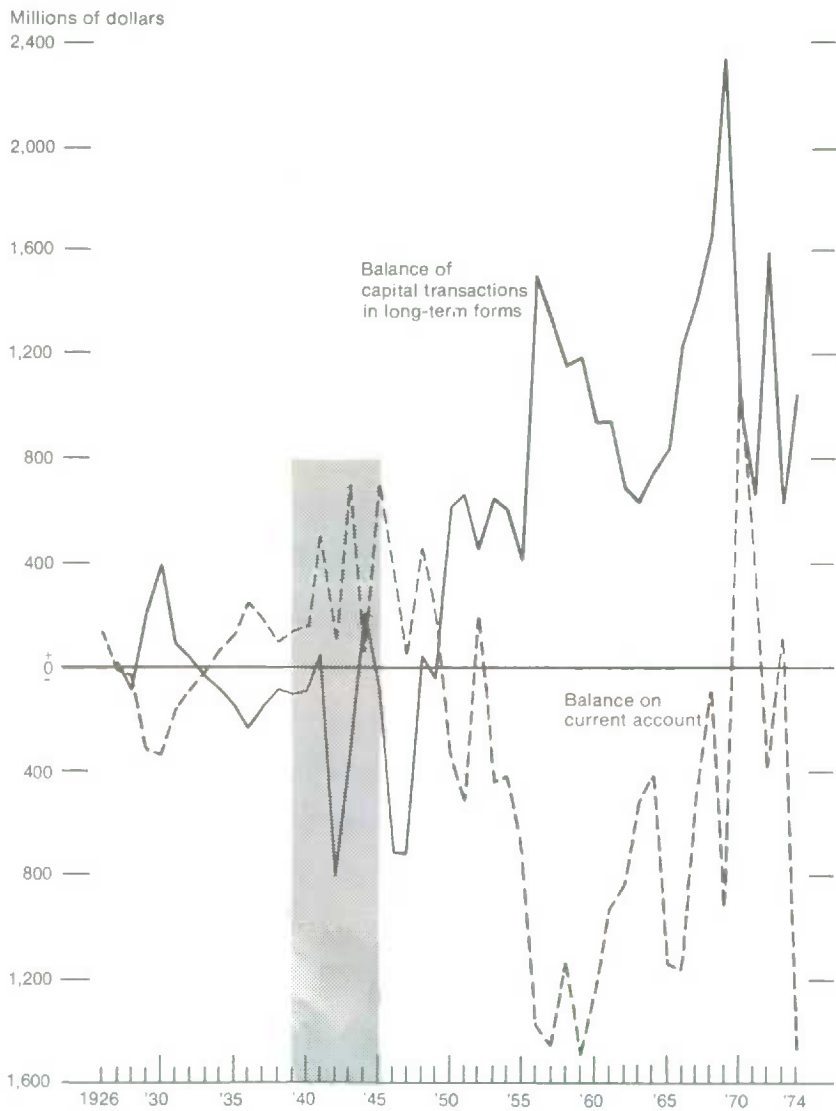
J.W. Pickersgill, *The Mackenzie King Record, Vol. I, 1939-44*, pp. 180-204. University of Toronto Press, Toronto, 1960.

³⁰ Robert Laird Borden: *His Memoirs*, p. 772. The Macmillan Company of Canada Limited, Toronto, 1938.

³¹ For a more detailed analysis of official transactions during this period see Table XVIII in *The Canadian Balance of International Payments, 1925-1948* (Catalogue 57-501).

Chart VI. 4

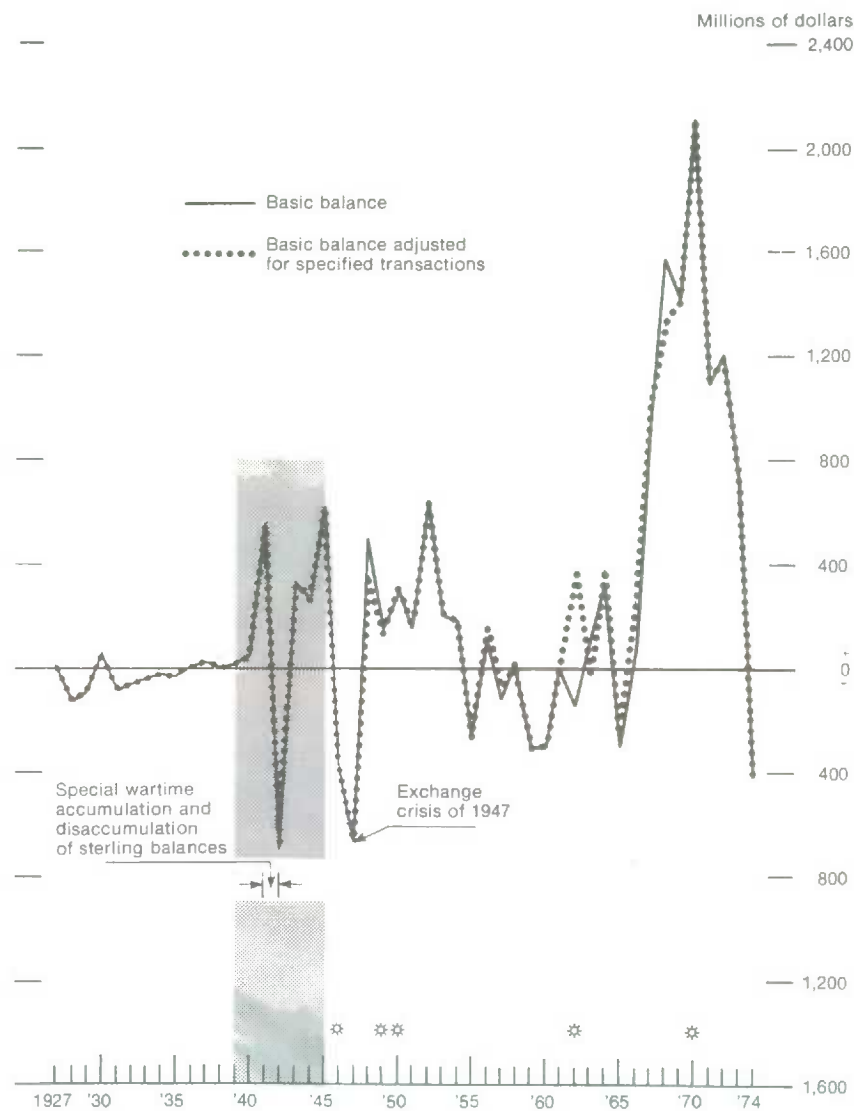
Balances on Current and on Long-Term Capital Accounts, 1926-1974



(1939-45 War)

The Basic Balance, 1927-1974

Balance on current transactions and capital transactions in long-term forms



* July 1946 — official par value of Canadian dollar increased from U.S.\$0.909 to U.S.\$1.00;
 September 1949 — official par value of Canadian dollar decreased from U.S.\$1 to U.S.\$0.909;
 October 1950 — Canadian dollar permitted to float; May 1962 — par value of Canadian dollar officially established as U.S.\$0.925; June 1970 — Canadian dollar permitted to float.

**The Accumulated Basic Balance, 1927-1974
(Adjusted for Specified Transactions)**

Millions of dollars
11,000 —

10,000 —

9,000 —

8,000 —

7,000 —

6,000 —

5,000 —

4,000 —

3,000 —

2,000 —

1,000 —

0 —

1,000 —

1927 '30 '35 '40 '45 '50 '55 '60 '65 '70 '74

**The Accumulated Basic Balance (adjusted)
and Errors and Omissions, 1927-1974**

Millions of dollars
11,000 —

10,000 —

9,000 —

8,000 —

7,000 —

6,000 —

5,000 —

4,000 —

3,000 —

2,000 —

1,000 —

0 —

1,000 —

1927 '30 '35 '40 '45 '50 '55 '60 '65 '70 '74

In the refinement of a series for the basic balance it could be argued that all the special financing should logically be excluded. But this would be a facile treatment indeed, for the transactions which were financed by them were equally special. This is an extreme illustration of the difficulties faced in practice in refining the concept of a basic balance. Given the pervasive special considerations of the wartime period one might well draw the conclusion that the basic balance during this period was largely irrelevant.

In the early postwar years there were similar major programs whose objectives included the viability of the international payments system, and which consequently are not evident in the *ex post facto* balance

on current and long-term capital transactions. Loans in unprecedented amounts to Britain and overseas countries served to provide financing for their current account deficits. And underpinning the whole of the international economic environment in the years which followed was the massive European Recovery Program financed by the United States under the Marshall Plan.

While recognizing such special and pervasive factors, it may be helpful to identify some of the other special transactions in the postwar period which it might be desirable to abstract as abnormal elements from the balance of current and long-term capital transactions:

Year	Transaction ¹	Impact on balance on current account and capital transactions in long-term forms
		millions of dollars
1948	Government of Canada new issue sold in the United States to refinance drawings made from the Export-Import Bank earlier in the year to replenish official holdings of United States dollars	150
1949	Government of Canada new issue of \$99 million sold in the United States for refunding in 1949 and 1950; short-term capital outflow representing year-end balance held in loan proceeds account against 1950 retirements	18
1950	Application of loan proceeds account to retirements	- 18
1956	United Kingdom loan of 1946 - Interest due to Canada deferred by United Kingdom	- 22
1957	United Kingdom loan of 1946 - Interest and principal payments due to Canada deferred by United Kingdom	- 38
1962	Accelerated repayments by France and the Netherlands on loans made by Canada under the Export Credits Insurance Act	92
1962	Government of Canada new issue sold in the United States to replenish official holdings of United States dollars (1962 delivery)	134
1963	Government of Canada new issue sold in the United States in 1962 to replenish official holdings of United States dollars (1963 delivery)	135
1963 - 1969	Principal payments on loans to France and the Netherlands prepaid 1962	- 13 annually
1964	Minister of Finance requested provincial governments to limit use of United States capital market (December)	-
	United Kingdom loan of 1946 - Interest and principal payments due to Canada deferred by United Kingdom	- 38

¹ Transactions below \$5 million are omitted.

Year	Transaction ¹	Impact on balance on current account and capital transactions in long-term forms
millions of dollars		
1965	Minister of Finance withdrew request to provincial governments to limit use of United States capital market (March)	+
	Minister of Finance requested that delivery of new issues of securities negotiated for sale in the United States be deferred until 1966 and that no further offerings should be made there until that year (November)	-
	United Kingdom loan of 1946 - Interest and principal payments due to Canada deferred by United Kingdom	- 37
1966	Special repatriation by the Government of its own securities from the United States to reduce official holdings of United States dollars	- 157
	Special purchase by the Government of securities of the International Bank for Reconstruction and Development to reduce official holdings of United States dollars	- 25
1967	Special repatriation by the Government of its own securities from the United States to reduce official holdings of United States dollars	- 43
	Special purchase by the Government of securities of the International Bank for Reconstruction and Development to reduce official holdings of United States dollars	- 20
1968	Disposal of bonds of International Bank for Reconstruction and Development (replenishment of official holdings of United States dollars)	45
	Government of Canada new issues sold in Germany, Italy and the United States to replenish official holdings of United States dollars (1968 deliveries)	264
	United Kingdom loan of 1946 - Interest and principal payments due to Canada deferred by United Kingdom	- 38
1969	Government of Canada new issues sold abroad in 1968 to replenish official holdings of United States dollars (1969 deliveries)	22

¹ Transactions below \$5 million are omitted.

The selection of special transactions of this nature is inevitably subjective, posing difficulties of the sort identified by the United States experts cited earlier. Questions may arise about the inclusion or exclusion of reversals and other after-effects. Thus there has been shown the after-effect on capital transactions from 1963 through 1969 of prepayments in 1962 by France and the Netherlands of principal on loans by the Government of Canada, but the associated reductions in interest receipts do not appear. On the other hand, in the case

of deferrals of payment by the United Kingdom of interest and principal on the loan of 1946, the after-effects are diffused over such an extended period that it was considered an unnecessary refinement to articulate them.

The list makes no reference to the influence on Canada of the balance of payments programme of the United States. Nor is any specific adjustment made for the Columbia River Treaty. The treatment which

was adopted (as described under series D48) had the effect of spreading the statistical impact on the long-term capital balance over an extended period.

The balance of current and long-term capital transactions adjusted for the quantifiable abnormal elements listed above appears in the second panel of Chart VI.4. On the whole, it will be seen that these particular transactions did not give rise to serious distortions in the series. The foregoing figures are shown on a cumulative basis in the first panel of Chart VI.5. The massive rise shown since 1966 is, of course, largely the counterpart

of the growths both in recorded private and official short-term assets abroad and in the accumulation of balances of errors and omissions (upon which there is some discussion under series D82). To the extent, if any, that the latter reflect understatements of net debits on account of current or long-term capital transactions, the accumulated series would be smaller. But even in the most unlikely event that the whole of the errors and omissions balance was on current and long-term capital account, the series would still show the accumulation within a short span of years of a remarkably large positive balance as indicated by the second panel of Chart VI.5.

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Newfoundland

Before the 1939-45 war transactions between Canada and Newfoundland were treated in the same manner as transactions between Canada and any other country.

From 1940 on Newfoundland was treated for balance of payments purposes substantially as if it were

a part of Canada although, of course, it did not become so politically until 1949.

Although official estimates are not available for the Newfoundland balance of payments, in the typical years before the war the current account balance of Newfoundland with all countries other than Canada,

judging from available data, seems to have been comparable in size and opposite in sign to the current account balance of Newfoundland with Canada.

Newfoundland's banking services had long been provided by Canadian chartered banks. While Newfoundland had been part of a "Canadian dollar area" for many years, the currency aspects of the situation became more significant following the introduction of foreign exchange controls by Canada and Newfoundland. Newfoundland was the only part of the Commonwealth and United Kingdom dependencies, apart from Canada, which did not become a part of the sterling area when its existence was formalized by the introduction of exchange controls in 1939. The recognition of Newfoundland as a part of a Canadian dollar area led in effect to currency arrangements which were not basically dissimilar to what would be expected if the whole area had been one political unit.

Under the arrangements between Canada and Newfoundland the exchange control policies followed were kept in harmony. Foreign currency receipts by residents of Newfoundland were acquired by the Canadian Exchange Fund Account and the foreign exchange requirements of Newfoundland were met from it. Newfoundland had very substantial net receipts of United States funds between 1940 and 1948, but was a small net payer of sterling. The statistical convention applied after 1939 was to include as service receipts from the United States net receipts of United States dollars accruing to Canada's official holdings through transactions of Newfoundland. These rose substantially during the war due to the expenditures of the United States Government on the construction, and subsequent extension and maintenance, of bases in Newfoundland. It would appear that the size of Newfoundland's balance of payments with Canada on current account was of the general order of these net currency settlements entered into the current account.

The effects of sterling transactions were not very great. Net transactions in sterling on Newfoundland account were treated as an item in the capital account. While this might on the surface appear inconsistent with the treatment of United States dollar receipts, the amounts were usually relatively insignificant except when there were substantial capital payments.

When adjusting Canadian trade series for use in the balance of payments Canadian exports to and imports from Newfoundland were, of course, deducted after 1939.

The treatment introduced in 1940 was acceptable because the balance of payments between Canada and Newfoundland was not widely different from that between Newfoundland and the rest of the world,

either before or during the war.³² Under wartime conditions it was particularly difficult to draw up an accurate statement of the Newfoundland balance of payments with Canada because of the close financial and commercial relations between them and the extent of Canadian war expenditures in Newfoundland.

While satisfactory from the balance of payments point of view, the treatment was not logical from the point of view of the national income and expenditure accounts since it implied that Newfoundland was part of the Canadian national income area. Adjustments were made to exports and imports of goods and services for use in gross national expenditure between 1940 and 1948. The net figure included in the miscellaneous current account was eliminated and estimates of Canadian transactions with Newfoundland were substituted. The adjustments are elements of lines 3 and 11 of the reconciliation table of which a summary appears in Appendix 3. The overall effect was comparatively small, in most years except 1942, 1943 and 1947. The data on which the adjustments were based were not satisfactory and the adjustments are accordingly no more than rough approximations.

When union of Newfoundland with Canada occurred on April 1, 1949 the conventions which had previously been applied were no longer necessary. Commodity trade between Canada and Newfoundland was no longer recorded and an adjustment was no longer required. The coverage of transactions between Newfoundland and the rest of the world occurred in part through the normal extension of Canadian administrative procedures to Newfoundland, e.g., customs and immigration, and the integration of the operations of the Foreign Exchange Control Board in Newfoundland with that of Canada. The coverage of other statistical series was accomplished by the extension of survey systems to respondents in Newfoundland. Canadian claims due on, or due to, Newfoundland dropped automatically, of course, from surveys of foreign assets and liabilities.

The entry of Newfoundland into Confederation led to some discontinuity in the totals of Canadian trade as used in the balance of payments. It added to Canada's export balance in 1949 relative to 1948 but it was not possible to quantify accurately the impact of the change.

There were also effects on Canada's international investment position. The earlier omission from the balance of payments of Canadian government construction in Newfoundland had not been illogical insofar as Canada's international investment position went, for the peace time value of some of the assets created

³² Consequently, the Canadian statements for the pre-war period would not likely have been much different if the procedures followed with respect to Newfoundland after the outbreak of war had been in effect.

was doubtful and indeed many of them were subsequently turned over to Newfoundland. The assumption, at the time of union, of the external debt of Newfoundland added \$84 million to holdings of Government of Canada debt in the United Kingdom. Canadian liabilities in respect of other investment in Newfoundland by non-residents rose by something of the order of \$70 million (with a further shift of about \$8 million from the equity of non-residents in Canadian assets abroad to foreign investment in Canada). Substantial Canadian dollar deposit liabilities and some holdings in Newfoundland of Government of Canada debt ceased

to be external liabilities, but they had not previously been included in Canada's international investment position. On the asset side, Canadian direct investments in Newfoundland amounting to about \$25 million ceased to be external assets, but on the other hand, an interest-free Newfoundland loan to the United Kingdom in the amount of \$9 million and some United Kingdom investments held for retirement of debt were added. Overall the effect on statistics of Canada's balance of indebtedness expressed in rounded terms was an increase in gross and net external liabilities of the order of \$0.2 billion.

Some Difficulties in Using the Conceptual Frame

No matter how much thought has been put into the frame for balance of payments statistics there arise from time to time situations which do not fit it comfortably. Such transactions occasion the statistician considerable concern. If the standard format is to be retained, the transactions must somehow be fitted into them. While the statistician will be influenced in part by the concepts as they have been developed intellectually for more normal transactions, he will also wish to examine the practical consequences of fitting the data into a procrustean bed. Thus, in the case of an unusual transaction it is not unlikely that he will try out a range of possibilities. He will examine the results in each case to determine which of them is least likely to be misleading to users. On occasion the impact of a unique transaction on a series has appeared to validate a particular hypothesis, although in fact the user who was aware of the background would know that it did not do so.

Some of the special types of transactions of this nature have already been described with some of the courses of action to which they led. In Part III there was an extended description of the special questions raised by transactions related to the Columbia River Treaty (series D48). The special adjustments required to isolate and reveal official financial assistance were described under series K5. The statistical treatment of gold production available for export during the period when new Canadian gold production passed largely into the hands of the authorities as part of Canada's international reserves was described in Part II (series A3); it represented a modification of the general conceptual frame to take account of the special role of gold.

Military relief - Other situations of an exceptional nature may arise because the ultimate nature of a transaction may not be known when it first appears in the accounts. At the close of World War II some \$80 million of relief supplies were provided to European countries by the Canadian Armed Forces. This military relief was treated as an official contribution. Some years later Canada discussed with recipient countries the settlement of these amounts, and a variety of arrangements were worked out. The settlements in many cases

were substantially less than the amounts of relief originally provided. Settlements in domestic currencies which were to be used locally by Canada were of the order of \$6 million. Somewhat more than \$8 million was received in 1950 in the form of convertible exchange. An arrangement with the Netherlands provided for repayments aggregating nearly \$6 million (plus interest) over a 10-year period beginning in 1952.

The receipts of domestic currencies and their subsequent use were not reflected in balance of payments statements. Convertible exchange which was received was treated as an element of miscellaneous government revenue. (Future repayments from the Netherlands were treated as an external asset in the balance of indebtedness but as the repayments occurred they were taken into the current account.) The treatment of settlements as government revenue was not, of course, consistent with the treatment of the original relief as transfer payments. The amounts, however, were not large. At the time the relief was extended there was no assurance as to the amounts, if any, of it which would be recoverable. A revision half a decade later of the current account for the years at the close of the War would have been an inconvenience for some users, particularly when the complex and tenuous nature of large wartime financing would remain embedded in the data for the period. Accordingly, while conceptually difficult to defend, military relief settlements were treated as service receipts by government.

Continental defence arrangements provide other examples of problems posed at times for the measurement of the balance of payments. In the mid-1950's, for example, an elaborate system of radar stations was erected mainly on Canadian territory. The most southerly, the Pinetree line, was paid for and manned jointly by the United States and Canada. The Mid-Canada Line was entirely manned and paid for by Canada. The Distant Early Warning (DEW) Line, the most northerly, was paid for entirely by the United States Government, which also assumed responsibility for its construction

and operation, although Canadian firms were awarded contracts for its construction and Canadian personnel engaged in its operation.³³

In June 1961 Canada decided to equip the Air Division in Europe with F-104 aircraft, the same plane also to be provided to other NATO members under the United States Mutual Assistance Program. It was agreed that all these should be manufactured in Canada, with the United States placing an order for \$150 million and the Canadian share being \$50 million. Canada agreed to take over from the United States responsibility for operating the Pinetree line. And in return, Canada received 66 F-101 Voodoo jets for the RCAF Defence Command.³⁴

Thus there were imports into Canada of Voodoo aircraft in 1961 and the two subsequent years, part of the consideration for which was an increase in domestic expenditures by the Government of Canada of an indeterminate amount over a period of years (with a corresponding decline of United States government expenditures in Canada). The difficulties of articulating this in any meaningful way within the balance of payments frame were avoided simply by excluding from figures of imports as adjusted for use in the balance of payments the value of the Voodoo aircraft made available to Canada.

The same Voodoos were to appear among balance of payments transactions in 1970 and 1971 when, in consideration of the assumption by Canada of increased financial responsibilities for joint defence arrangements in Canada, the United States provided 66 new aircraft

in exchange for the 58 which remained of those acquired a decade earlier. In the *Trade of Canada* series there was included in imports the net acquisition of eight aircraft. In the balance of payments, adjustments were made to merchandise trade to include the full values of the aircraft exported and of those imported, at values supplied by the Department of National Defence, and the differences between them were included in government receipts from services over the two-year period.

The treatment which was adopted for the balance of payments in respect of these later Voodoo aircraft transactions accordingly differed from that adopted earlier. One factor in determining the treatment may have been that the settlements taking the form of future services were much smaller in the later period and, viewed particularly against the rising levels of transactions, the distorting effect on the totals of their special character was relatively much smaller.

Other items — The statistician also faces a question as to how far accruals of a special nature can usefully be reflected in the balance of payments. Two examples may suffice. The accrual and subsequent funding of interest on interim credits and on advances under the loans made under Part II of the Export Credits Insurance Act were not reflected as a charge in the current account of the balance of payments; further details are described in Part III in series D41. Deferrals by the United Kingdom under the terms of the loans of 1946 made to that country, both of interest and of principal, are not reflected in the balance of payments. Both situations are in effect treated as non-transactions, notwithstanding the fact that in due course they give rise to enlarged interest receipts by this country. (The alternative treatment which was rejected would have been to record receipts of the interest and principal, and new extensions of credit equivalent to their total.) Details of these deferrals will be found above in the earlier section on the basic balance.

³³ James Eayrs. *Canada in World Affairs: October 1955 to June 1957*. pp. 140 and 141. Oxford University Press for the Canadian Institute of International Affairs, Toronto, 1959.

³⁴ Robert W. Reford. *Merchant of Death? Behind the Headlines*, October 1968. Canadian Institute of International Affairs, Toronto.

Richard A. Preston. *Canada in World Affairs: 1959 to 1961*, p. 62. Oxford University Press for the Canadian Institute of International Affairs, Toronto, 1965.

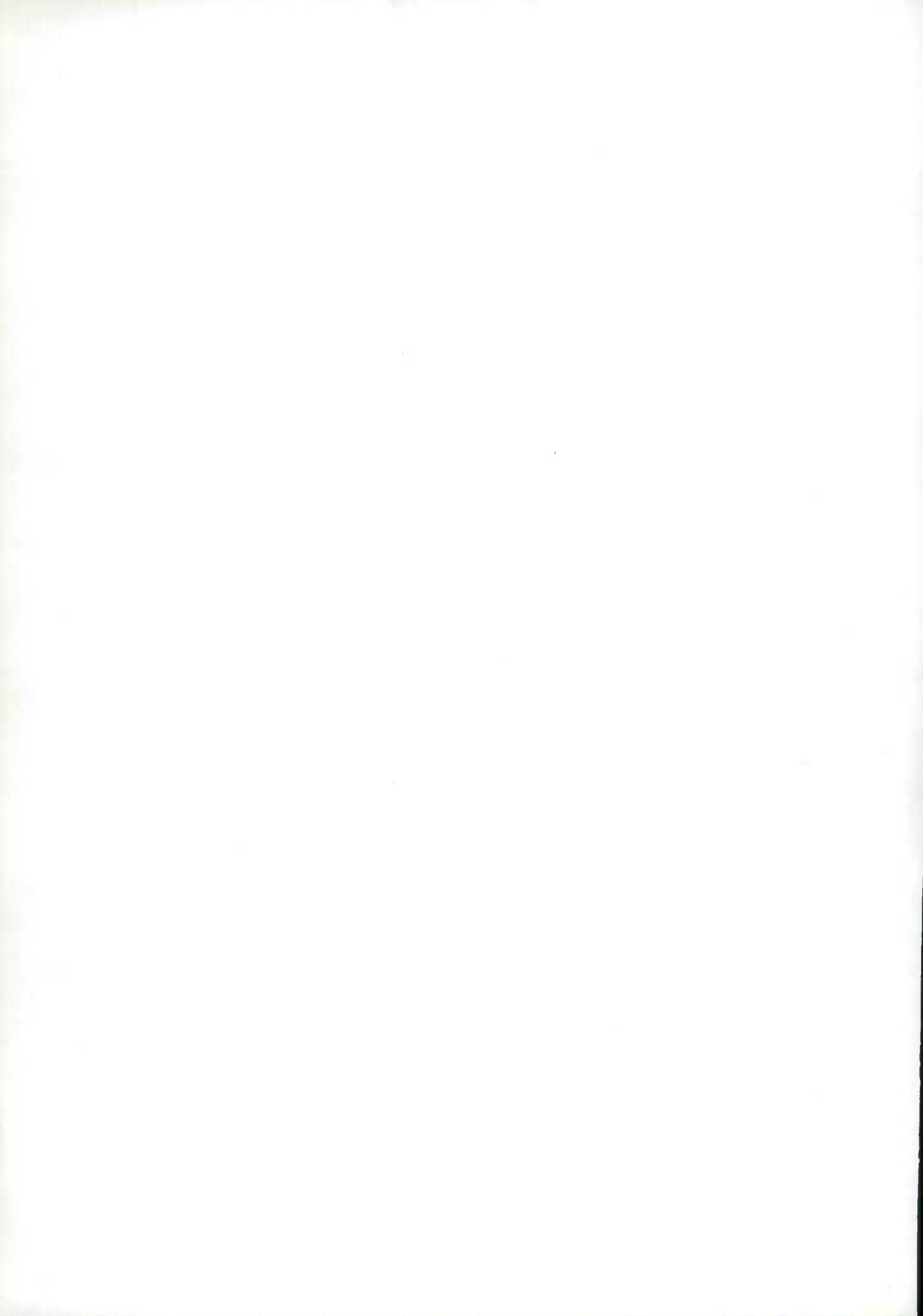
PART VII

MISCELLANEOUS NOTES

LIST OF CONTENTS

This Part includes notes on a variety of statistical points and some supplementary measures which have been used in balance of payments reports:

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Transactions in Foreign Currencies

Variations in exchange rates may affect statistics of the balance of payments in several ways. One of these is their influence on actual economic and financial transactions which should obviously be reflected in the estimates. But others are in the nature of statistical aberrations either through the application, implicitly or otherwise, of different rates to the two sides of a transaction denominated in foreign currency or through the inclusion of revaluations with transactions. This section describes the principles followed in the calculation of Canadian dollar equivalents used in the balance of payments.

It will be recognized that Canadian dollar equivalents of transactions carried out in foreign currency must be established for statistical purposes regardless of whether or not transactions involve Canadian dollars. When entries are based on a record of transactions between residents and foreigners, the transactions value is normally given directly by the basic source. When they are estimated from changes in outstanding claims during the statistical period, adjustments are frequently necessary to arrive at a measure of flows.

The exchange rates most commonly used are those published monthly in the *Bank of Canada Review*. The United States dollar exchange rates refer to rates prevailing on the interbank market in Canada, while rates for other currencies are based on nominal quotations in terms of United States dollars converted into Canadian dollars at noon. Quarterly average noon rates are calculated by the Bank of Canada but are published only in balance of payments publications. The interbank exchange market in Canada comprises only the chartered banks and the Bank of Canada; arbitrage with other exchange markets occurs on an institution-to-institution basis.

The rates accordingly apply to a wholesale market in which large blocks of exchange are traded. The volume is very small in relation to total foreign exchange transactions within the economy, many of which may be netted out within a single bank, or indeed, a single firm.

The monthly noon average is used in the case of ~~long-term~~ capital transactions which are available on a monthly basis, e.g., transactions in outstanding securities reported by respondents for United States dollar accounts or components available monthly in respect of the sale to non-residents on a foreign currency basis of new issues of Canadian securities. Otherwise quarterly noon average rates are applied.

Among series based on records of transactions are those related to merchandise trade. Import documents are, where necessary, converted into Canadian dollar equivalents by the customs authorities at the port

of entry, using daily exchange rates obtained from the Bank of Canada. Although export entries should have been completed in terms of Canadian funds, it became apparent in the early 1960's that many entries failed to distinguish clearly that they were expressed in terms of United States dollars. Systematic efforts were made at that time to ensure that all amounts tabulated were Canadian dollars. Export documents were redesigned in order to specify the currency covered and by the mid-1960's conversions were being carried out by computer application using Bank of Canada monthly rates.

Many other discrete transactions are recorded at the exchange rates which were involved in their consummation. Where this is not known or where an actual currency conversion did not occur, it is the practice to apply an average exchange rate.

Some types of transactions, particularly many movements of short-term capital, can be estimated only from the change in outstanding assets and liabilities over a statistical period. From these changes in stocks, or levels of holdings, estimates of transactions or flows may be derived indirectly, by eliminating those parts that have resulted from changes in exchange rates or other valuation changes. Estimation of flows from changes in the Canadian dollar equivalent of claims in foreign currency involves (1) the reconversion to foreign currency of the opening and closing balances at the rates applicable to them (in the case of short-term claims normally the rate for the balance sheet date), (2) the determination of the change in terms of foreign currency, and (3) the reconversion of this change to a Canadian dollar flow equivalent at the average rate prevailing during the statistical period. (This process is somewhat similar to the procedure whereby the change in the recorded book value of inventory stocks is revalued and converted to the value of the physical change in inventories for use in gross national expenditure.) An example appears in Table VII.1.

When, with the introduction on October 1, 1950 of a floating exchange rate, the Canadian chartered banks began to act as principals in the foreign exchange market in Canada, after an absence since the outbreak in World War II, systematic arrangements were made to eliminate the statistical effects of exchange rate variations in respect of all the major series where they might be relevant. These arrangements were maintained throughout the subsequent period for which an official parity was established and consequently were in place when the Canadian dollar was again floated at the beginning of June 1970.

Similar considerations and processes apply, of course, to calculations of the domestic currency flows for changes in official monetary assets and liabilities used in the estimates. These are always carried out on a monthly rather than a quarterly basis.

**TABLE VII.1. Determination of Flows Expressed in Canadian Dollars
from Changes in Stocks of Foreign Currency Claims
Expressed in Canadian Dollars**

Example

Given:

Opening stock of claims	Cdn. \$10,300
Closing stock of claims.	Cdn. 10,100

Exchange rates:

Opening balance date	U.S. \$1 = Cdn.	1.03
Closing balance date	U.S. 1 = Cdn.	1.00
Daily average noon exchange rate during period	U.S. 1 = Cdn.	1.01

Step 1:

Express stocks in terms of foreign currency:

Opening balance \$10,300 ÷ 1.03	U.S. 10,000
Closing balance \$10,100 ÷ 1.00.	U.S. 10,100

Step 2:

Determine change in terms of United States funds

(\$10,100 - \$10,000)	+ U.S.	100
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Step 3:

Convert change expressed in terms of United States funds (+ \$100) to Canadian funds at average exchange rate (1.01)

	+ Cdn.	101
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Note: Failure to use the value of the change (+ 101) rather than the change in value (\$10,100 - \$10,300 = -\$200) would give rise to a significant error.

At times the conversions leave a nuisance residue if balance of payments flow estimates are accumulated over a succession of periods. Thus, for example, the effects of exchange rate changes on the international assistance extended to Canada in 1962 appear at first to suggest that Canada received \$381 million in the second quarter but repaid only \$377 million in the fourth. These figures in fact cover the receipt and repayment of \$350 million in United States funds.

The description thus far has been developed in terms simply of foreign currency. But there are many currencies with varying relationships to the Canadian dollar which in principle should be treated individually. This has not always proved possible. Generally in such cases it has been the practice to convert stock changes to flow series in terms of relationships to either the United States dollar or the United Kingdom pound. This has meant attributing to other currencies the general relationships pertaining to one or other of these currencies, although direct calculations have been made for large discrete transactions such as bond floatations in continental European currencies, or changes in parities of major world currencies which affected the

value of large deposits. With the instability of many international exchange rates which has been characteristic from 1971 to the time of writing, the procedures are less satisfactory than heretofore. Nevertheless, transactions carried out in Canadian dollars or for which Canadian dollar equivalents are determined on a discrete basis, together with those covered by stock-flow adjustments in respect of United States dollar and sterling claims, represent by far the largest part of Canada's international transactions.

During the period of exchange control prior to the re-establishment of the Canadian chartered banks as principals in the exchange market, there were relatively few problems of conversion. They stemmed mainly from changes in the official parities of major currencies, and it was generally possible to isolate and eliminate the effects because of the very precise information available from the operation of exchange control. During this period when, of course, there was no single interbank exchange rate, official spot rates were established by the Foreign Exchange Control Board in respect of both buying and selling. The margin was initially 1% with the United States dollar being bought at Cdn. \$1.10

and sold at Cdn. \$1.11. The selling rate was reduced in October 1945 to Cdn. \$1.10½ and this margin of one-half cent was maintained through subsequent changes of parity. Since the margin was a domestic cost, statistics of merchandise imports were adjusted for balance of payments purposes to eliminate it. For other transactions requiring discrete conversion, the buying rates were used.

An interesting technical problem related to exchange rate changes arose at the end of September 1950. There had been a very substantial speculative inflow into Canada, much of it taking the form of purchases of outstanding Canadian securities or increases in Canadian dollar deposits of non-residents. Under exchange control arrangements at the time, the foreign exchange arising from these inflows had to be offered for sale to an authorized dealer of the Foreign Exchange Control Board who acquired it as agent for the Exchange Fund Account. At September 30, 1950 there were abnormally large amounts of exchange in transit to the Exchange Fund Account which were not included in reported official holdings of gold and United States dollars on that date. Inclusion of the capital inflows and the rise in official holdings resulting from them would, in the ordinary course of events, have appeared in the fourth quarter of the year. This would have obscured parts both of the pressure which gave rise to abandonment of the fixed parity, and of the subsequent reflux of capital. Accordingly authority was obtained from the Minister of Finance to publish a figure for the change in official holdings of gold and foreign exchange which would include the actual receipts of the Exchange Fund Account plus the spot transactions for which it was committed at the end of the quarter. The particular capital movements which during the period of exchange control until that time had been based on actual receipts by the Exchange Fund Account were correspondingly adjusted.

A further point of difficulty may occur in the construction of balance of payments statements when the authorities are carrying a large forward exchange position with the public at the time of a change in the exchange rate. It is widely recognized that fixed exchange rates provide at times a virtually free option for speculative gains (subject, of course, to the willingness of the authorities to accept spot or forward exchange commitments). Very little is known about the sources of supply and demand in the forward exchange market although the gross amounts involved are at times very large indeed. Positions, if any, assumed by the authorities are overwhelmingly with the banking system and there the trail ends.

In the Canadian situation it has been assumed for statistical purposes that the participants in forward exchange transactions are on balance resident and that the gain or loss which may, for example, be experienced by the authorities as a result of official intervention in the forward market represents a domestic rather than an

international transfer. It does not accordingly appear in statements of the Canadian balance of international payments. (The balance of payments statements of the United Kingdom are in contrast constructed on the assumption that forward exchange gains or losses arising from official intervention in that country accrue to non-residents.)

Basis of Valuations

Estimates of the balance of payments reflect actual transactions values, i.e., the prices at which settlements actually occur, the considerations for which goods, services or claims are exchanged. Some of the rationale for using settlement rather than other prices was developed in the description of series A1 and B1. The process of constructing these values from data originally expressed in foreign currencies has been described in the section immediately above.

Valuations present relatively little difficulty in the construction of the balance of payments. Greater difficulty is presented in the case of valuation practices in the measures of Canada's international investment position as described in Part IV and in the relationship of changes in Canada's international investment position and the related capital flows as they appear in the balance of payments. These have been described in Part I.

In the investment position the basic principle has been to construct estimates on the basis of underlying book values (expressed in terms of Canadian funds). Some ambiguity applies to the term "book value" since the same or exactly equivalent claims may appear at the same time at different book values in a number of sets of accounting records. Wherever in this volume the term "book value" is used it applies to the value of financial claims as they are recorded in the accounts of the debtor. Thus a share of stock of a particular corporation has a book value which is affected neither by the price at which the current holder may have acquired it nor at which he chooses to record it as an asset. The latter value is described in this volume as a "carrying value" and typically bears a close relationship to the investor's cost. It exists quite independently of the book value of the claim or indeed of the carrying values applied by others to exactly similar claims. Another important valuation basis is the market value. But these three do not exhaust the possibilities. There may, for example, be values derived on the basis of the replacement costs of the underlying assets. Values may be derived by capitalizing rates of return. Nominal values may be used in the case of instruments (and will likely approximate closely the maturity value of these instruments). And there may emerge from current study of inflation accounting further types of values based upon the application of specific price indexes. Some of these bases are considered at greater length below.

Inasmuch as statistics of international investments must be built up from accessible material, practical factors circumscribe the basis of their valuation. But some basic criteria of values are desirable to meet some of the purposes of the statistics. Among these is consistency among reporting concerns in order that reasonably coherent statistics may be assembled and comparisons made for the whole field of international investment. Another is the need for a basis which reflects the amount of reinvested earnings as well as other introductions of new capital. It also is desirable to have some semblance to values as understood in the world of business and affairs. The most accessible basis which approaches these criteria are "book" values, i.e., values disclosed by the balance sheets of the concerns in which investment is being measured.

The value used to measure investment is that shown in the balance sheets for the different securities of the companies concerned. In the case of capital stock this is the net worth including both earned and capital surpluses but less deficits which may exist. The resulting value is the total of the assets less specific reserves such as those for deferred taxes, depreciation and depletion and less other liabilities which the company may have. In effect, it is, consequently, a measure of the equity of the shareholders in the depreciated value of the assets. Among the liabilities will be other securities such as funded debt, mortgages, notes, etc., and other claims such as bank loans and intercompany payables. These also are taken into the statistics of foreign investment in Canada when they represent long-term liabilities to non-residents.

It will have been noted that the values used are depreciated values as carried by the companies in their books. Reserves for depreciation and depletion raise many subjective questions. For some purposes values based on replacement costs may be desirable and other purposes may be better served by values based on the original cost. But data for individual companies based on replacement costs are not generally available, whereas depreciated values are available in their accounts. Furthermore, the same factor for depreciation is normally taken into account in profit and loss accounts. Earnings are frequently related to book values. It is important too, that the values appearing in foreign investment statistics should be comparable to corresponding estimates which may be made for the value of Canadian investment. So long as the sources follow a common basis, ratios derived from the two sets of figures should not be misleading.

Some reference should be made to an alternative basis of valuation which has at times been advanced as a desirable measure in international investment — "the market value". But this is a basis which is not normally ascertainable for the important area of direct investments in branches or subsidiary companies where there is no public market for their securities. Even for

the group of investments in marketable securities for which market values may be ascertained, the basis has its shortcomings. Among these is the transitory and variable character of the market and its marginal character, and the lack of stability or reality exhibited at times by market values. Nevertheless to meet some of the interest which may from time to time lie in market values occasional comparisons have been made between market values and book values for some of the group of investments in marketable securities.

Another basis which was used in Canada in the past is a variation of the book value basis. Originally the basic valuation used for foreign investment in Canada until 1943 was the "capital employed" reported under the Census of Industry for all industrial plants and public utilities. Because, however, the data were designed to measure investments in production facilities they had limitations when applied to other purposes. They were not well adapted to some of the large enterprises with assets other than those at the plant, working capital was not well covered, and it was difficult to determine the comparability of data. Investments were not included in years when plants or facilities were not in production. On the other hand the figures included the value of physical assets used but not owned by reporting concerns.¹ Difficulties were experienced in relating geographical distribution of ownership to the capital employed series in order to arrive at the value of foreign ownership. Despite these shortcomings general comparisons of results derived from capital employed and book value sources were not widely different in the aggregate in some years, but certain significant differences did emerge. Furthermore the method could not be applied to Canadian investment abroad.

Throughout the period from 1926 for which official figures are available the "book value" basis has been used in all of the statistics on foreign investment appearing in publications issued after 1939 (and also for the original statistics on British and foreign direct investment in Canada for the years 1936 and 1937). The last publication in which statistics on the "capital employed" basis appeared was *The Canadian Balance of International Payments, A Study of Methods and Results*.²

Another approach sometimes taken to the question of valuations is the capitalization of earnings. But a study of the data on actual earnings and remittances will indicate the shortcomings of an approach of this kind when applied to the question of valuation. Widely differing arrangements and possibilities exist with respect to income to be remitted on various kinds of investments, and the wide variations between earnings

¹ For a more detailed description of these problems, see pp. 64 through 71 of *Fixed Capital Flows and Stocks: Manufacturing - Canada, 1926-1962*, Catalogue 13-522, Occasional, ² Catalogue 67-D-22.

and transfers of income further suggest some of the limitations of this approach. Moreover, international obligations may exist without corresponding income transfers. Studies of income and rates of return on investments constitute separate areas of analysis bearing on the current account of the balance of payments.

Long-term obligations denominated in United States currency have been expressed in Canadian dollars at nominal parity.³ Those issued prior to World War II payable in sterling have been expressed at the rate of £1 equals \$4.86 2/3. Other obligations denominated in foreign currencies have been expressed in terms of Canadian dollars by converting their nominal values at the exchange rates generally typical of the period the indebtedness was incurred. Obligations carrying provisions for payment in more than one currency have been taken at their nominal value in Canadian dollars. The values tend to be generally representative of the original investments insofar as these were made at prices close to the face values converted at nominal parities of exchange.

As a consequence, the totals are free of the sporadic changes which they would undergo if converted at current rates of exchange. The securities appear in statistics of indebtedness without change in value through their lives. Changes in the amounts outstanding accordingly reflect alterations in holdings due to such factors as new issues, retirements, or trading in outstanding securities. While these procedures make for stability in the investment position series over the longer period, they should be borne in mind when data on non-resident bond holdings are considered in relation to market values or to the cost of redeeming obligations. For example, in periods when the United States dollar was at a premium in relation to the Canadian dollar the value of non-resident holdings of United States dollar issues of Canadian debtors continued to be shown at nominal parity although their redemption value was higher. Likewise the relatively small total of British holdings of Canadian sterling issues outstanding from the interwar period has continued to be shown at the original parity although the cost of redemption in terms of Canadian currency has been reduced by the depreciation of sterling.

In contrast to estimates of Canada's foreign liabilities, Canadian investments abroad have been calculated in terms of Canadian dollars generally at rates of exchange prevailing at the date to which the estimate relates. This is because of the necessity of expressing a wide variety of foreign investments in common terms.

³ It may be noted that, under the Articles of Agreement of the International Monetary Fund, Canada has from time to time established par values which differed from U.S. \$1 = Cdn. \$1.

As in the case of foreign investments in Canada, the basis of valuing Canadian direct investments abroad is the book value derived from the balance sheets of the issuing companies abroad. Canadian portfolio investments abroad, too, have been calculated at book values in the case of those stocks of foreign companies whose values could be ascertained. Holdings of foreign bonds are carried at the nominal par values converted from foreign currencies to Canadian dollars at current exchange rates.

While this note has set out the general valuation principles applied in the estimation of Canada's external assets and liabilities, there are exceptions which are described with the specific series in Part IV.

Residency, Non-resident Canadian Companies and Other Special Situations

The definition of residency is a problem which has attracted considerable attention on the part of the developers of statistical standards, whether for the International Monetary Fund in respect of the balance of payments⁴ or the United Nations Statistical Office in respect of the system of national accounts.⁵ No attempt is made here to reproduce their work.

In practice, the options of the statistician are severely constrained by the realities of data collection. This is particularly true of data with respect to individuals, but also applies, as will be seen, to some corporations. In the event, with few exceptions, the perceptions of respondents seem to accord with common sense and the violence to conceptual niceties, though necessarily disturbing, is probably minor for most elements of the balance of payments.

There are some Canadian corporations with special characteristics requiring exceptional statistical treatment, a description of which would probably be helpful to some users. Among companies incorporated in Canada are a number whose role in Canada is purely that of an international intermediary. Their principal characteristics are that they are wholly owned outside Canada and virtually all their assets and operations are located outside Canada. The impact of these companies on the Canadian balance of international payments, and indeed on the Canadian economy, is minimal. Some are in fact recognized as non-residents for particular administrative purposes. In others, the locus of their ownership is such that they do not under existing treaties attract Canadian withholding tax.

⁴ IMF *Balance of Payments Manual*, Third Edition (1961) paragraphs 7-17, 37 and 108.

⁵ United Nations, Department of Economic and Social Affairs, Statistical Office of the United Nations, *A System of National Accounts* (1968), paragraphs 5.95-5.117.

In many cases where withholding tax is payable, it is recoverable through tax offsets in their home country. In nearly all cases they have so organized their affairs that, whether taxable or not, corporation income taxes accruing to Canada are minimal.

Somewhat analogous to these were companies established for the most part many years ago under special tax provisions which are no longer current. These were known as Foreign Business Corporations. They paid only a token tax in Canada in consideration of the fact that they operated exclusively abroad. Where there was no Canadian ownership in them, these companies fell within the type described in earlier paragraphs. Where there was partial or complete Canadian ownership in a Canadian company whose operations were overwhelmingly abroad, this ownership was recorded as portfolio or direct investment abroad as appropriate.

Thus, Canadian companies which have neither activities nor investments in Canada are treated statistically in the balance of payments and elsewhere within the system of national accounts as non-residents of Canada, and only the transactions of Canadian residents with them are ordinarily reflected in the statistics.

It is not surprising that some companies of this nature find it difficult to understand the need for them to supply statistical information. Nevertheless, it has been found desirable to collect some information about them wherever possible. The underlying concern has been two-fold: first, it has been useful to have some feel for the possible contribution of such corporations to asymmetries in bilateral balance of payments statements of the countries concerned. Secondly, there may be some undesirable statistical implications for Canada arising from the nature of the sources employed in the construction of particular aggregative series.

One example of the latter type may suffice. Deposit balances of these corporations, whether held in Canada or abroad, may well be assigned in banking records as those of a Canadian resident. This may occur for a variety of reasons - a mailing address, a name, an association. To the extent that it does, a problem exists. Series D61, D65 or D71 will be inappropriately measured depending on the locus of the deposit and its currency. Ideally an adjustment should be made to correct the appropriate series. But each of these series is available monthly or quarterly, often in considerable detail. Data necessary for the adjustment cannot reasonably be sought or obtained on this basis. The practical alternative which has been adopted has been to create on the basis of available data offsetting flows at annual intervals in accounts payable. (This might be conceptualized as imputing the existence of a resident Canadian branch of the corporation in respect of its deposit balances. But

the question is not conceptual. The treatment represents merely a practical method of coping with a situation where data availability precludes an ideal adjustment.) Identified holdings so treated have at times reached totals close to \$200 million and they are clearly not complete. So long, however, as errors and omissions ♦ are included in the same category as the accounts payable the lack of complete data for the adjustment has no impact on global estimates as published either quarterly or annually.

The description thus far has related to Canadian companies which are treated as non-residents. There exists also a group of hybrid situations in which wholly-owned Canadian subsidiaries of foreign corporations hold, for tax or other administrative reasons, subsidiaries abroad whose operations are not directly related to their Canadian functions. These investments are treated as non-resident owned, and are not included in either Canada's external assets or liabilities. Income flows through Canada to the ultimate parents do not appear in the income account, and if held temporarily in Canada are treated as additional investment from the parent company. If withholding tax accrues to Canada as the result of a flow of income through these channels, it is treated as miscellaneous government revenue rather than as a transfer payment from non-residents arising from income generated in Canada. In the capital account the acquisition of the asset abroad is treated as a return of capital to the parent and consequently cancels out the financing from the parent which typically accompanies such a transaction. The treatment, it will be noted, relates only to situations where there is no direct Canadian interest in the Canadian company, and where activities of the subsidiaries abroad are not directly related to activities in Canada.

There are some other types of Canadian companies which are treated exceptionally in the statistical system as a practical matter. They basically include those companies whose related transactions are fully captured by other survey processes (such as non-resident-owned holding companies administered by trust companies in Canada), or companies which serve only as ownership links in situations where more meaningful statistical results are achieved by treating their subsidiaries as themselves being directly owned abroad.

The investment in Canadian companies operating only abroad in which beneficial Canadian ownership is minor, and in subsidiaries abroad of operating companies wholly owned abroad but whose operations are not directly related to the Canadian activities, is substantial. No recent estimate is available but at the end of 1961 it totalled about \$3 billion, and in one particular year since then the dividends paid by them exceeded the total of all dividend payments arising from foreign investments in Canada. There are some grounds for believing these situations to be less important now than in the past.

TABLE VII.2. Number of Canadian Companies Treated as Non-residents for the Purpose of Balance of Payments Statistics or Excluded for Other Special Reasons from Regular Surveys, 1962

	Number
Foreign business corporations ¹	201
Non-resident-owned investment corporations ¹	156
Other investment and holding companies ²	192
Total	549

¹ Status for income tax purposes.

² These are Canadian corporations treated as non-residents or excluded from regular balance of payments surveys because alternative measures of their investment in Canada were available. (In addition some 1,780 wholly-owned subsidiaries of Canadian companies controlled abroad were covered in the consolidated returns of their parent companies.)

These were not the only investments technically owned by residents which are excluded from the frame of Canadian balance of payments and international investment position statistics. At the end of 1961 nearly \$6 billion of assets were held abroad by Canadian banks and insurance companies in respect of their liabilities to non-residents.

The principle of trying to maintain a sense of reality as the basis of the statistics extends also to the geographic distributions. Where international direct investments are held through financial intermediaries based in particular jurisdictions solely for tax or similar administrative reasons, the related flows and investments are wherever possible attributed to their substantive origin or destination. Problems of geographic distributions are further compounded when investments recorded as being owned in these tax-haven countries belong ultimately to individuals who have taken up residence there, possibly only on a nominal basis.

Reporting and Statistical Units

Basically the reporting and the statistical units⁶ employed in the construction of estimates of the Canadian balance of payments and of Canada's international investment position coincide. Although the questionnaires are directed, of course, to corporations, data are sought generally on a Canadian-consolidated basis, closely approximating the enterprise as described in the following note in this Part (industrial classifications) but excluding that part of an enterprise which may extend outside Canada.

⁶ Reporting level is used to describe the coverage of a specific input, while the statistical unit describes the coverage employed in statistical output.

Since the balance of payments is a statement of flows within which only limited industrial detail is provided, the use of a particular reporting unit or statistical unit has little, if any, effect on the published statistics. The criteria then become the minimization of reporting burdens and of processing costs. In general the enterprise best fits these. It is characteristic of the system, however, that there is sufficient flexibility to accept a number of reports from lower levels within the enterprise when there are good grounds for departing from the general practice, without impairing the quality of the statistical output.

The same general flexibility is applied to reporting of flows by financial intermediaries. Where it suits the convenience of the respondent, these may be reported in respect of individual branches although the normal practice is to seek a consolidated return in respect of the institution as a whole.

While the balance of payments is little affected by the reporting units employed, the industrial detail provided within statistics of the investment position may be greatly affected as will be apparent from Industrial Classifications which follows.

Industrial Classifications

It will have been noted that most of the corporate inputs to estimates of the balance of payments and of Canada's international investment position are made at the enterprise level, or more precisely at the Canadian enterprise level. Enterprises are defined broadly as firms or aggregations of firms under common ownership and financial control:

"The enterprise is a company or family of companies which, as a result of common ownership are controlled or managed by the same interests. . . . The element of common control . . . implies one integrated plan for the allocation of resources among such companies and therefore, usually, a common investment program."⁷

The use of the decision-making and financing level of the organization, cut off of course at the international border, is most meaningful for balance of payments and international investment position statistics, and has in addition the added benefit of economy. Enterprise statistics have not generally, however, been highly developed as yet and no satisfactory and widely accepted standard industrial classification exists for them.

For this reason the records of the Balance of Payments Division have continued to be organized on

⁷ *Standard Industrial Classification Manual, Revised 1970, Catalogue 17-501, p. 8.*

the basis of an early classification system which designates industries according to the chief material components employed, influenced by the character of information available on total investment and by the principal industrial activities of the corporate units from which data are obtained.

This classification has been modified slightly over the years, for example by developing a single classification for all aspects of the petroleum and natural gas industry to take account of its increasing integration. The classification currently in use is shown in Table VII.3.

Table VII.3. Industrial Classifications

General	Subsidiary detail sometimes identified
Government:	
Government of Canada	
Provincial (including enterprises)	
Municipal (including enterprises)	
Manufacturing:	
Vegetable products	Beverages Rubber ¹
Animal products	
Textiles	
Wood and paper products	Pulp and paper
Iron and products	Agricultural machinery Automobiles and parts Transportation equipment, n.o.p. Primary iron and steel
Non-ferrous metals	Electrical apparatus
Non-metallic minerals	
Chemicals and allied products	
Miscellaneous manufactures	
Petroleum and natural gas	
Other mining and smelting	Smelting and refining of non-ferrous native ores
Utilities	Railways
Merchandising	
Financial	Banks, trust, finance, mortgage com- panies, services, brokers, insurance agents
Other enterprises	
Miscellaneous investments	Canadian securities held through intermediaries Mortgages on Canadian real estate Real estate in Canada Columbia River Treaty Other

¹ The continuing inclusion of the rubber industry with vegetable products is of course no longer appropriate, and represents one of the difficulties in the classification occasioned by technological change.

The classification applied by Canada is a more detailed industrial distribution than is used for similar statistics in most other industrialized countries. Its retention has largely preserved historical continuity in the investment position statistics back to 1926. Nevertheless the classification has been the subject of a considerable amount of criticism. There is no doubt that a more useful classification could be devised. The costs of shifting would, however, be substantial and it has been felt that they should be deferred until such time as enterprise statistics generally are better

developed and standard classifications produced. Some of the criticism of the present classification rests upon a mistaken belief that if the same Standard Industrial Classification were employed for data compiled on an enterprise, company or establishment basis, there would be no problem of comparability. That this is not the case will be evident from Table VII.4, which it should be noted represents an understatement of the problem since the extent of offsetting cross-classifications is not revealed.

TABLE VII.4. Value Added by Manufacture in All Canadian Manufacturing Establishments Embraced within Foreign-controlled Enterprises having Long-term Capital Employed in Canada of \$1 Million or More, 1961

Industry group	Classified by		Ratio enterprise/ establishment
	Enterprise	Establishment	
	millions of dollars		
Vegetable products	623	624	1.00
Animal products	97	94 ¹	1.03
Textiles	79	134	0.59
Wood and paper products	477	525	0.91
Iron and products	1,113	1,074	1.04
Non-ferrous metals	567	870	0.65
Non-metallic minerals	118	369	0.32
Chemicals and allied products	505	494	1.02
Miscellaneous manufactures	58	83 ¹	0.70
Sub-total, manufacturing enterprises	3,637	4,267	0.85
Manufacturing activity within other enterprises ²	630		
Total	4,267	4,267	1.00

¹ An amount of \$7 million or less is attributed to miscellaneous manufactures rather than animal products for reasons of confidentiality.

² Mainly petroleum and natural gas, and mining and smelting.

Source: *The Canadian Balance of International Payments, 1963, 1964 and 1965 and International Investment Position* (Catalogue 67-201), Tables XVII-C, XVII-D, XX-C and XX-E.

As a result of the use of the enterprise as the statistical unit, and consequently of Canadian consolidations of data inputs, the entire investment in Canada of a corporation together with its subsidiaries is normally attributed to their principal activity. Moreover a company established to provide facilities for a particular enterprise is normally classified with it. These two principles have far reaching effects on figures for some industrial sub-divisions.

As an example of the first, railway subsidiaries established by mining companies, primarily to provide transportation of their output, are included as investment in the category **Other mining and smelting** in preference to the railway category.

Under the second principle, companies established in connection with the leaseback of service station properties are shown with **Petroleum and natural gas,**

and companies established to provide specific chain or department store properties are included with **Merchandising.**

These examples may serve to alert the careful user to the necessity of applying to the data his own knowledge of the corporate structure and output characteristic of enterprises engaged in the particular group in which he may be interested. The direct comparison of industrial statistics compiled on the basis of establishments, the normally accepted industrial concept, and financial statistics for corporations or enterprises classified industrially, is not defensible. The complexities of industrial organization are such that it would be impracticable to identify here all the potential points of difficulty which may lie in each industrial sub-division, but the principles given above, together with the following comment on particular categories and on the major exceptions to these principles, should be helpful.

Petroleum and natural gas taken as a whole is treated as one industry because of the typically high level of integration and of the nature of the statistical sources available. Thus there are grouped together enterprises whose primary activity may be refining (manufacturing), exploration and development (mining), pipelines, tankers, and other transportation facilities (utilities), and wholesale and retail distribution (merchandising). The group includes some important petrochemical activities. These components of the petroleum and natural gas industry are, of course, all excluded from the categories in which they might otherwise have appeared.

This treatment for petroleum and natural gas applies to all series from 1954, and also to United States direct investment flows to Canada from 1946 and to investment position data for foreign investment in Canada for 1930, 1945, 1951 and 1953. Previously the petroleum and natural gas had been distributed over a number of categories:

Manufacturing of non-metallic minerals	Lubricating oil and greases Petroleum refining
Mining and smelting	Exploration and production
Utilities	Transportation by ship and pipeline (including gas distribution)
Merchandising	Distributors
Other	Drilling enterprises

The **Manufacturing** category as a whole includes substantial investment devoted to non-manufacturing activities such as the production of power for use within the enterprise or even for sale, transportation facilities, merchandising, etc. And within the finer sub-divisions investment attributed to one heading may include substantial amounts more relevant to some other manufacturing activity because of the product mix of the enterprise.

The **Mining and smelting** category is limited to native ores, the smelting of alumina, for example, being included with manufacturing. It has already been noted that the category includes ancillary transportation investments, but excludes petroleum and natural gas.

The separate **Railways** category covers investments in the whole range of activity by the principal railways, including their investments in rolling stock production and maintenance, ships, airlines, trucking, hotels, telegraphs, etc. But railway investments in mining companies have been transferred to the mining and smelting group. The railway category, it should be noted, always includes foreign investment in funded debt of the Canadian National Railways and provincial railways. This treatment has its roots deep in Canadian history and in the original financing abroad of some of the undertakings.

The same treatment has not, however, been generally applied throughout the statistics to other categories of public enterprises, and the substantial foreign investment in their debentures guaranteed by provinces and municipalities is included with investment in government securities.

Some special comment is appropriate in respect of the category of **Other utilities** when used in aggregative statistics embracing Canadian as well as foreign capital and in the ratios of foreign ownership and control. In these, exceptionally, the foreign investment includes ownership of the debentures associated with public enterprises in these fields. The category includes electric power production and distribution, telephone, radio and television (except for the international service of the Canadian Broadcasting Corporation), airlines, shipping and trucking not included with railways, international bridges and tunnels, ferries, local transit systems, etc., whether public or private enterprises. Other items such as street lighting systems, waterworks, highways (including toll highways), local bridges, canals, in which private enterprise has not normally been associated, are excluded.

The same general principles apply to other categories of the aggregative series. Public enterprises such as Atomic Energy of Canada Limited, Polysar Limited, National Film Board, Eldorado Nuclear Limited, and the Northern Ontario Pipe Line Crown Corporation (during its life), as well as similar undertakings by other levels of government, are included in appropriate industrial groups.

Returning to the general classifications, the **Merchandising** category includes enterprises engaged primarily in that field, and embraces both wholesaling and retailing. It ranges from great enterprises whose activities extend also into manufacturing, real estate ownership, and financing, to small distributing branches in Canada of foreign corporations. But even some of the latter may engage in assembly operations. The category excludes, of course, a great range of merchandising activity carried out by other enterprises, particularly those classified as manufacturing and as petroleum and natural gas. In the tables which cover also Canadian investment, the totals are founded on less satisfactory data than for other sectors because of the multiplicity of Canadian firms involved and the significant part represented by non-corporate enterprises which has had to be estimated.

The **Financial** category includes not only banks, trust companies, insurance companies and other institutions providing financial services, but also real estate and holding companies except, as has been indicated earlier, those which are associated with investment and management in a particular industrial sector.

The category of **Other enterprises** covers a wide variety of activities including logging, engineering

services, construction, film distribution, entertainment, advertising, hotel operation, cartage, shipping agents, stevedoring, geophysical services, etc.

There is also a sizeable foreign investment in forms (or through intermediaries) which preclude inclusion with the basic statistics classified industrially, and which is accordingly shown in a category of **Miscellaneous investments** described in Part IV.

In contrast to foreign investment in Canada, direct investment abroad by Canadian enterprises has been classified industrially on the basis of the principal industrial activities of each reporting corporate or non-corporate unit abroad. Thus, a Canadian enterprise coded to the mining industry may, for example, be shown to have direct investments abroad in manufacturing or financial industries. Due to disclosure problems, the variety of industrial classifications applied to these investments is somewhat restricted. However, in recent years, the amount of industrial detail published has tended to increase as the numbers and value of direct investments abroad have risen.

Industry and Sector Balances of Payments

Although from time to time there is interest in the balance of payments of a particular sector or industry with the rest of the world, it is generally of a specialized and *ad hoc* nature. While the insights gained from such analysis may be of assistance in the development of negotiating positions or in the identification of major structural changes in a country's balance of payments, the construction of sectoral or industrial balance of payments statements involves severe statistical problems. In a primary sense these derive from the extensive data needs which may be generated, e.g., from whom - to whom classification of trade data. Further difficulties stem from the role of domestic intermediaries in international trade. And a complete assessment of a sector balance of payments would call for a full and detailed analysis along input-output lines. Apart from the statistical difficulties involved, there unfortunately exists in such analysis a danger that the achievement of balances with respect to particular sectors or industries might be assumed to be a generally desirable goal of economic policy. For these reasons continuing analysis of this sort has not ordinarily been undertaken.

A special case, however, exists with respect to the Canada-United States automotive agreement, and the available data, suitably qualified, have been published, annually since the 1965-70 issue of *The Canadian Balance of International Payments*.⁸

Largely as a by-product of the common reporting system for the International Monetary Fund and the

Organisation for Economic Co-operation and Development, a summary of capital movements by sector assets and liabilities is produced annually as shown in Table VII.5.

Area Distributions

Area distributions of a country's balance of international payments are found to have a number of uses. From a broad analytical point of view, it will be recognized that a country's balance of payments is influenced not only by developments and conditions within it. Movements in the balance of payments must often be related to developments within trading partners, for which regional or country distributions are necessary. Important though this is for *ex post facto* analysis, it is even more significant in attempts to forecast the future course of the country's international payments.

Bilateral balance of payments often play a part in international economic and financial negotiations. While the logic of the introduction into negotiations of bilateral as distinct from multilateral considerations may sometimes be disputed, their role cannot be ignored in practice.

When establishing area classifications a number of considerations may arise. From what has been said above a country will obviously find it useful to identify separately international transactions with its principal trading partners. Other useful groupings of countries may be identified. Examples would be economic or political grouping (e.g., the European Economic Community, and the Commonwealth), centrally planned economies, currency areas (e.g., the sterling area), or groupings by state of development (e.g., developing countries).

In determining groupings the statistician must take into consideration the various interests which have been mentioned above, but must also face up to a number of constraints. A change in geographical classifications creates a discontinuity which may seriously impair the value of the statistical series for many users. Some stability is essential. At the same time the statistician must not retain indefinitely a classification whose significance has been eroded by changing circumstances. His options to publish a wide variety of classifications will also be limited. These limitations arise in part from the burdens on respondents which might be engendered in obtaining a large number of series classified separately for a large number of countries. While computer capability would permit the easy manipulation of these data, costly inputs would need to be obtained. Even for the limited number of geographic regions in respect of which data are presently published, it is frequently necessary to make rough and ready allocations. Another equally serious constraint lies in the confidentiality provisions of the Statistics Act. Publication of extensive

⁸ Catalogue 67-201.

TABLE VII.5. Capital Movements¹ Between Canada and Other Countries, 1966 - 74

Summary by Sector Assets and Liabilities

Sector ²	1966	1967	1968	1969	1970	1971	1972	1973P	1974P
	billions of dollars								
Capital movements affecting Canada's external assets									
Private:									
Long term	- 0.3	- 0.5	- 0.7	- 0.2	- 0.4	- 0.2	- 0.2	- 0.8	- 0.8
Short term	- 0.2	- 0.1	- 0.2	- 1.3	- 0.5	- 1.8	- 1.8	- 1.3	+ 0.5
Columbia River Treaty transactions	-	-	-	-	-	-	-	-	-
Banking ³	- 0.2	- 0.6	- 0.9	- 2.1	- 1.4	+ 0.4	- 1.2	- 3.9	- 1.5
Provincial and municipal governments	-	-	-	-	-	-	-	-	-
Government of Canada	- 0.1	-	-	- 0.1	- 0.1	- 0.3	- 0.5	- 0.4	- 0.7
Total	- 0.8	- 1.2	- 1.8	- 3.7	- 2.4	- 1.9	- 3.7	- 6.4	- 2.5
Capital movements affecting Canada's external liabilities									
Private:									
Long term	+ 1.5	+ 1.1	+ 1.6	+ 1.7	+ 1.1	+ 0.8	+ 1.1	+ 1.1	+ 0.8
Short term	+ 0.3	- 0.5	- 0.7	+ 0.3	+ 0.4	+ 0.1	-	+ 0.5	+ 1.1
Columbia River Treaty transactions . . . . .	...	-	+ 0.1	...	...	...	...	...	...
Banking ³	- 0.3	+ 0.3	+ 0.6	+ 1.7	+ 1.2	+ 1.0	+ 1.9	+ 3.7	+ 0.4
Provincial and municipal governments	+ 0.4	+ 0.8	+ 0.5	+ 1.0	+ 0.4	+ 0.3	+ 1.2	+ 0.6	+ 1.7
Government of Canada	- 0.3	-	+ 0.3	-	- 0.3	-	+ 0.2	-	-
Total	+ 1.6	+ 1.7	+ 2.2	+ 4.7	+ 2.8	+ 2.2	+ 4.4	+ 5.9	+ 4.2
Capital movements affecting Canada's net external liabilities									
Private:									
Long term	+ 1.1	+ 0.6	+ 0.8	+ 1.5	+ 0.7	+ 0.6	+ 0.9	+ 0.3	-
Short term	+ 0.1	- 0.6	- 0.9	- 1.0	- 0.1	- 1.7	- 1.8	- 0.8	+ 1.6
Columbia River Treaty transactions	-	-	+ 0.1	-	-	-	-	-	-
Banking ³	- 0.5	- 0.4	- 0.3	- 0.4	- 0.2	+ 1.4	+ 0.7	- 0.2	- 0.9
Provincial and municipal governments	+ 0.4	+ 0.8	+ 0.5	+ 1.0	+ 0.4	+ 0.3	+ 1.2	+ 0.6	+ 1.7
Government of Canada	- 0.4	-	+ 0.3	- 0.1	- 0.4	- 0.3	- 0.3	- 0.4	- 0.7
Total	+ 0.8	+ 0.5	+ 0.4	+ 1.0	+ 0.4	+ 0.3	+ 0.7	- 0.5	+ 1.7

¹ Excludes allocations of Special Drawing Rights and changes in Canada's net official monetary assets. A minus sign indicates an outflow of capital from Canada and a corresponding increase in Canada's external assets or a decrease in external liabilities.

² Columbia River Treaty transactions are shown separately because of their special character. (See the description under series D48, Columbia River Treaty, in Part III.) Funded debt of government enterprises is included with the appropriate government sector.

³ Data for the banking sector include both Canadian and foreign currency items. Because of the existence of substantial foreign currency claims on and by other residents of Canada, the net change bears no relationship to the foreign currency position of the banking system.

Note: Data as published in the annual report Catalogue 67-201 for 1973-1974.

As figures are individually rounded, totals do not necessarily equal the sum of their component parts.

geographical classifications is sometimes precluded as it would result in disclosure of the affairs of a single respondent. Similarly, the provision of a number of different classifications, each of which is in itself legal, may between them result in improper disclosure.

Fortunately in many cases where it is not possible to provide full detail of the balance of payments with a particular country, the needs of users may be served adequately by data covering merchandise transactions. As noted in the descriptions of series A I and B I in Part II, a vast amount of geographical and commodity detail in respect of Canada's international trade is available in publications of the External Trade Division of Statistics Canada.

Balance of Payments

Regional distributions used in the principal balance of payments statements may conveniently be divided into four periods: 1926-37, 1938-45, 1946-72, and 1973 forward.

1926-37 - Regional balance of payments estimates for the years 1926 through 1937 are available only for:

United Kingdom

United States

All other countries.

1938-45 - From 1938 through 1945 estimates were made for:

United Kingdom

Other Commonwealth countries

United States

Other countries.

Capital account transactions for these years are distinguished only between those with Commonwealth and those with other countries. (These groupings were carried on to 1948 but the years from 1946 were subsequently revised only on the basis of the new classification.)

1946-72 - Principal classifications - From 1946 through 1972 the regional distribution employed was as follows:

United States

excluding Puerto Rico, the United States Virgin Islands and goods of Central and South American origin consigned from the United States until 1971 (revision of 1975), but including gold production available for export and net movements of official monetary holdings of gold until

the end of the first quarter of 1968; the rationale for allocating these gold transactions to the bilateral account with the United States is set out under series A3 in Part II and K4 in Part III. Errors and omissions balances have been wholly allocated to the United States account since the end of 1952 as described under series D82 in Part III.

United Kingdom

Rest of Sterling Area⁹ comprised the countries of:

- the Commonwealth
- United Kingdom dependencies
- Burma (from 1948-66)
- Iceland
- Iraq (until 1959)
- Ireland
- Jordan (except for a period in 1948-49)
- Kuwait
- Libya (from 1952-71)
- Rhodesia (until 1965)
- Republic of South Africa
- People's Republic of Yemen.

Other OECD countries in Europe

comprises:

- Austria
- Belgium and Luxembourg
- Denmark together with Greenland
- Federal Republic of Germany

⁹ The Sterling Area ("Scheduled Territories" in the nomenclature of the United Kingdom exchange control) comprised, in addition to the United Kingdom, Australia, State of Bahrain, Barbados, Botswana, Ceylon, Cyprus, Fiji, The Gambia, Ghana, Guyana, Iceland, India, Irish Republic, Jamaica, Hashemite Kingdom of Jordan, Kenya, State of Kuwait, Lesotho, Malawi, Malaysia, Malta, Mauritius, New Zealand, Nigeria, Pakistan, State of Qatar, Western Samoa, Sierra Leone, Singapore, South Africa, South-West Africa (Namibia), Swaziland, Tanzania, Tonga, Trinidad and Tobago, Uganda, People's Democratic Republic of Yemen, and Zambia, together with all British Dominions, Protectorates, Protected States, and Trust Territories not previously mentioned. It excluded Canada and Rhodesia. The Maldives, Nauru and Oman were administratively treated as being within the Sterling Area. Bangladesh was listed as a separate Sterling Area territory with effect from February 11, 1972. (International Monetary Fund, *Twenty-third Annual Report on Exchange Restrictions*, 1972, p. 436.)

CHART VII.1. Geographical Work Sheet Used by the Balance of Payments Division Before 1973

Page 1	DEVELOPED COUNTRIES								
	United States I	United Kingdom II	OECD Europe III				South Africa (sterling) IV	Australia and New Zealand (sterling) V	Japan VI
			EEC a	EFTA b	Iceland and Ireland (sterling) c	Finland d			

Page 2	LESS DEVELOPED COUNTRIES - Concluded						
	Non-sterling area VIII						
	Caribbean a	Other Western Hemisphere b	Western Europe (OECD) c	Africa d	Middle East e	Asia f	Oceania g

Page 3	Developed countries I - VI	Less developed countries VII and VIII	Centrally planned IX	International and unallocated X	TOTAL
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CHART VII.1. Geographical Work Sheet Used by the Balance of Payments Division Before 1973

LESS DEVELOPED COUNTRIES

Sterling area

VII

Caribbean a	Other Western Hemisphere b	Western Europe c	Africa d	Middle East e	Asia f	Oceania g
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CENTRALLY PLANNED

INTERNATIONAL AND UNALLOCATED

IX

X

GRAND TOTAL

U.S.S.R. a	Yugoslavia b	Other Eastern Europe c	Asia d	International financial agencies a	BIS b	UN c	Unallocated d	
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United States
I

United Kingdom
II

OECD
IIIa - IIIc and IIIc

Sterling
IIIc, IV, V and VIIa - VIIg

Other
VI, IX, X, VIIa and VIIb, VIIIc - VIIIg

TOTAL

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CHART VII.2. Geographical Work Sheet Used by the Balance of Payments Division from 1973

Page 1	OECD						
	United States, including Puerto Rico and United States Virgin Islands	United Kingdom	Other EEC	Japan	Greece, Spain and Turkey	Other OECD Europe	Australia and New Zealand
	D 1	D 2	D 3	D 5	L 7	D 4	D 6

Page 2	DEVELOPED COUNTRIES						
	United States, including Puerto Rico and United States Virgin Islands	United Kingdom	Other EEC ¹	Other OECD Europe ² (excluding Greece, Spain and Turkey)	Japan	Australia and New Zealand	South Africa
	D 1	D 2	D 3	D 4	D 5	D 6	D 7

¹ Belgium-Luxembourg, Denmark, France, Germany (FR), Ireland, Italy and the Netherlands.

² Austria, Finland, Iceland, Norway, Portugal, Sweden and Switzerland.

³ The Netherlands Antilles, Trinidad and Tobago and Venezuela.

Page 3	CENTRALLY PLANNED				INTERNATIONAL FINANCIAL AGENCIES			
	U.S.S.R.	Yugoslavia	Other Europe ¹	Other Asia ²				
	C 1	C 2	C 3	C 4	F 1	F 2	F 3	F 4

¹ Albania, Bulgaria, Czechoslovakia, Germany (East), Hungary, Poland and Romania.

CHART VII.2. Geographical Work Sheet Used by the Balance of Payments Division from 1973

OTHER							
Other America	South Africa	Other Africa	Other Asia and Middle East (including centrally planned countries)	Other Europe (including centrally planned countries)	Australasia (excluding Australia and New Zealand)	International and unallocated	TOTAL
L 1 and L 2	D 7	L 3 and L 4	L 5, L 6 and C 4	L 8 and C 1 - C 3	L 9	F 1 - F 4, G 1 and U 1	

LESS DEVELOPED COUNTRIES								
Other America		Other Africa		Other Asia and Middle East		Greece, Spain and Turkey (OECD)	Other Europe ⁶	Australasia
Oil producing countries ³	Other	Oil producing countries ⁴	Other	Oil producing countries ⁵	Other			
L 1	L 2	L 3	L 4	L 5	L 6	L 7	L 8	L 9

⁴ Algeria, the Libyan Arab Republic and Nigeria.

⁵ Iran, Iraq, Kuwait, Saudi Arabia, Bahrain, Oman, Qatar, the United Arab Emirates and Indonesia.

⁶ Cyprus, Gibraltar and Malta.

GOLD	UNALLOCATED	TOTAL	Developed countries	Less developed countries	Centrally planned	International and unallocated
G 1	U 1		D 1 - D 7	L 1 - L 9	C 1 - C 4	F 1 - F 4 and U 4

² China Mainland, North Korea, North Vietnam and Outer Mongolia.

Other OECD countries
in Europe
- Concluded

comprises:
Finland (from January
1969)
France
Greece
Italy
Netherlands
Norway
Portugal
Spain
Sweden
Switzerland
Turkey.

OECD countries in Europe which are not included are the United Kingdom, which appears separately, and Iceland and Ireland, which are included with Rest of Sterling Area, and Yugoslavia which is not a full member. Other OECD members outside Europe are the United States, Australia (since June 1971), Japan (since April 1964), New Zealand (since June 1973), and, of course, Canada. Prior to 1962 this group formed the Organisation for European Economic Co-operation in which Canada and the United States held only associate memberships.

All other

covers all other countries and also international financial agencies (unless expressly excluded). International financial agencies covers the International Bank for Reconstruction and Development, the International Monetary Fund, International Finance Corporation, the International Development Corporation, and corresponding regional institutions. Commencing with the second quarter of 1968 movements in official holdings of monetary gold have been included in this group.

When these groupings were established the United States and the United Kingdom were Canada's largest trading partners, the Sterling Area was a significant group in international payments arrangements, and the OECD countries in Europe (and the predecessor OEEC) represented the association of the principal beneficiaries, apart from the United Kingdom, of the European Recovery Program, within which was generated the general move towards European economic unity.

The effects on the statistics of the union of Newfoundland with Canada in 1949 have been described in Part VI.

Other balance of payments classifications - Other groupings were used through parts of the 1946-72 period.

The IMF-OECD common reporting system for Regional Balance of Payments employed a distribution comprising, apart from Canada, the following:

United States

United Kingdom

European Economic Community (Belgium and Luxembourg, France, the Federal Republic of Germany, Italy and the Netherlands)

Greece, Spain and Turkey

Other OECD Europe (Austria, Denmark, Finland, Iceland, Ireland, Norway, Portugal, Sweden, Switzerland)

Japan

Australia, New Zealand and South Africa

Sino-Soviet area (Albania, Bulgaria, Czechoslovakia, China Mainland, Germany (Soviet occupation zone), Hungary, North Korea, North Vietnam, Outer Mongolia, Poland, Romania, and the U.S.S.R.)

Other countries

International institutions including regional institutions

Unallocated.

It was not possible for Canada to supply full details in respect of each of these areas. An example of the return appears in Appendix 6.

Another regional grouping was maintained over much of this period for the distribution of the international flow of long-term capital and central government transfer payments. This comprised:

Developed countries:

United States

OECD Europe, n.e.s.

Japan

Other

Developing countries:

Greece, Spain and Turkey

Africa

Asia

Latin America

Oceania

Centrally planned economies:

- U.S.S.R.
- Yugoslavia
- Other Europe
- Asia

International institutions

Unallocated.

Other OECD countries¹¹

Other¹²

It should be noted that publication of some items (G and K) in regional statements is delayed to avoid disclosure of the distribution of net official monetary movements until tabling in the House of Commons by the Minister of Finance of the Annual Report on Operations of the Exchange Fund Account.

A sample of this report will also be found in Appendix 6.

These do not complete the full array of geographical information obtained or sought for balance of payments and related purposes. There is, for example, a more detailed classification employed in the exchange of certain information between members of the Bank for International Settlements.

Part V dealing with the survey system reveals the limited provision for the geographical allocation of data, and suggests the varying degrees of arbitrariness required in respect of many types of transactions. In some cases transactions are allocated by reference to investment position questionnaires which reveal the geographical bases of parent companies. In other cases, where there occur particularly large transactions whose appropriate allocation is unclear, specific direct inquiries are made.

1973 -- The principal regional classification used in Canada's balance of payments established in the years immediately following the 1939-45 war served for more than a quarter of a century. But its value was gradually eroded by developments during the period. The emergence of the European Economic Community and the growth in importance internationally of the Japanese economy suggested that these should appear separately. At the same time the declining importance of the sterling area as a group made it no longer essential to preserve its identity as a primary group.

Accordingly at the beginning of 1973 the following new classification was introduced to replace that in use since 1945; unfortunately where changes in classification are involved it has not been possible to reconstruct earlier estimates on these bases.

United States¹⁰

United Kingdom

European Economic Community, except United Kingdom

Japan

¹⁰ Including Puerto Rico and the United States Virgin Islands.

Charts VII.1 and VII.2 provide examples of the worksheet distributions used in the later stages of compiling some items. Tenable numbers cannot currently be produced on these bases for all items of the current and capital accounts.

International Investment Position

The distribution of Canada's international investment position is both more and less easy than that of balance of payments transactions. Where direct investments are involved and the parent company can be traced, as is usually the case, the principal limitation lies in the protection of confidential data. Tables 4 and 17 in *Canada's International Investment Position, 1968-1970*¹³ are examples of fairly extended geographical distributions. These have been considerably enlarged in recent years when the growth in the number of enterprises involved has reduced the constraint of preserving confidentiality. Unfortunately, the measurement of portfolio capital investment (described in Part IV) is not possible with the same degree of detail. Generally speaking, therefore, it has been necessary to confine the distributions of portfolio capital and of total investment to the three broad groups: the United States, the United Kingdom and All other.

Seasonal Adjustment

Seasonal adjustment involves removing the seasonal variations from the raw data. The residual movement in a seasonally adjusted series is attributable only to the trend, the cycle and the irregulars. Traditionally, the decomposition of a time series into its components: trend (T), cycle (C), seasonal variations (S) and irregular fluctuations (I) has been done either by the ratio to moving averages technique (assuming a multiplicative relationship) or by the difference to moving averages technique (assuming an additive relationship). Six years of data are generally required for satisfactory seasonal adjustment.

¹¹ Including New Zealand (which formally acceded to the OECD in May 1973) but excluding Yugoslavia which is not a full member.

¹² Including international and regional financial agencies.

¹³ Catalogue 67-202.

The method most widely applied for seasonal adjustment is the quarterly program of the United States Bureau of the Census Method II-X-11 variant. This program also provides summary measures on the relative contributions of components to fluctuations in the original series.

Current account transactions – As there is a pronounced seasonal pattern in many current account series it is useful to seasonally adjust them. The current account of the balance of payments is available quarterly on a seasonally adjusted basis from 1946, with separate series for:

Receipts	Payments
Goods and services:	
Merchandise exports (balance of payments basis)	Merchandise imports (balance of payments basis)
Gold production available for export ¹	...
Travel	Travel
Interest and dividends	Interest and dividends
Freight and shipping	Freight and shipping
Other service receipts	Other service payments
...	Withholding tax
Transfers:	
Inheritances and migrants' funds	Inheritances and migrants' funds
Withholding tax	...
...	Official contributions

¹ This series was terminated from the second quarter 1968.

The level of seasonality in the series on personal and institutional remittances has been found insufficient to warrant seasonally adjusted series.

The current data sources for seasonally adjusted series are listed below. The adjustment for seasonal variations of exports and imports of goods and services was originally carried out in the present Gross National Product Division. After this responsibility was assumed by the Balance of Payments Division in 1966, the results of the computer adjustment were modified by hand. In 1968, the historical series were re-constructed back to 1946 mostly on the basis of the multiplicative version of the X-11 program.

In 1969 the External Trade Division began to produce seasonally adjusted *Trade of Canada* series. Following a period of separate production of seasonally adjusted data by the External Trade and Balance of Pay-

ments Divisions it was decided to integrate, back to 1969, the *Trade of Canada* series into the balance of payments estimates. This was done by taking for balance of payments purposes the seasonally adjusted *Trade of Canada* series on a quarterly basis and adding the balance of payments adjustments to trade (seasonally adjusted when appropriate).

In 1975 it was decided to produce and publish monthly trade statistics on a balance of payments basis. Initially this involved the direct seasonal adjustment of the balance of payments series (i.e., a similar method to that existing prior to 1969 for the quarterly data). In 1977 this was replaced by the method of adding the "raw" balance of payments adjustments to the monthly seasonally adjusted customs basis series. The series on this basis was taken back to 1971.

In regard to other current account items, more discerning tests became available in 1975 which indicated that, for almost all of these items, changing from multiplicative to the additive seasonal adjustment technique would provide significantly better seasonally adjusted series. The series were revised back to 1971 on this basis. Interest and dividends are seasonally adjusted separately and then aggregated while the remaining series are seasonally adjusted without disaggregation.

The X-11 program forecasts seasonal factors one year ahead for use in adjustment of current months or quarters. It has been the practice to revise each current account series seasonally at least twice a year. Once when preparing estimates for the quarterly bulletin in which revisions are made to figures for previous years (currently the first quarter), and secondly when preparing the bulletin for the fourth quarter. At that time new seasonal adjustment factors for the whole of the current year are derived.

A number of current account series, such as travel receipts, are characterized by wide seasonal amplitudes or extreme irregulars. Where it is possible to identify and qualify the extreme, it is subtracted from the unadjusted series and later added back to the adjusted series.

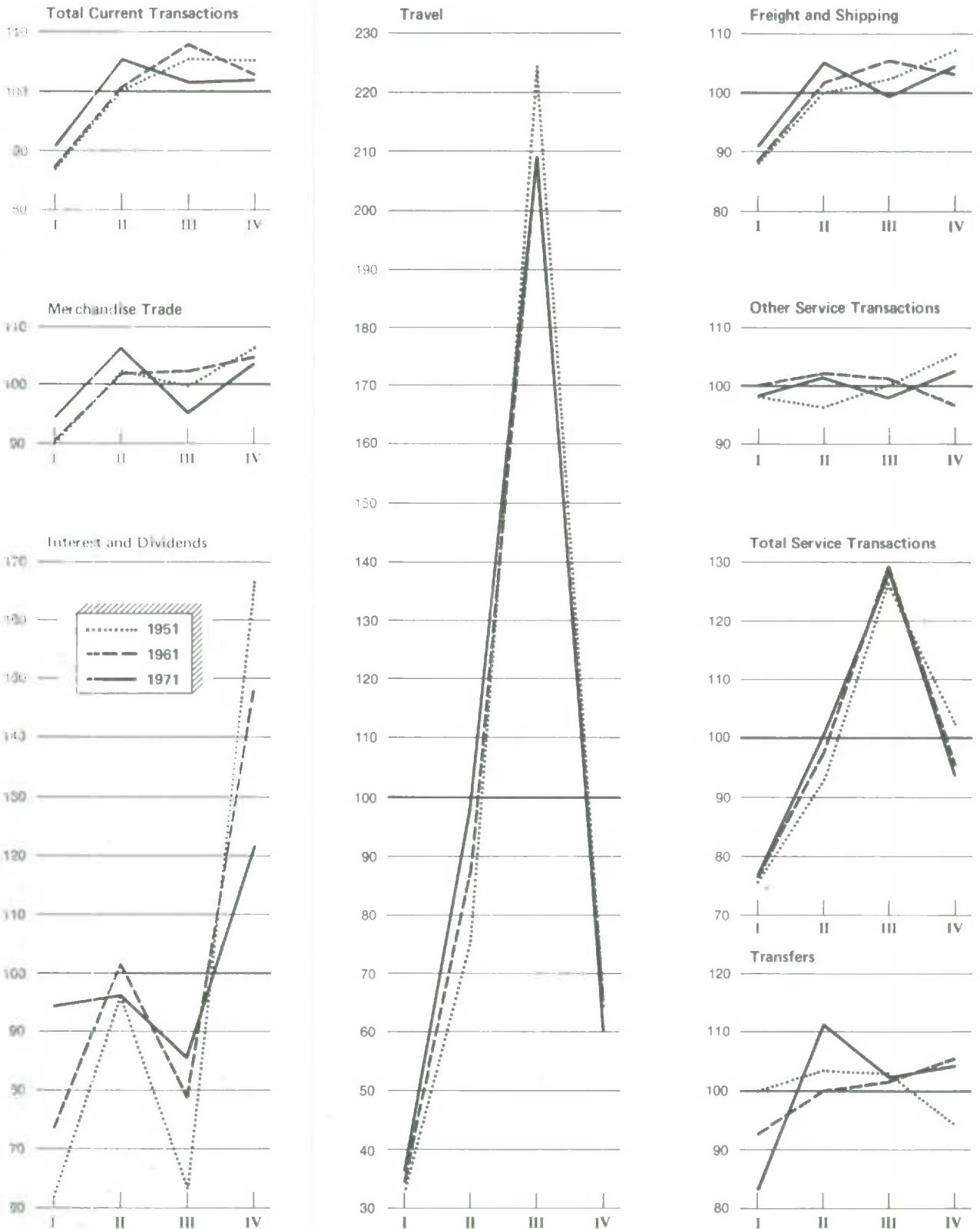
Charts VII.3 and VII.4 show the seasonal patterns of the main elements of the current account in 1951, 1961, and 1971. The relatively close correspondence in pattern and amplitude of the series for merchandise trade and for total current transactions reflects of course the great weight of international trade in merchandise.

The current data sources are as follows:

For 1946-66, Table 5 of *The Canadian Balance of International Payments, 1965 to 1970* (Catalogue 67-201). This table excludes the withholding tax series which are, however, available from 1947 seasonally adjusted at annual rates in Table 16 of the *National Income and Expenditure Accounts, Historical Quarterly Tables* (Catalogue 13-533).

Chart VII. 3
Quarterly Patterns of Principal Current Account Series, 1951, 1961 and 1971⁽¹⁾

RECEIPTS

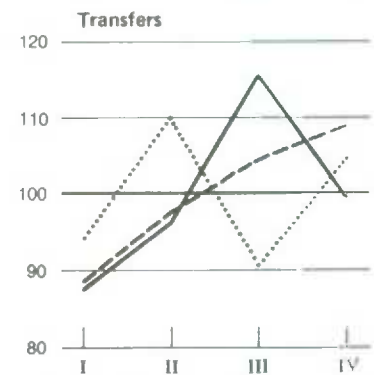
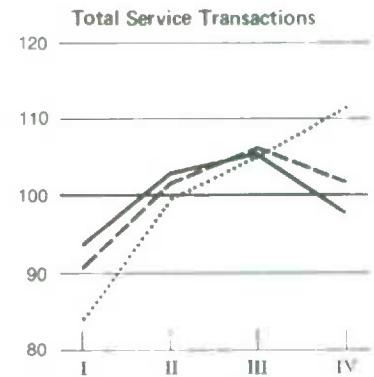
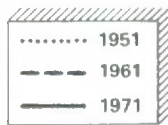
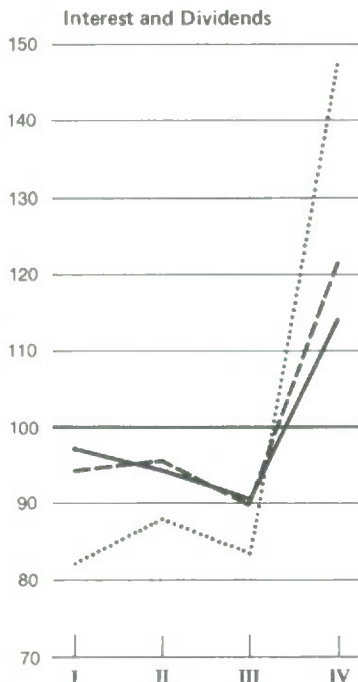
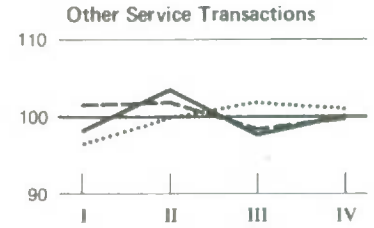
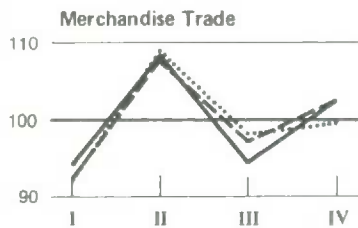
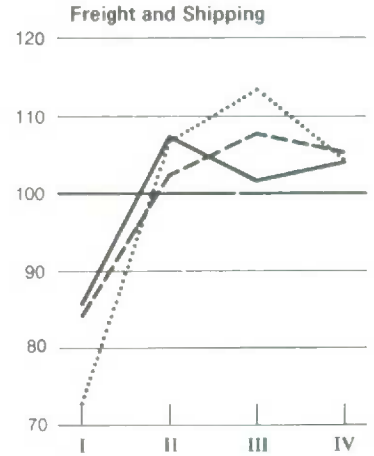
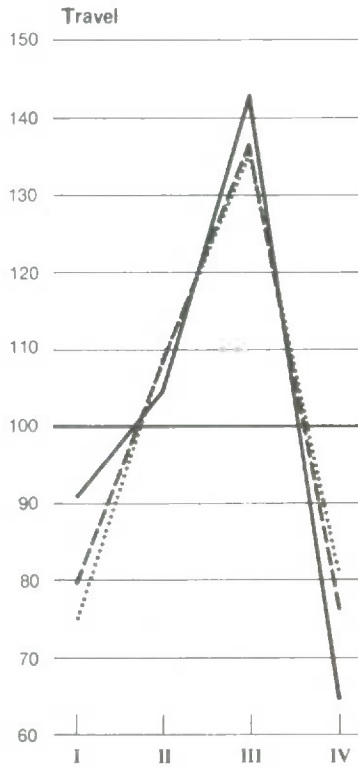
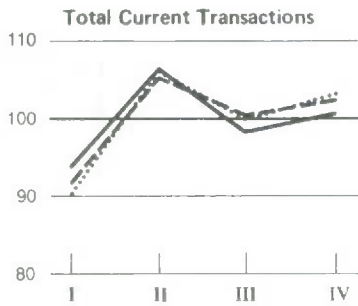


(1) Patterns reflect in part changes in concepts, methodology, and methods of seasonal adjustment. For 1951 and 1961, the data were seasonally adjusted on a multiplicative basis. For 1971 data, the seasonal factors for those series which were adjusted on an additive basis have been converted to multiplicative factors for comparison purposes.

Chart VII. 4

Quarterly Patterns of Principal Current Account Series, 1951, 1961 and 1971⁽¹⁾

PAYMENTS



(1) Patterns reflect in part changes in concepts, methodology, and methods of seasonal adjustment. For 1951 and 1961, the data were seasonally adjusted on a multiplicative basis. For 1971 data, the seasonal factors for those series which were adjusted on an additive basis have been converted to multiplicative factors for comparison purposes.

For 1967-70, Table 5 of *The Canadian Balance of International Payments, 1972* (Catalogue 67-201).

From 1971, Table 2 of *Quarterly Estimates of the Canadian Balance of International Payments* (Catalogue 67-001).

The series are maintained on an historically consistent basis in CANSIM.

Capital account transactions - Technical note -

Studies have been conducted on the desirability of seasonally adjusting the components of the capital account. These tests were carried out for the years 1950-70 using the United States Bureau of the Census X-11 quarterly additive adjustment program. The test results led to the conclusion that little service would be provided to users by publishing the capital account in seasonally adjusted form. The seasonally adjusted results for the majority of the series were not satisfactory, measured by standard tests, and the size of the residual discrepancy between

the seasonally adjusted current and capital accounts was large.

The following provides a brief overview of some of the factors leading to this conclusion.

A variety of combinations of seasonally adjusted components was tested including adjustments of (1) total net capital movements, (2) net long-term plus net short-term capital movements, (3) the sum of individual components of the capital account, and (4) a combination of those seasonally adjusted capital account items for which reasonable seasonal series were obtained plus the remainder of the capital account unadjusted. In each of these cases official monetary movements and allocations of SDRs have been taken with capital movements.

For illustrative purposes only, the following represent the results and by implication the size of the residual quarterly balance problem in 1970 using figures current at the time the tests were carried out.

	1970				
	I	II	III	IV	Year
	millions of dollars				
1. Total net capital movement.	- 189	- 280	- 253	- 574	- 1,296
2. Long-term and short-term capital movements . .	- 189	- 303	- 224	- 582	- 1,298
3. Sum of individual components of capital account	- 109	- 364	- 281	- 538	- 1,292
4. Combination of seasonally adjusted and unadjusted capital series	- 125	- 394	- 335	- 437	- 1,291
5. Current account seasonally adjusted.	315	226	211	545	1,297

Note: Lines 1 through 4 reflect in addition to capital account series official monetary movements and allocations of Special Drawing Rights.

The balancing discrepancy is the difference between the surplus on current account (line 5), and the capital outflows recorded in the various seasonally adjusted capital account series. Taking line 1 as the best series from the standpoint of balancing, the successive quarterly discrepancies in 1970 amounted to -\$126 million, +\$54 million, +\$42 million, and +\$29 million. These could be left in a separate balancing line in the published account or allocated to other components of the capital account. Neither seemed a particularly desirable solution given the size of the first quarter discrepancy.

A review of the 27 individual component series which were examined indicated that for seven of them seasonal adjustment had an effect of less than \$10 million in any single quarter in recent years.

On the basis of the analytical measures provided by the X-11 Q program, only eight series lent them-

selves to what could be judged to be a satisfactory seasonal adjustment. Three of these,

Government of Canada subscriptions to international investment agencies,

Repayments of Government of Canada postwar loans, and

Columbia River Treaty transactions had adjustments whose dollar magnitude was relatively unimportant.

The remaining five were:

Direct investment in Canada

New issues of Canadian bonds

Retirements of Canadian bonds

Resident holdings of foreign currency bank balances and other short-term funds abroad, and

Other short-term capital transactions, including errors and omissions.

(In the series both for direct investment in Canada and for new issues of Canadian bonds the contributions of irregular fluctuations were larger than those of a seasonal character.)

The study concluded that the most promising approach might be to make available, subject to further examination of more recent figures, seasonally adjusted series for four or five components of the capital account, not as part of the overall framework of the balance of payments but as supplementary series to assist in analysis.

Measures of Gross Transactions

No precise estimates of Canada's gross international transactions are available, although their magnitude has been indicated elsewhere in this volume to have swelled from about \$45 billion in 1965 to about \$135 billion in 1974.

These figures represent the sum of all current account transactions, the sum of all estimates of those capital transactions which are constructed on a transactions basis, and the sum of all those capital flows (disregarding arithmetic sign) which are derived from changes in outstanding balances of short-term claims. They are accordingly an indication of what has had to be measured. They are, however, larger than the total of transactions or exchanges as ordinarily understood because they reflect some financial settlements. At the same time they are smaller than the sums of the transactions of all of the parties involved to the extent that netting of financial settlements has occurred.

Thus if, for example, a non-resident has purchased securities in Canada priced at 1 and paid for them from a Canadian dollar bank deposit, the transactions measured are:

Sale of securities	1
Change in Canadian dollar deposits of non-residents (-)	1
Total	2

If, however, in the same period the purchaser or another non-resident in the same statistical area had then sold securities in Canada priced at 2, and deposited the proceeds in Canadian dollars in Canada, the transactions measured would be as follows:

Sale of securities	1
Purchase of securities (-)	2
Change in Canadian dollar deposits of non-residents (-1 + 2)	1
Total	4

While the gross international transactions measured arithmetically from the statistical presentation would be 4, it will be clear that there were transactions or exchanges as ordinarily understood aggregating 3 (the securities transactions), or together with the financial settlements fully articulated, 6.

An alternative perception of the total value of transactions may be gained by eliminating from the grosses cited above the components arising from D71, Non-resident holdings of Canadian dollar deposits, D61, Chartered bank net foreign currency position with non-residents, D65, Non-bank holdings of short-term funds abroad, and D82, "Other" short-term capital transactions, as well as J, Allocation of Special Drawing Rights and K, Net official monetary movements. The exclusions would be based on the assumption that they all represent financial settlements. This process yields totals of over \$15 billion in 1953, over \$25 billion in 1961, nearly \$30 billion in 1962, over \$75 billion in 1972 and over \$100 billion in 1974. Taking into account equivalent amounts of settlements through banking transactions, open accounts, cash, etc., these numbers would, of course, be doubled.

Only a small part of Canada's gross international transactions directly "cross the exchanges" through the interbank foreign exchange market. Some, such as official contributions, may take place in kind. Some, such as the tax withheld on income paid to non-residents, is short-circuited by the paying agents and does not lead to an exchange transfer; even in the case of tax on income payable in foreign currency, the amounts if large are diverted to the Government's foreign currency balances without conversion. Some investment takes place in the form of imports or exports of goods and services, the provision of which is settled by the issue of capital claims. Some amounts paid in Canadian funds are not converted. Large amounts of receipts and payments are offset either in private foreign currency bank accounts or in inter-company accounts. But probably even more important is the large volume of foreign exchange transactions done by customers of banks but netted out within the vast network of branches of individual banks. Turnover figures for foreign exchange markets are not ordinarily available, but figures for the domestic interbank market turnover in 1953 and 1961 were published in 1964 in the report of the Porter Commission¹⁴ at which time it was indicated that this market was the main centre for the banks' exchange transactions. In 1953 and 1961 outright transactions through the Canadian interbank market aggregated only \$1.2 billion and \$1.8 billion respectively. Including also transactions in swaps between banks, which would undoubtedly involve interbank adjustments with respect to term, the totals rise only to \$1.5 billion and \$3.0 billion, still representing only a small part of gross international transactions however measured.

¹⁴ *Report of the Royal Commission on Banking and Finance*, Queen's Printer, Ottawa, 1964, pp. 295 and 296.

Measures of Transactions in Goods and Services at Constant Prices

Estimates of the balance of payments are almost always expressed in current dollars, although price factors are taken into consideration in some balance of payments analysis, particularly that relating to the terms of trade or to exchange rate variations. Only those economic constructs which are based on commodity or service flows are capable of being expressed meaningfully in terms which reflect changes in their quantity. For the purpose of analysis of Gross National Product, estimates are made in constant dollar terms of both exports and imports of goods and services. These measures are described in Chapter 9 of *A Guide to the National Income and Expenditure Accounts*.¹⁵ They are portrayed in Chart VII.5.

Measures of Undistributed Earnings

The accrual to non-residents of undistributed earnings on foreign investments in Canada, and the accrual to Canadian residents of undistributed earnings on Canadian investment abroad, are both reflected in estimates of Canada's international investment position. This is not the case, however, with respect to the Canadian balance of international payments, which as currently constructed reflects only actual distributions of income as described under series A15 and B15 in Part II. However, a good case can be developed that the substitution of earnings accruing to foreign shareholders, at least insofar as direct investments are concerned, would represent a useful extension of the balance of payments.

Estimates of corporation earnings attributable to non-resident investment in Canada and Canadian investment abroad would also be useful for a number of other types of analysis, including studies of rates of return and the identification of important sources of the growth of international investment. But the primary impetus probably rests with the extension which it would permit within the balance of payments and the national income accounts. This is the position adopted by the International Monetary Fund.

The undistributed earnings of direct investment enterprises form a special case of imputed transactions. The income of branches of such enterprises located in countries other than that of the parent enterprise is included in the balance of payments. This is necessary, whether or not there is an actual transfer of the earnings from country to country, because earnings of branches automatically accrue to their parents. They represent an internal transfer within a single decision-making unit, and no formal act of distribution can be distinguished by which the earnings become the property of the head office.

On the other hand, earnings of subsidiaries and other direct investment corporations are formally distributed to their stockholders. Yet the difference between a branch and such a corporation often has little economic significance. A parent company, or an organized group of stockholders, can usually control the distribution of dividends, thus deciding the amount of earnings that is to be retained in the enterprise. For this reason, this Manual provides for including in the balance of payments all income on direct investment . . . whether or not distributed. The undistributed earnings of direct investment corporations are offset by entries in the capital account. Such earnings are often an important source of new investment and their exclusion might seriously understate the influence of direct investment on the international economic situation of many countries.¹⁶

Changes in the undistributed earnings of corporate direct investment enterprises should be attributed to the holders of the common stock. Total undistributed earnings of a corporation should be prorated between residents and nonresidents on the basis of the percentage of common stock owned by each group¹⁷

The United Nations Manual, *A System of National Accounts*, reflects some ambiguity. Initially it notes:

The net income of the resident enterprises in question, adjusted for any part which is in fact retained, should be transferred to the rest of the world if their parent enterprise is a resident unit of another country.¹⁸

but later there is an indication that what is contemplated is an allocation of net income prorated on the basis of ownership.

Despite the recommendations of the International Monetary Fund some major countries including Canada, and until 1978 the United States, have not been able to adopt the treatment in their currently published data.

The conceptual considerations are far from simple. The current sectoring of the national accounts regards as savings of the corporate sector all earnings which remain undistributed. Is the national boundary in no way different from the boundaries between domestic sectors of the economy? Does the existence of a controlling owner warrant a departure from the general treatment of savings? Does the rest of the world differ in any way from other sectors? (In the national accounts interest on the public debt paid to Canadian residents is regarded as a transfer payment and excluded from national income, but that paid to non-residents is

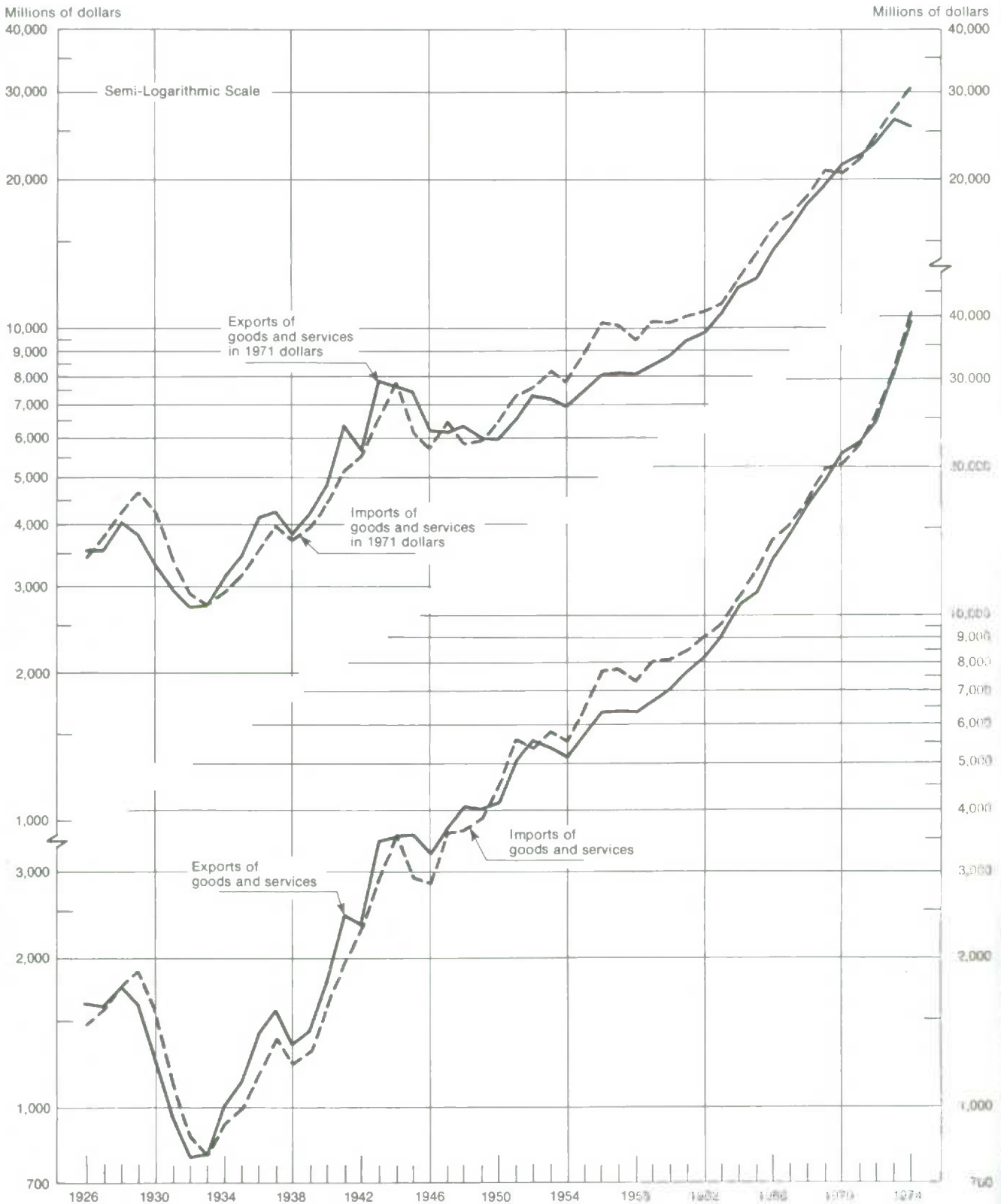
¹⁶ IMF *Balance of Payments Manual*, Third Edition (1961), paragraph 24.

¹⁷ *Ibid.*, paragraph 385.

¹⁸ United Nations. *Studies in Methods*, Series F, No. 2, Rev. 3, *A System of National Accounts*. New York, 1968, paragraph 5.106.

Chart VII. 5

Canada's Exports and Imports of Goods and Services, 1926-1974



Data for 1940 through 1949 are as used in national income and expenditure accounts.

regarded as a charge against domestic production.) Is the accrual of earnings on foreign direct investments part of the return to foreign factors of production?

Inclusion in the current account of the net earnings accruing on international investment, rather than only those amounts which are actually distributed, would make the balance on goods and services a more complete measure of the contribution of foreign factors of production. Moreover, it would avoid occasional large and erratic swings in the balance having only a marginal relationship to the activities and conditions of the period, and which indeed may reflect no more than internal accounting arrangements. Sporadic transactions of this type have on occasion created serious concern on the part of producers of the statistics, since marginal changes in gross national product or the current account balance may receive attention far beyond their inherent significance. The explanations which may be offered are frequently constrained by considerations of confidentiality. Substitution of earnings for distributions would bring both the current account of the balance of payments and the national income and expenditure accounts closer to current activity.

It may be argued by purists that the same treatment should extend to all forms of investment income. On the other hand it may be hypothesized that, while direct investors are generally in a position to determine the dividend policies of subsidiaries, portfolio investors are not. A more pragmatic reason for confining the measures to direct investment may be found in the difficulties and cost of estimating the earnings generated on portfolio investments, ownership of which is constantly shifting. In any event, income on portfolio investment is not subject to the wide fluctuations in the timing of transfers characteristic of direct investments; a variety of reasons for this were developed in the discussion of the income account under series A15 and B15 in Part II. Accordingly the treatment is less significant in the case of income on portfolio investment than on direct investment.

The IMF standards call for the recording of earnings of direct investment enterprises net of the taxes on income payable to the country in which the direct investment is located. Losses are to be offset against earnings. Under the standards, earnings should "in principle" be recorded net of provision for the depletion of natural resources as well as for depreciation, and should be adjusted to exclude any windfall gains or losses.¹⁹

The standards fit the concepts of income used in national accounting which focuses on economic production, as distinct from the balance of payments which relates more closely to financial flows and financial

accounting concepts. No problems arise with respect to domestic taxation²⁰ or depreciation. These entries will be clearly recognized as domestic costs or provisions of the direct investment enterprise. Similarly there is no problem (for the statistician at least) in losses, which may appropriately be treated as negative earnings. Windfall gains and losses may reasonably be thought of as capital rather than current flows, akin to capital gains. But depletion presents a problem in the cross-over between the basic *foci* of the two sets of accounting frames.

Depletion

It is necessary first to establish what is meant by depletion. In Canadian corporate terminology the term may apply to either of two separate and distinct measures.

One, which may be identified as **depletion for book purposes**, relates to the provision made within the accounts of a corporation, in estimating profits, to write off the cost to it of acquiring and putting into production a natural resource property.

The other, which may be identified as **depletion for tax purposes**, describes the allowances which may be claimed under income tax legislation by operators of natural resource properties. It may bear no relationship to depletion for book purposes. It is simply a component in the calculation of taxable income which does not enter a company's calculation of its book profits. In Canada, corporation profits included in the national accounts are derived from the accounting records of corporations rather than their tax returns. Depletion for tax purposes is relevant to the national accounts only insofar as it affects the taxation of these profits.

Since the national accounts are concerned with economic production, discoveries of new natural resources are not capitalized in them, nor is the exhaustion of natural resources a charge against national income. For this reason corporation profits as used in national accounting are struck before any provision for depletion of these resources.

The treatment of natural resources and their depletion in the balance of payments is necessarily different. An international movement of funds for the acquisition of a resource property clearly constitutes a capital transaction. Its effect cannot be ignored. The change in international monetary assets involved in the acquisition must be accounted for.

The value of a resource property essentially takes the form of a wasting asset. The yield to the investor

¹⁹ *Op. cit.*, paragraphs 252, 253 and 385.

²⁰ Withholding taxes are covered, however, in series A38 and B27.

is net of the cost of capital consumed during the productive life of the property. The depletion for book purposes, by which the consumption of the wasting asset is recognized, represents a source of funds, a "non-cash outlay", like any other source. These funds may be used for any domestic purpose or may be paid abroad as repatriation of the capital originally supplied for the purchase.

The statistical treatment may be illustrated by an example.

Period T - A non-resident buys from a resident, for \$1,000, an undeveloped resource property located in the country of residence of the vendor.

Period T + 1 - The non-resident incorporates a company in the jurisdiction where his asset is located, to hold the asset. He provides to the company \$2,000, all of which is spent for labour on development of the property. This is capitalized on the books of the company.

Period T + 2 - The company produces \$10,000 of ore, all of which is exported. This completely depletes the ore body. The operating production costs of \$5,000 all represent wages. No further funds are required from the owner. The depleted property has no residual value. No dividends are paid.

The company would calculate the profit on its books as follows:

Sales		\$10,000
Less:		
Operating costs	\$5,000	
Depletion of ore body	1,000	
Amortization of development costs	2,000	8,000
Net income before taxes		2,000
Corporation taxes, say		400
Net after-tax earnings		1,600

The company's balance sheet at the end of Period T + 2 would be

Assets		Liabilities and shareholders' equity
Land	\$1,000	Shareholders' equity:
Development costs	2,000	Paid in capital
	3,000	Undistributed earnings
Less depletion and amortization	3,000	1,600
Cash	\$4,600	
	4,600	4,600

Period T + 3 - The Canadian company is wound up and its assets distributed. A zero rate of withholding tax is assumed.

The national accounts, as currently constructed, would reflect these activities as follows:

	T	T + 1	T + 2	T + 3	Total
	dollars				
Gross National Product					
Wages		2,000	5,000		7,000
Corporation profits before taxes and provision for depletion of ore body			3,000		3,000
Dividends paid to non-residents				- 1,600	- 1,600
Capital consumption allowances			2,000		2,000
Total	0	2,000	10,000	- 1,600	10,400
Gross National Expenditure					
Gross fixed capital formation		2,000			2,000
Exports of goods and services			10,000		10,000
Imports of goods and services				- 1,600	- 1,600
Total	0	2,000	10,000	- 1,600	10,400

The reflections of the transactions in the balance of payments would currently be as follows:

	T	T + 1	T + 2	T + 3	Total
	dollars				
Current account					
Exports			10,000		10,000
Dividend payments				- 1,600	- 1,600
Total	0	0	10,000	- 1,600	- 8,400
Capital account and monetary movements					
Direct investment	1,000	2,000		- 3,000	0
Exchange settlements	- 1,000	- 2,000	- 10,000	4,600	- 8,400

If earnings on a book basis, rather than income distributions, were reflected in the balance of payments, the results would be as follows:

	T	T + 1	T + 2	T + 3	Total
	dollars				
Current account					
Exports			10,000		10,000
Earnings			- 1,600		- 1,600
Total	0	0	8,400	0	8,400
Capital account and monetary movements					
Direct investment	1,000	2,000	1,600	- 4,600	0
Exchange settlements	- 1,000	- 2,000	- 10,000	4,600	- 8,400

It will be noted that in both presentations of the balance of payments the direct investment inflows are fully reversed over the full period, reflecting the absence of either a capital gain or a capital loss on the operation. (The effect in the example of recording the full earnings is minimal because of the rather extreme assumption that the earnings were fully distributed in the period immediately following that in which they were generated. But even under these circumstances the effect of the second method is to record the return to non-resident factors of production in the particular period in which it was earned.)

But, in the estimates of Gross National Product, it will be seen that the activity appears to have given rise to net corporation profits before taxes, less dividends paid to non-residents, of \$1,400. This includes \$400, by way of transfer, of corporation taxes but the remaining \$1,000 is an arithmetical but apparently artificial consequence of the different treatment of depletion in the national accounts and the balance of payments. To resolve this difficulty, by adding back in the balance of payments as earnings and as direct investment the entry of \$1,000 in respect of the original depletion, would overstate direct investment in the balance of payments as it would leave a net accumulated direct investment inflow of \$1,000 while as we have seen the capital withdrawn was equal to that introduced.

Given the desire of users for symmetry in the goods and services component of the balance of payments with that which appears in the gross national

expenditure, it is possible to follow the national income definitions for goods and services while retaining the balance of payments concepts of the current and capital accounts by incorporating current account entries recording receipt of a capital transfer equivalent to the amount of recorded depletion.

The logic of the treatment is relatively simple. Under normal accounting practice, when acquisitions of natural resources such as ore bodies involve a financial outlay, they are capitalized and subsequently written down through provisions for depletion deducted from earnings. Under national accounting concepts, discoveries of natural resources are not regarded as capital formation. Accordingly those accounts cannot articulate depletion, as such, and what is recorded as depletion under normal accounting practices is regarded as part of corporation profits. In order to preserve the integrity of both accounting systems, if earnings before depletion are to be regarded as income in the balance of payments, provisions for depletion of natural resources (which involve no *quid pro quo* in a national accounting sense) must be regarded as capital transfers within the current account.

If this treatment were followed in the example, it would affect the *pro forma* for the national accounts by increasing in Period T+3 the income transfers to non-residents and imports of goods and services from \$1,600-\$2,600. This would eliminate the anomaly of a \$1,000 cited earlier. The balance of payments on this basis would be as follows:

	T	T + 1	T + 2	T + 3	Total
	dollars				
Exports			10,000		10,000
Earnings			- 2,600		- 2,600
Sub-total goods and services			7,400		7,400
Capital transfers (depletion offset)			1,000		1,000
Total	0	0	8,400	0	8,400

This yields the same current account balance as previously. Data for the capital account and monetary movements would be unchanged.

Withholding Tax

The articulation within the balance of payments of full earnings accruing to foreign direct investments would also create some problems in the recording of withholding tax. The earnings themselves are, of course, potentially subject to withholding tax on distribution. To this extent the claim of non-residents would be over-

stated. On the other hand until such time as the earnings are withdrawn no withholding tax is payable and the funds remain available for use. Since withholding tax would only be known at the time of distribution, earnings taken into the current account during the period in which a distribution occurred would be reduced by the amount of the tax paid on the distribution, notwithstanding the fact that the earnings distributed might have been generated in earlier periods. An incidental effect would be that the correlation between the income account and withholding taxes would become more indistinct than under the present treatment.

Estimation of Undistributed Earnings

Following these rather theoretical observations, let us turn to the data which are available.

Estimates of the annual changes in global undistributed earnings accruing on foreign direct investment in Canada were first constructed on a continuous basis in the early 1950's. For the years 1946 through 1973 they will be found in Table 15 in *Canada's International Investment Position, 1971-1973* (Catalogue 67-002). These series were rather rudimentary. They were derived residually by eliminating from changes in the book value of foreign direct investments in Canada, described in Part IV, all those elements which can be identified other than undistributed earnings.

Essentially the general process involves the following steps:

- (a) Calculation of the annual change in book value of foreign direct investment in Canada.
- (b) Identification of the net capital movements affecting this investment viz., the relevant elements of the following series:

D21	Direct investment in Canada
D25	Direct investment abroad (reduction of investment in Canada)
D30 and D31	Trade in outstanding securities
D32 and D33	New issues and retirements of securities
D50	Long-term loans, net.
- (c) Adjustment of the totals arrived at in item (b) to reflect the following other factors in the change, to the extent they are identifiable:
 - (i) Reclassifications or transfers of companies from or to the direct investment category where the full impact of the change is not reflected in a capital movement already measured.
 - (ii) Revaluations resulting from the sale or acquisition of assets.
 - (iii) Revaluations of item (b) series D30 and D31 from approximate transaction values to book value of equity in Canada, based on large shifts of recorded ownership.
 - (iv) Differences between the book values and the transaction values in Canadian dollars of new issues of bonds.
 - (v) Leverage effects on the geographical distributions of the book value of issued and outstanding shares caused by new issues.
 - (vi) Migration, inheritances and other contributions.
- (d) The differences between item (a) and the aggregate of items (b) and (c) are taken as a measure of the increase of undistributed earnings in Canada on foreign direct investments, subject to some hand-

smoothing in the financial sector to reduce distortions arising from the use, within some book value series, of market values.

This description is necessarily incomplete in a number of respects. As one example, the kaleidoscopic changes which have become characteristic of corporate structure on occasion give rise to distortions in the series derived by the standard process, requiring further adjustment.

It will be clear that not all the relevant factors can be identified nor in the case of those identified can all be measured accurately. The results are, however, judged to be reasonably satisfactory.

Surplus accounts may comprise a mix of earned surplus and contributed capital (including revaluations and similar elements). When the estimates were first made, the basic questionnaires used to measure foreign direct investment provided no detail of them. The surveys were extended in 1959 to identify specifically consolidated balance sheet figures for undistributed earnings, and later to provide the more complete summary now found in Part III of the BP-52, Geographical distribution of ownership capital.²¹

Special analyses of changes in the earned surplus accounts of foreign direct investment enterprises accruing to direct investors were carried out for the years 1960 and 1961. Annual changes in the consolidated balances of undistributed earnings, company by company, were adjusted to eliminate the undistributed earnings held by subsidiaries outside Canada. This adjustment was derived through an involved company-by-company process somewhat akin to that described above for the method used to estimate undistributed earnings on foreign direct investment in Canada since 1946, although the process was much more complex. To the adjusted figure for undistributed earnings in Canada there was then applied, company by company, a factor to determine the proportion accruing to residents of the country in which control was deemed to lie, after taking into account the changes in ownership during the course of the year.

This direct approach was in principle greatly superior to the residual method. It provided some detail on industrial and geographic distribution. More important, however, it yielded results comparable to those which had been derived residually. The results will be found in Statement 12C, Estimated Undistributed Earnings on Foreign Direct Investment in Canada, Classified by Industry and Country, 1960 and 1961, published in *The Canadian Balance of International Payments, 1961 and 1962, and International Investment Position* (Catalogue 67-201).

²¹ Reproduced in Part V.

Both the methods employed in arriving at estimates of undistributed earnings on foreign direct investments in Canada have been applied to derive estimates of undistributed earnings on Canadian direct investments abroad. Among the difficulties encountered were the problem of identifying and eliminating that part of changes in the book value of Canadian direct investment abroad which arose from the incorporation in the basic data of changes in exchange rates, the relative scarcity of information about major accounting discontinuities which, of course, lie in this case in accounting records of non-Canadian corporations, and an unusually large concentration of Canadian direct investment abroad in areas of activity where fiscal years have not coincided with calendar years. The results were so erratic as to be of little use although rough estimates have been used in the construction of the ratios for foreign financing of Canadian investment described later in this Part.

No estimates have yet been made of the quarterly distribution of undistributed earnings on direct investments. At the time of writing, resource constraints have necessitated the indefinite suspension of efforts to link ownership factors with samples used in the construction of the general quarterly corporation series prepared in the Business Finance Division of Statistics Canada, with the ultimate objective of obtaining quarterly series of earnings and undistributed earnings on foreign direct investments in Canada. Corresponding series in respect of Canadian direct investments abroad would have required the institution of a new survey. Until time series for undistributed earnings in respect both of foreign direct investments in Canada and of Canadian direct investments abroad are available regularly on a quarterly basis, such data as are available should be regarded as supplementary information. Among the factors which will then have to be given consideration are the consequences of introducing an historical discontinuity into key series, as well as the increased gap between Canadian data and those of important trading partners if the corresponding treatments were not adopted by them.

Measures of Ownership and Control

Concepts and methodology

The existence of statistics of the book value of long-term foreign investment in Canada, whose construction has been described in Part IV, led to a need for background against which they could be seen in some perspective.

Accordingly, estimates of the book value of all long-term investment in Canada, Canadian and foreign owned, corresponding to the measures used in the investment position series have been developed wherever possible. It is from the combination of the two that ratios of the foreign ownership and of foreign control

of the long-term capital employed in specified industries in Canada are established.

Estimates of satisfactory aggregative book value series of all long-term capital invested in Canadian industry present considerable statistical difficulty. They are possible for only some industrial subdivisions, because of problems inherent in using corporate financial data originating from a variety of sources. The ratios which have been developed may lead to exaggerated notions of the overall weight of foreign investment since they do not extend to some important parts of Canada's national wealth which are predominantly Canadian owned and controlled such as investments in agriculture and social capital, and other kinds of personal property. Nor of course do they take into account Canadian investments abroad.

Briefly, while estimates of foreign investment are based largely on the ownership of the capital structure reflected on consolidated balance sheets of enterprises classified according to the principal activity pursued, the primary source available for estimating the comparable aggregate capital values of Canadian industries are the summations of unconsolidated balance sheets of companies found in *Corporation Financial Statistics*²² and its predecessor series *Taxation Statistics* published by the Department of National Revenue. These are classified according to the principal activity of the individual company rather than of the enterprise of which it may form part. Additional problems of comparability arise from variations in accounting practices and in reporting dates, and from the inclusion or exclusion in the two sets of aggregates of non-corporate enterprises, Crown corporations, and foreign branches and subsidiaries. These necessitate a number of adjustments in order to provide as satisfactory as possible a statistical basis for comparison. The balance of this section is devoted to a more detailed description of some of the problems and of their treatment.

For many years past the Balance of Payments Division has made estimates of the book value of the aggregate long-term investment in selected Canadian industries, for comparison with corresponding values of foreign investment in Canada compiled within the Division. These figures are in turn the basis of estimated percentages of the industries owned or controlled by non-residents. Considerable difficulty is experienced in producing them. In developing the method account has been taken of changing sources of information and forms of presentation over the period covered. Comparability of results has been preserved as far as possible. While the data are approximations arrived at through the combination of a number of series whose coverage and comparability may in some cases be open to question, the results are nevertheless con-

²² Catalogue 61-207.

sidered to be useful to assess the relative positions of domestic and foreign capital in some areas of the economy and the changes in these over time.

Most of the data used are derived from the liability side of balance sheets. Foreign investment takes the form largely of ownership of the equity in, or claims on, corporations. The measures of total Canadian and foreign investment in Canadian industry are accordingly similarly derived.

In the postwar years the aggregate series have made extensive use of the summations of balance sheets published annually by the Department of National Revenue for the years from 1944 through 1964²³ and thereafter by Statistics Canada.²⁴ As the aggregative estimates of total Canadian and foreign long-term investment require the interrelationship of these data, the investment position survey results, and other sources, they cannot be produced as currently as statistics of international investment.

The balance sheet figures are not ideal for estimating total values of selected Canadian industries comparable to the foreign investment records. Corporations are not permitted to file consolidated reports with their tax returns, while consolidated balance sheets are used wherever possible in the records of international investment. The process of consolidation eliminates entries between the members of an enterprise or family of companies. Thus a loan from one member of the group to another will not appear in a consolidated statement, but it will appear on the balance sheets of both the lender and borrower, and if these are summed rather than consolidated, the total capitalization will reflect them twice. One of the first problems encountered therefore is to convert the summations of balance sheets to a corresponding consolidated balance sheet basis.

For this purpose the general procedure is to total the items of funded debt, other long-term debt, capital stock, and surplus less deficit, and to subtract from the total the investment in securities and in affiliates. The result will approximate the book value approach used in the international investment statistics, although it will be understated through the elimination of certain elements such as obligations of the non-corporate sector. It will exclude all investment in foreign subsidiaries. Where the enterprise involves a Canadian holding company classified as such in *Corporation Financial Statistics* its foreign subsidiaries are not reflected in the industrial groups used in the series. Where an operating company has a foreign subsidiary, it will have been eliminated from the aggregate value

through the deduction of the investment in all affiliates. (This does not apply, however, to unincorporated branches abroad, but these fortunately are not large in relation to the magnitudes under discussion.)

Subject to the exceptions mentioned in the preceding paragraph, which are probably of relatively limited significance, the broad aggregate series are similar although there may be a difference in their timing. The balance sheet data published in *Corporation Financial Statistics* cover all fiscal years ending within a calendar year. The international investment statistics on the other hand are based on the calendar year-end or the fiscal year-end falling between April 1 of the year and March 31 of the next year.

The differing stages of consolidation and classification used in the compilation of *Corporation Financial Statistics* and of the records of international investment create other problems, but these affect the totals less in the case of broad industrial groups than of finer subdivisions where there is greater danger of lack of comparability. In the statistics of international investment the entire enterprise is normally allocated industrially on the basis of its principal activity. Because the balance sheets used in *Corporation Financial Statistics* are unconsolidated, if there is more than one firm in the enterprise the aggregate book value (as adjusted) may be spread over a number of classifications in the latter series. A somewhat similar problem arises in respect of industrial holding companies classified in the finance group. This group is not used in the construction of the aggregate value series, as Canadian subsidiaries will themselves appear elsewhere in *Corporation Financial Statistics*. To the extent, however, that the holding company itself may have assets other than its investments in operating subsidiaries which differ significantly in amount from its own short-term liabilities, this capital will not appear in the aggregate series. It is not possible as a general rule to overcome these problems other than through the overall adjustments mentioned later, although occasionally it has been apparent from a comparison of the material that an entire enterprise has been classified differently in the two series and specific corrections have then been made.

Further adjustments are made to the adjusted consolidated balance sheet data, for example, for a number of Crown corporations and other classes of investment when not included in *Corporation Financial Statistics*. The estimation of some of these items is complicated and involves a considerable amount of research. The figures are increased where appropriate, on the basis of available data, to allow for investment represented by individual ownerships, partnerships and cooperatives. An adjustment is made in the case of unincorporated branches in Canada of foreign petroleum companies where the basis of reporting for the investment position series leads to figures significantly higher than those derived from balance sheet sources.

²³ *Taxation Statistics*. Department of National Revenue, Ottawa. (For earlier years the "capital employed" series described in the earlier note on the basis of valuations were available.)

²⁴ Catalogue 61-207.

In the case of public utilities other than railways, additions are made in respect of government and municipal enterprises, either on the basis of balance sheet data or of relevant funded debt where balance sheet values are not available. (The figures of foreign investment used in relation to these series are consequently larger than those generally shown for investment in other utilities by reason of the inclusion for this purpose only of related foreign-owned funded debt of governments or municipalities.)

Figures for the total value of investment in railways and in merchandising do not make use of *Corporation Financial Statistics*. The railway figure is compiled independently using the investment position records, which cover most of the industry, and other sources to produce more directly comparable series than are generally possible. The figure for merchandising is also an independent estimate since the non-corporate component is relatively more important for it than for other measured sectors, but the estimates are founded on less satisfactory data than for other series and must be regarded as illustrating broad relative magnitudes only.

In compiling the aggregate data for some sub-classifications it has been apparent that in certain cases a differing classification either of an enterprise as a whole or of major component firms has invalidated direct comparison with the investment position records. This type of disparity tends to arise particularly in industry sub-classifications where vertical integration or ancillary activities of the corporations are both common and significant. In such cases where the total domestic and foreign capital (by type) invested in companies covered in the investment position record (which does not purport to cover wholly Canadian-owned firms) is larger, and where it appears that this record of companies in which foreign capital is invested would cover most of the field, the aggregate value series are adjusted upwards.

Figures of total capital for selected industries for 1926, 1930 and 1939 were derived from "capital employed" statistics available for most industries from annual returns to the bureau until their discontinuance after 1943.

The book value series which are used reflect land, inventories, and net financial working capital in addition to the net stock of capital represented by expenditure on construction, machinery and equipment; for this reason and because of varying methods of reflecting capital consumption and changes in price levels, they are not directly comparable with other estimates of capital formation and of the stock of capital.

It should also be emphasized that the series and comparisons cover only selected Canadian industries for which comparable estimates can be made. These

represent the broad area of Canadian industry and commerce. But there are other broad areas of investment in Canada which cannot currently be measured in this manner. Consequently the published ratios of ownership and control are not representative of the ownership and control of the national wealth of Canada which would include also such forms of assets as social investment in schools, hospitals, roads, etc., as well as in agriculture and residential real estate. As some indication of the magnitude, it may be noted that the net stock of social capital (government, housing and institutions) exceeds that of industrial capital (including agriculture). These forms of investment are almost exclusively Canadian. And there are still other important areas of Canadian wealth such as Canada's external investments, not to mention the significant savings represented by ownership of automobiles and other durables, non-industrial land and such intangible social investment as education.

Data - Estimates have been made of the book value of capital in selected Canadian industries at various year-ends between 1926 and 1973.²⁵ The totals are divided to show separately resident-owned and non-resident-owned capital, with a separate sub-division for United States-owned investment, and totals of Canadian and foreign investment in enterprises controlled outside Canada as a whole and in the United States. The series will be found in Table 37 in *Canada's International Investment Position, 1974*²⁶ with some additional years in Table XVI of the corresponding report for 1926-67. Percentages of the total book values in selected industries appear for ownership by all non-residents and by United States residents, and for control by all non-residents and by United States residents, in Tables 38 and 39 of the 1974 report and Tables XVII and XVIII of the report for 1926-67. Somewhat greater detail with respect to the manufacturing and mining industries, to ownership by residents of the United Kingdom, and to the role of government enterprises within the Canadian-controlled totals will also be found in these reports. Advance estimates in respect of 1974 were released in the *Statistics Canada Daily* for December 16, 1977.²⁷

Data Relating to Other Information on Control

Those interested in the ratios for the ownership and control of long-term capital in selected Canadian industries which have been described above should be aware of an important range of other measures which are available.

Reports based on the Corporations and Labour Unions Returns Act - A number of measures for ownership and control arise from statistical work carried out

²⁵ There is an industrial classification discontinuity in 1954.

²⁶ Catalogue 67-202.

²⁷ Catalogue 11-001E.

within the Business Finance Division of Statistics Canada in connection with the administration of the Corporations and Labour Unions Returns Act (CALURA).

Annual reports published under this Act provide measures classified by degree of ownership of voting stock and by control of reporting corporations for broad sectors of Canadian industry in terms of characteristics such as assets, equity, profits, sales and taxable income on a continuing basis, and various others from time to time. These measures provide much more industrial detail and extend into some areas that are not covered in the investment position based series, but are not as comprehensive in terms of the universe covered as they relate only to corporations which are subject to the Act or covered by certain regulatory legislation. It should also be noted that while CALURA measures provide data on the basis of the control and the degree of ownership of individual corporations, the investment position series provide corresponding data on the basis of the control of enterprise groups as a whole, and on the distribution of the ownership of investments in the concerns.

From the foregoing it will be clear that the CALURA-based statistics distribute industrially legal entities (companies) while investment position related series distribute industrially larger decision making and financing units (enterprises, or families of companies).

Although the broad pattern of foreign control displayed by the various measures does not vary significantly, certain differences in concept, coverage and classification are revealed in variations at finer levels of detail. The principal differences relate to:

- (1) the use in the investment position based series of the proportion of equity owned by non-residents as the basis for measuring foreign control, with some departures on the basis of concentrations of holdings, in contrast to the use of the ownership of voting rights to determine whether the company is foreign-controlled under CALURA;
- (2) the use of enterprise groups (families of companies) as the basis for the industrial classification, in contrast to the industrial classification of individual companies used in CALURA;
- (3) the use of Canada-consolidated financial statements for enterprise groups which largely eliminate inter-company claims within related concerns, in contrast to individual corporation financial statements summed in CALURA;
- (4) the use of long-term debt and equity investment, less long-term investments outside Canada of the enterprise group (to derive a measure of long-term capital employed in Canada), in contrast to the variety of other measures used in CALURA.

A more complete description of the relationship between the investment position and CALURA-based series is provided in Appendix 8.

Foreign-owned subsidiaries in Canada - The Department of Industry, Trade and Commerce has published a series of reports on certain aspects of the operations and financing of the larger foreign-owned subsidiaries in Canada. The information contained in them was derived from the annual and quarterly surveys initiated in 1966 to provide, on a periodic basis, factual information suitable for assessing the performance of these subsidiaries in relation to the objectives set out by the Government in "Some Guiding Principles of Good Corporate Behaviour", and which would contribute at the same time to a better understanding of the role of foreign-owned companies in the Canadian economy. The survey is a voluntary one and contains data from somewhat more than 300 respondents covering nearly 1,000 companies. The following reports have been published to date:

Foreign-owned Subsidiaries in Canada, published June 1967.

Foreign-owned Subsidiaries in Canada, 1964-1967, published 1970.

Foreign-owned Subsidiaries in Canada, 1964-1969, published 1972.

Statistical Supplement containing selected data for 1970 and revisions to 1969 data, published August 1972.

Foreign-owned Subsidiaries in Canada, 1964-1971, published 1974.

Statistical Supplement containing selected data for 1972 and revisions to 1971 data, published August 1974.

More recent data have been published in Section III of *Compendium of Statistics on Foreign Investment*.²⁸

Principal statistics of manufacturing - Another measure of the incidence of control which is available for selected years is constructed from the collation of data collected in the Census of Manufactures with control information derived from the international investment position survey. These series give the principal statistics for manufacturing establishments by control, classified industrially by enterprise and establishment, and by regions. They are available for 1946, 1953 and 1961 and are described in detail in *The Canadian Balance of International Payments, 1963, 1964 and 1965 and International Investment Position*.²⁹ Similar data for the years 1969, 1970 and 1972 compiled jointly by the Business Finance Division and Manufacturing and Primary Industries Division, and published in the issues of *Domestic and Foreign Control of Manufacturing Establishments in Canada for 1969*

²⁸ FIRA papers No. 4, May 1978.

²⁹ Catalogue 67-201.

and 1970³⁰ and one for 1972 *Canadian-American Industry. A Study in International Investment*. (New Haven, Yale University Press, and Toronto, The Ryerson Press, 1936; New York, Russell and Russell, 1970) contains in Tables V and VI somewhat similar material in respect of 1932.

Structural Aspects of Domestic and Foreign Control in the Manufacturing, Mining, and Forestry Industries, 1970-1972 - This report throws new light on some of the structural differences between Canadian and foreign-controlled firms in the Manufacturing, Mining and Forestry Industries. It is an exploratory foray into a comparative study of industrial organization of Canadian- and foreign-controlled firms, providing information on concentration, diversification and size distribution.³¹

Industrial Research and Development Expenditures in Canada - The 1969, 1971 and 1973-75 issues of this Statistics Canada publication³² contain information on the distribution between foreign controlled and other Canadian companies of current intramural research and development expenditures.

A Brief Guide to Statistics Related to Foreign Ownership in Canada - A useful article covering the principal statistics on this subject by J.D. Randall, Director of the Financial Flows and Multinational Enterprises Division of Statistics Canada, may be found in the *Canadian Statistical Review* for January 1974.³³

Statistics of Foreign Ownership in Canada - Agenda Paper prepared by J.D. Randall for Item G, Eighth Conference of Commonwealth Statisticians, Barbados, 24 November-5 December, 1975, covers much of the same material.

Indicators of Foreign Control of Non-financial Industries by Province³⁴ - Based largely on published Statistics Canada data is available from the Foreign Investment Review Agency, P.O. Box 2800, Postal Station "D", Ottawa, Canada, K1P 6A5. This report is available without charge.

Foreign Financing of Canadian Investment

A number of measures have been made public from time to time as indicators of aspects of the significance and changing role of foreign financing of Canadian investment.

The development of concepts for the measurement of non-resident financing of total private and

public domestic investment presents some difficulty, as does the statistical realization of the concepts once they have been established.

The work in this area has followed two paths. It developed in the early 1950's, when it became evident that observers of Canada's international economic position and relationships varied greatly in their perception of them. One group emphasized the absence of any significant net balance on current account during the early postwar period as evidence that Canada was no longer "dependent" on foreign capital. Others emphasized in contrast the rising total of foreign long-term investment in Canada and rising proportions of capital employed which were owned by non-residents in a number of industries.

These perceptions were, of course, not contradictory. The first group of observers was focusing on the fact that on balance Canada was generating resources on a scale at least equivalent to the sum of consumption and capital formation. The second group was focusing on the fact that for a variety of reasons there continued to be capital inflows on a significant scale, even though Canada was exporting capital of at least comparable proportions. Measures were accordingly designed to put these two perceptions in appropriate perspective.³⁵

One set of series was refined to measure the net contribution of non-residents to the savings used for all types of physical investment in Canada, in other words to measure the extent to which Canada had, within the period covered, drawn on or added to the real resources of other countries, and to relate this to levels of real Canadian investment. The balance on goods and services³⁶ approximates the net use of foreign resources, but is deficient in this role insofar as investment income is reflected on a payments rather than an earnings basis. The earnings which accrue to foreign investors but are retained for use within foreign-controlled enterprises represent a use of foreign resources or factors of production. Similarly, of course, the earnings retained abroad accruing to Canadians in Canadian-controlled enterprises are a use of Canadian resources. Accordingly the published balances were adjusted to reflect undistributed earnings on direct investment, a refinement leading to a more satisfactory measure of the net use of foreign resources.

Another set of series was developed which represented the perception of those concerned with the

³⁵ For a more detailed analysis see *Canada's International Investment Position, 1926-1954* (Catalogue 67-503) and "Foreign Financing of Canadian Investment in the Post-War Period", by A.E. Safarian and E.B. Carty, *Proceedings of the Business and Economic Statistics Section, American Statistical Association*, September 1954, pp. 72-79.

³⁶ Until work in the mid-1970's the balance on current account was used.

³⁰ Catalogue 31-401.

³¹ Catalogue 31-523.

³² Catalogue 13-203.

³³ Catalogue 11-003.

³⁴ FIRA Paper No. 3, May 1973.

extent to which foreign capital might have played a more or less direct role in financing Canadian capital formation.

For this purpose outflows representing either capital for Canadian investment abroad or the return of non-resident capital formerly brought into Canada were disregarded. This "direct" measurement of foreign financing of Canadian capital formation presented particular difficulty because specific sources of financing frequently cannot be linked to specific investment activity. Resources generated by activities of the enterprise, together with those obtained from investors, whether foreign or domestic, may be used to liquidate indebtedness, to finance the acquisition of existing assets (including land and mineral rights which are not a part of capital formation), or to increase financial working capital, as well as to finance additions to the stock of capital.

Each series was further developed to facilitate measurement of non-residents' participation in financing domestic capital formation in either gross or net terms. Gross domestic investment will be seen to cover both net additions to the stock of capital and the maintenance of that stock. For the purpose of these series, the estimates of capital consumption allowances made for the national income and expenditure accounts were deducted from gross capital formation to derive a rough measure of net capital formation. When the measures in respect of the contribution of the foreign sector are related to gross domestic investment an addition is made to them to cover the estimated proportion of capital consumption allowances and depletion allowances applicable to foreign direct investment in Canada. (No such addition is required in the case of measures related to net domestic investment.)

The various ratios that have been used may be set out as follows.

A. Use of Foreign Resources

1. Gross Measure

Goods and services surplus or deficit adjusted for undistributed earnings of foreign direct investment in Canada and undistributed earnings of Canadian direct investment abroad, plus capital consumption allowances and depletion allowances allocated to foreign direct investment in Canada.

Gross fixed capital formation in Canada, plus the value of physical change in inventories.

2. Net Measure

The same as in A1 but excluding capital consumption allowances allocated to foreign direct investment in Canada.

Net fixed capital formation in Canada, plus the value of physical change in inventories.

B. "Direct" Foreign Financing as a Proportion of Capital Formation

1. Gross Measure

- (a) gross capital inflows for direct investment in Canada,³⁷
- (b) undistributed earnings on foreign direct investment,
- (c) new issues of Canadian securities sold to non-residents,³⁸
- (d) other long-term financing,
- (e) changes in accounts payable,
- (f) capital consumption allowances allocated to foreign direct investment in Canada,
- (g) depletion allowances allocated to foreign direct investment in Canada.

Gross fixed capital formation in Canada, plus value of physical change in inventories.

2. Net Measure

The same as in B1 but excluding capital consumption allowances allocated to foreign direct investment in Canada.

Net fixed capital formation in Canada, plus value of physical change in inventories.

Estimates of measures of the use of foreign resources (A1 and A2) from 1946 through 1974 will be found in Tables 32 and 33 of *Canada's International Investment Position, 1974*.³⁹ Measures of "direct" financing were last published in the issue for 1926-67 and extended at the time of writing only to 1969.⁴⁰

The derived ratios, whether in respect of the use of foreign resources or of "direct" foreign financing, relate to the whole field of capital formation in Canada including the large elements of social capital stock, such as construction (both residential and non-residential), transportation, agriculture, recreational facilities.

³⁷ Capital inflows from United States only are on gross basis, i.e., before the return of capital. Due to unavailability of data inflows from overseas countries are expressed in net terms.

³⁸ Excludes Government of Canada borrowings in 1948, 1962, 1963, 1968 and 1969 which served specifically to replenish official holdings of exchange.

³⁹ Catalogue 67-202, but the balance on current account rather than on goods and services was used.

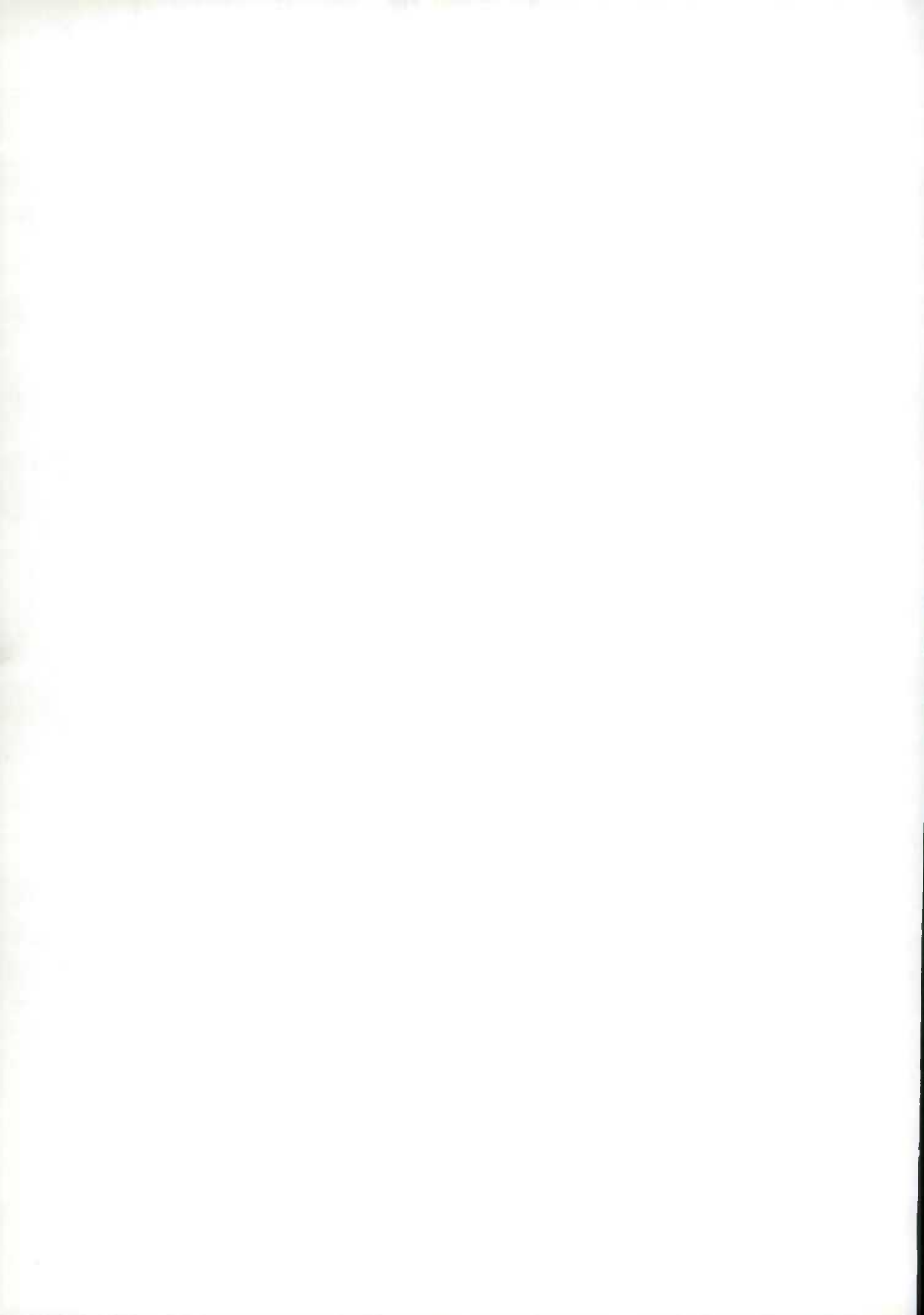
⁴⁰ There are some grounds, from the performance of the series, for believing that changes in the structure of Canada's international capital transactions may have invalidated assumptions underlying the construction of them, and these influences may in turn have imparted an upward bias to the results. Publication of the series has accordingly been discontinued pending further study.

ties, etc., in the direct financing of which foreign capital plays only a minor role. The measures of foreign ownership and control described in the section immediately preceding relate to specific sectors.

Underlying the differences between the ratios for use of foreign resources and for direct foreign financing is, in principle, the direct association with the latter of particular entrepreneurial skills, techniques and objectives with large sources of savings. These com-

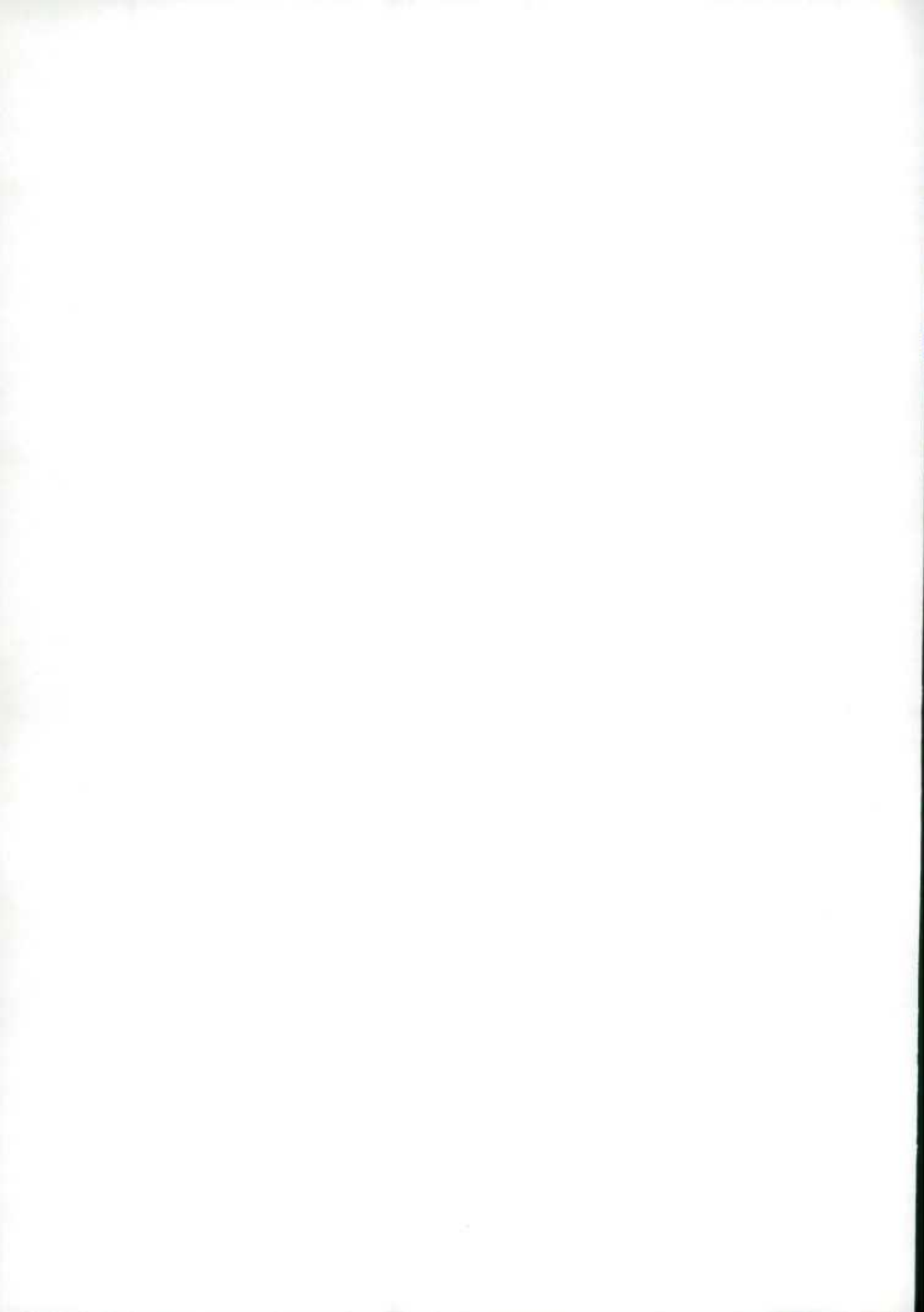
binations may result in decisions outside the domestic economy to undertake specific investments which are quite unrelated to the adequacy of domestic savings. On the other hand, a decision to invest may be made by a domestic entrepreneur and still involve foreign financing, due for example to the relative costs of capital in Canada and abroad, the general ability of the domestic capital market to meet various capital requirements, easy or established access to foreign capital markets, etc.

APPENDICES



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APPENDIX 1

CANSIM Coverage

Most of the time series relating to the Balance of Payments are available in machine-readable form, for use on computers, or in print-out in the CANSIM® (Canadian Socio-Economic Information Management) system. Enquiries should be directed to CANSIM, Statistics Canada, R.H. Coats Building, Ottawa, Canada, KIA 0T6.

Three CANSIM catalogues are available. The *Summary Reference Index* summarizes the contents of the CANSIM Main Base by subject and by source publication, and provides primary (Matrix) identification numbers which form the key to the other catalogues, the CANSIM Main Base *Series Directory* and the CANSIM *Mini Base Series Directory*. These directories give detailed information about the available statistics

and the series identifiers required for data retrieval and manipulation. The CANSIM Mini Base is a subset comprising the more frequently used series on the Main Base.

A guide to use of the Series Directories is given in Figure 1 which follows.

Tables 1.1 and 1.2 show the databank identification numbers for annual data for the current and capital accounts respectively. Tables 1.3 and 1.4 provide corresponding identification numbers covering quarterly series.

Annual and quarterly statements for the Canadian balance of payments are available from CANSIM Main Base under Matrix numbers as follows:

®Registered Trade Mark of Statistics Canada.

	Annual		Quarterly		Terminated
	From	Matrix number	From	Matrix number	
	Not seasonally adjusted				
Between Canada and:					
All countries	1926	273 ¹	1946	279 ¹	
United States	1946	274	1946	280 ¹	
United Kingdom	1946	275	1946	281	
Rest of Sterling Area	1946	276	1946	282	1972
Other OECD Countries in Europe	1946	277	1946	283	1972
Other non-residents	1946	278	1946	284	1972
European Economic Community (except United Kingdom)	1973	2329	1973	2325	
Japan	1973	2330	1973	2326	
Other OECD Countries	1973	2331	1973	2327	
Other non-residents	1973	2332	1973	2328	
United States, United Kingdom and all other countries: current account summary	1926	1369	1946	147 ¹	
All countries: transactions in Canadian bonds and debentures, by type of issue	1927	1370	1952	1364 ¹	
	Seasonally adjusted				
All countries: current account . . . . .	..	..	1946	1363 ¹	
All countries: merchandise trade (balance of payments basis) . . . . .	...	...	1971	301,2	

¹ Also available from CANSIM Mini Base.

² Monthly.

FIGURE 1. CANSIM MAIN BASE SERIES DIRECTORY (SAMPLE)

	SERIES DIRECTORY AS OF OCTOBER 19XX		MATRIX: 000002			First Matrix on this page	
Matrix Number*	000002	IMMIGRATION TO CANADA, BY COUNTRY OF LAST PERMANENT RESIDENCE, QUARTERLY, THOUSANDS					Matrix Title
Source Publication	QUARTERLY BUL'N, DEPT. OF MANPOWER & IMMIGRATION						
Matrix Note	DATA PUBLISHED APPROXIMATELY 75 CALENDAR DAYS AFTER END OF REFERENCE QUARTER.						
Agency and Section responsible for this matrix. See Inquiries List	STC 8 0000						
Series Number*	1	TOTAL	55-03-00	PART-SEC	D 123456		
	1.1	TOTAL EUROPE	55-03-00	PUBLIC	D 123457		
	...						
	1.1.7	PORTUGAL	55-03-00	SECURE	D 123458		
	...						
	1.4.2	WEST INDIES		PUBLIC	D 123459		
"T" before the series number indicates an unrevised or discontinued series	T1.5	ALL OTHER COUNTRIES	55-03-00	PUBLIC	D 123455		
							Databank Identification Number*
		Starting date of series in the base (year-month-day)		No data available when blank			

SECURITY LEVELS

PUBLIC series are those which are published or publishable

SECURE series are those which cannot be retrieved without the approval of the source

PART-SEC series are those which contain PUBLIC and SECURE data

* The CANSIM Identification Number (Matrix and Series Number), or the Databank Identification Number may be used to order series from CANSIM.

TABLE I.1. Canadian Balance of International Payments Cross Referenced to CANSIM Data Bank Numbers

Current Account - Annual

Acct. No.	Item	All non-residents	United States	United Kingdom	To December 31, 1972			From January 1, 1973			
					Rest of Sterling Area	Other OECD (Europe)	All other non-residents	European Economic Community (excluding United Kingdom)	Japan	Other OECD countries	Other non-residents
	Matrix numbers	273	274	275	276	277	278	2329	2330	2331	2332
Numbers are prefixed by D											
Current receipts:											
1	Merchandise exports (adjusted)	50001	51001	52001	53001	54001	55001	66001	67001	68001	69001
Service receipts:											
3	Gold production available for export	50005	51005	..	..	..	..	..	..	..	..
4	Travel	50006	51006	52006	53006	54006	55006	66006	67006	68006	69006
15	Interest and dividends	50008	51008	52008	53008	54008	55008	66008	67008	68008	69008
	Interest	50009	..	..	..	..	..	..	..	..	..
	Dividends	50010	..	..	..	..	..	..	..	..	..
21	Freight and shipping	50012	51012	52012	53012	54012	55012	66012	67012	68012	69012
23	Other service receipts	50016	51016	52016	53016	54016	55016	66016	67016	68016	69016
	Government transactions	50020	..	..	..	..	..	..	..	..	..
	Miscellaneous income	50021	..	..	..	..	..	..	..	..	..
	Business services and other transactions	50022	..	..	..	..	..	..	..	..	..
28	Total service receipts	50002	51002	52002	53002	54002	55002	66002	67002	68002	69002
29	Sub-total, exports of goods and services	50003	51003	52003	53003	54003	55003	66003	67003	68003	69003
Transfer receipts:											
30	Inheritances and immigrants' funds	50015	51015	52015	53015	54015	55015	66015	67015	68015	69015
33	Personal and institutional remittances	50018	51018	52018	53018	54018	55018	66018	67018	68018	69018
38	Withholding tax	50215	..	..	..	..	..	..	..	..	..
	Total transfer receipts	50017	51017	52017	53017	54017	55017	66017	67017	68017	69017
40	Total current receipts	50025	51025	52025	53025	54025	55025	66025	67025	68025	69025
Current payments:											
1	Merchandise imports (adjusted)	50026	51026	52026	53026	54026	55026	66026	67026	68026	69026
Service payments:											
4	Travel	50031	51031	52031	53031	54031	55031	66031	67031	68031	69031
15	Interest and dividends	50033	51033	52033	53033	54033	55033	66033	67033	68033	69033
	Interest	50034	..	..	..	..	..	..	..	..	..
	Dividends	50035	..	..	..	..	..	..	..	..	..
21	Freight and shipping	50037	51037	52037	53037	54037	55037	66037	67037	68037	69037
23	Other service payments	50045	51045	52045	53045	54045	55045	66045	67045	68045	69045
	Government transactions	50027	..	..	..	..	..	..	..	..	..
	Miscellaneous income	50028	..	..	..	..	..	..	..	..	..
	Business services and other transactions	50029	..	..	..	..	..	..	..	..	..
37	Withholding tax	50216	..	..	..	..	..	..	..	..	..
28	Total service payments	50044	51044	52044	53044	54044	55044	66044	67044	68044	69044
29	Sub-total, imports of goods and services	50041	51041	52041	53041	54041	55041	66041	67041	68041	69041
Transfer payments:											
30	Inheritances and emigrants' funds	50040	51040	52040	53040	54040	55040	66040	67040	68040	69040
33	Personal and institutional remittances	50047	51047	52047	53047	54047	55047	66047	67047	68047	69047
37	Official contributions	50042	51042	52042	53042	54042	55042	66042	67042	68042	69042
	Total transfer payments	50046	51046	52046	53046	54046	55046	66046	67046	68046	69046
40	Total current payments	50050	51050	52050	53050	54050	55050	66050	67050	68050	69050
Current account balance:											
1	Merchandise trade	50051	51051	52051	53051	54051	55051	66051	67051	68051	69051
Service transactions:											
3	Gold production available for export	50217	..	..	..	..	..	..	..	..	..
4	Travel	50218	..	..	..	..	..	..	..	..	..
15	Interest and dividends	50219	..	..	..	..	..	..	..	..	..
21	Freight and shipping	50220	..	..	..	..	..	..	..	..	..
23	Other service transactions	50221	..	..	..	..	..	..	..	..	..
27	Withholding tax	50222	..	..	..	..	..	..	..	..	..
28	Balance on service transactions	50056	51056	52056	53056	54056	55056	66056	67056	68056	69056
29	Balance on goods and services	50058	51058	52058	53058	54058	55058	66058	67058	68058	69058
Transfer balance:											
	Inheritances and migrants' funds	50223	..	..	..	..	..	..	..	..	..
	Personal and institutional remittances	50224	..	..	..	..	..	..	..	..	..
	Official contributions	50225	..	..	..	..	..	..	..	..	..
	Withholding tax	50226	..	..	..	..	..	..	..	..	..
39	Net transfers	50057	51057	52057	53057	54057	55057	66057	67057	68057	69057
40	Total current account balance	50055	51055	52055	53055	54055	55055	66055	67055	68055	69055

Note: A3 and C3 series terminated as of second quarter 1968.
A2 and B10 series Mutual Aid to NATO Countries available under Data Bank number D50004.

TABLE I.2. Canadian Balance of International Payments Cross Referenced to CANSIM Data Bank Numbers
Capital Account - Annual

Acct. No.	Item	All non-residents	United States	United Kingdom	To December 31, 1972			From January 1, 1973			
					Rest of Sterling Area	Other OECD (Europe)	All other non-residents	European Economic Community (excluding United Kingdom)	Japan	Other OECD countries	Other non-residents
	Matrix numbers	273	274	275	276	277	278	2329	2330	2331	2332
		Numbers are prefixed by D									
D	Direct investment:										
21	In Canada	50060	51060	52060	53060	54060	55060	66060	67060	68060	69060
25	Abroad	50064	51064	52064	53064	54064	55064	66064	67064	68064	69064
	Portfolio transactions:										
	Canadian securities:										
	Outstanding:										
30	Bonds	50177	51068	52068	53068	54068	55068	66068	67068	68068	69068
31	Stocks	50076	51076	52076	53076	54076	55076	66076	67076	68076	69076
32	New issues		51084	52084	53084	54084	55084	66084	67084	68084	69084
	Bonds	50178									
	Stocks	50086									
33	Retirements		51092	52092	53092	54092	55092	66092	67092	68092	69092
	Bonds	50179									
	Stocks	50087									
	Total bonds	50151									
	Total stocks	50085									
	Foreign securities:										
35	Outstanding issues	50100	51100	52100	53100	54100	55100	66100	67100	68100	69100
37	New issues	50108	51108	52108	53108	54108	55108	66108	67108	68108	69108
38	Retirements	50116	51116	52116	53116	54116	55116	66116	67116	68116	69116
	Loans and subscriptions - Government of Canada:										
	Advances to:										
40	National governments	50124	51124	52124	53124	54124	55124	66124	-	68124	69124
42	International financial agencies	50126	-	-	-	-	55126	-	-	-	69126
44	Repayments of:										
45	Post-war loans and advances	50127	51127	52127	53127	54127	55127	66127	-	68127	69127
46	War loans and advances	50129	-	52129	-	-	55129	-	-	-	-
48	Columbia River Treaty	50130	51130	-	-	-	-	-	-	-	-
49	Export credits directly or indirectly at risk of the Government of Canada	50132	51132	52132	53132	54132	55132	66132	67132	68132	69132
50	Other long-term capital transactions	50150	51150	52150	53150	54150	55150	66150	67150	68150	69150
51	Finance company borrowing in long-term forms, n.i.e.	50140	51140	52140	53140	54140	55140	-	-	-	-
52	Other	50150	51150	52150	53150	54150	55150	-	-	-	-
E 1	Balance of capital movements in long-term forms	50187	51187	52187	53187	54187	55187	66187	67187	68187	69187
D 60	Resident holdings of foreign currencies:	50158	51158	52158	53158	54158	55158	-	-	-	-
61	Chartered bank net foreign currency position with non-residents	50159	51159	52159	53159	54159	55159	66159	67159	68159	69159
65	Non-bank holdings of short-term funds abroad	50160	51160	52160	53160	54160	55160	66160	67160	68160	69160
	Non-resident holdings of Canadian:										
71	Dollar deposits	50152	51152	52152	53152	54152	55152	66152	67152	68152	69152
72	Government demand liabilities	50154	51154	52154	53154	54154	55154	66154	67154	68154	69154
74	Treasury bills	50156	51156	52156	53156	54156	55156	66156	67156	68156	69156
	Commercial paper, etc.	50166	51166	52166	53166	54166	55166	66166	67166	68166	69166
75	Commercial paper	50167	51167	52167	53167	54167	55167	66167	67167	68167	69167
77	Other short-term paper	50169	51169	52169	53169	54169	55169	66169	67169	68169	69169
76	Finance company paper	50168	51168	52168	53168	54168	55168	66168	67168	68168	69168
81	Other finance company obligations	50176	51176	52176	53176	54176	55176	66176	67176	68176	69176
82	Other short-term capital transactions	50186	51186	52186	53186	54186	55186	66186	67186	68186	69186
E 2	Balance of capital movements in short-term forms	50188	51188	52188	53188	54188	55188	66188	67188	68188	69188
E 3	Total net capital balance	50189	51189	52189	53189	54189	55189	66189	67189	68189	69189
F	Total current and capital account balance	50190	51190	52190	53190	54190	55190	66190	67190	68190	69190
G	Balance settled by exchange transfers	-	51191	52191	53191	54191	55191	66191	67191	68191	69191
J	Allocation of Special Drawing Rights	50210	-	-	-	-	55210	-	-	-	69210
K	Net official monetary movements:										
1	Change in official holdings of gold and foreign currency	50192	51192	52192	53192	54192	55192	-	-	-	-
2	Change in net International Monetary Fund position	50196	-	-	-	-	55196	-	-	-	-
3	Other special international financial assistance	50198	51198	52198	53198	54198	55198	-	-	-	-
4	Total of official monetary movements (K1 to K3)	50199	51199	52199	53199	54199	55199	-	-	-	-
4	Official international reserves	50213	51213	52213	53213	54213	55213	66213	67213	68213	69213
5	Official monetary liabilities	50214	51214	52214	53214	54214	55214	66214	67214	68214	69214
6	Net official monetary movements	50212	51212	52212	53212	54212	55212	66212	67212	68212	69212

Note: D48 Series relevant 1964 through 1973 only.
D49 Series included with D50 prior to 1962.
D50 Series D51 should be included for comparability from 1952 through 1966.

D51 Series available separately from D52 only from 1952 through 1966.
D60 Series terminated 1963.
D61 Series introduced 1964.

D65 Series introduced 1964.
K1 through K4 Series terminated 1960.
K4 through K6 Series introduced 1961.

TABLE 1.3. Canadian Balance of International Payments Cross Referenced to CANSIM Data Bank Numbers
Current Account - Quarterly

Acct. No.	Item				To December 31, 1972			From January 1, 1973				
		All non-residents	United States	United Kingdom	Rest of Sterling Area	Other OECD (Europe)	All other non-residents	European Economic Community (excluding United Kingdom)	Japan	Other OECD countries	Other non-residents	
		Seasonally adjusted	Not seasonally adjusted									
Matrix numbers		1363	279	280	281	282	283	284	2325	2326	2327	2328
Numbers are prefixed by D												
A												
Current receipts:												
1	Merchandise exports (adjusted)	60501	50501	51501	52501	53501	54501	55501	66501	67501	68501	69501
Service receipts:												
3	Gold production available for export	60505	50505	51505	52505	53505	54505	55505	66505	67505	68505	69505
4	Travel	60506	50506	51506	52506	53506	54506	55506	66506	67506	68506	69506
15	Interest and dividends	60508	50508	51508	52508	53508	54508	55508	66508	67508	68508	69508
	Interest	50509	50509	51509	52509	53509	54509	55509	66509	67509	68509	69509
	Dividends	50510	50510	51510	52510	53510	54510	55510	66510	67510	68510	69510
21	Freight and shipping	60512	50512	51512	52512	53512	54512	55512	66512	67512	68512	69512
25	Other service receipts	60711	50516	51516	52516	53516	54516	55516	66516	67516	68516	69516
	Government transactions	50520	50520	51520	52520	53520	54520	55520	66520	67520	68520	69520
	Miscellaneous income	50521	50521	51521	52521	53521	54521	55521	66521	67521	68521	69521
	Business services and other transactions	50522	50522	51522	52522	53522	54522	55522	66522	67522	68522	69522
28	Total service receipts	60710	50502	51502	52502	53502	54502	55502	66502	67502	68502	69502
29	Sub-total, exports of goods and services	60722	50503	51503	52503	53503	54503	55503	66503	67503	68503	69503
Transfer receipts:												
30	Inheritances and immigrants' funds	60515	50515	51515	52515	53515	54515	55515	66515	67515	68515	69515
33	Personal and institutional remittances	60713	50518	51518	52518	53518	54518	55518	66518	67518	68518	69518
35	Withholding tax	60726	50716	51716	52716	53716	54716	55716	66716	67716	68716	69716
	Total transfer receipts	60712	50517	51517	52517	53517	54517	55517	66517	67517	68517	69517
40	Total current receipts	60525	50525	51525	52525	53525	54525	55525	66525	67525	68525	69525
B												
Current payments:												
1	Merchandise imports (adjusted)	60526	50526	51526	52526	53526	54526	55526	66526	67526	68526	69526
Service payments:												
4	Travel	60531	50531	51531	52531	53531	54531	55531	66531	67531	68531	69531
13	Interest and dividends	60533	50533	51533	52533	53533	54533	55533	66533	67533	68533	69533
	Interest	50534	50534	51534	52534	53534	54534	55534	66534	67534	68534	69534
	Dividends	50535	50535	51535	52535	53535	54535	55535	66535	67535	68535	69535
21	Freight and shipping	60537	50537	51537	52537	53537	54537	55537	66537	67537	68537	69537
23	Other service payments	60715	50545	51545	52545	53545	54545	55545	66545	67545	68545	69545
	Government transactions	50527	50527	51527	52527	53527	54527	55527	66527	67527	68527	69527
	Miscellaneous income	50528	50528	51528	52528	53528	54528	55528	66528	67528	68528	69528
	Business services and other transactions	50529	50529	51529	52529	53529	54529	55529	66529	67529	68529	69529
27	Withholding tax	60725	50715	51715	52715	53715	54715	55715	66715	67715	68715	69715
28	Total service payments	60714	50544	51544	52544	53544	54544	55544	66544	67544	68544	69544
29	Sub-total, imports of goods and services	60723	50541	51541	52541	53541	54541	55541	66541	67541	68541	69541
Transfer payments:												
30	Inheritances and emigrants' funds	60540	50540	51540	52540	53540	54540	55540	66540	67540	68540	69540
32	Personal and institutional remittances	60717	50547	51547	52547	53547	54547	55547	66547	67547	68547	69547
37	Official contributions	60542	50542	51542	52542	53542	54542	55542	66542	67542	68542	69542
	Total transfer payments	60716	50546	51546	52546	53546	54546	55546	66546	67546	68546	69546
40	Total current payments	60550	50550	51550	52550	53550	54550	55550	66550	67550	68550	69550
C												
Current account balance:												
1	Merchandise trade	60551	50551	51551	52551	53551	54551	55551	66551	67551	68551	69551
Service transactions:												
3	Gold production available for export	60701	50717	51717	52717	53717	54717	55717	66717	67717	68717	69717
4	Travel	60554	50718	51718	52718	53718	54718	55718	66718	67718	68718	69718
13	Interest and dividends	60556	50719	51719	52719	53719	54719	55719	66719	67719	68719	69719
21	Freight and shipping	60557	50720	51720	52720	53720	54720	55720	66720	67720	68720	69720
23	Other service transactions	60719	50721	51721	52721	53721	54721	55721	66721	67721	68721	69721
27	Withholding tax	60727	50722	51722	52722	53722	54722	55722	66722	67722	68722	69722
28	Balance on service transactions	60718	50556	51556	52556	53556	54556	55556	66556	67556	68556	69556
29	Balance on goods and services	60724	50558	51558	52558	53558	54558	55558	66558	67558	68558	69558
Transfer balance:												
	Inheritances and migrants' funds	60558	50723	51723	52723	53723	54723	55723	66723	67723	68723	69723
	Personal and institutional remittances	60721	50724	51724	52724	53724	54724	55724	66724	67724	68724	69724
	Official contributions	60709	50725	51725	52725	53725	54725	55725	66725	67725	68725	69725
	Withholding tax	60728	50726	51726	52726	53726	54726	55726	66726	67726	68726	69726
39	Net transfers	60720	50557	51557	52557	53557	54557	55557	66557	67557	68557	69557
40	Total current account balance	60555	50555	51555	52555	53555	54555	55555	66555	67555	68555	69555

Notes: A3 and C3 status terminated as of second quarter 1968.

TABLE 1.4. Canadian Balance of International Payments Cross Referenced to CANSIM Data Bank Numbers
Capital Account - Quarterly

Acct. No.	Item	All non-residents	United States	United Kingdom	To December 31, 1972			From January 1, 1973			
					Rest of Sterling Area	Other OECD (Europe)	All other non-residents	European Economic Community (excluding United Kingdom)	Japan	Other OECD countries	Other non-resident
Not seasonally adjusted											
Matrix numbers		279	280	281	282	283	284	2325	2326	2327	2328
Numbers are prefixed by D											
D	Direct investment:										
21	In Canada	50560	51560	52560	53560	54560	55560	66560	67560	68560	69560
25	Abroad	50564	51564	52564	53564	54564	55564	66564	67564	68564	69564
	Portfolio transactions:										
	Canadian securities:										
	Outstanding:										
30	Bonds	50677	51568	52568	53568	54568	55568	66568	67568	68568	69568
31	Stocks	50576	51576	52576	53576	54576	55576	66576	67576	68576	69576
32	New issues	51584	51584	52584	53584	54584	55584	66584	67584	68584	69584
	Retirements		51592	52592	53592	54592	55592	66592	67592	68592	69592
33	Bonds	50679									
	Stocks	50587									
	Total bonds	50651									
	Total stocks	50585									
	Foreign securities:										
35	Outstanding issues	50600	51600	52600	53600	54600	55600	66600	67600	68600	69600
37	New issues	50608	51608	52608	53608	54608	55608	66608	67608	68608	69608
38	Retirements	50616	51616	52616	53616	54616	55616	66616	67616	68616	69616
	Loans and subscriptions - Government of Canada:										
	Advances to:										
40	National governments	50624	51624	52624	53624	54624	55624	66624	-	68624	69624
41	International financial agencies	50626	-	-	-	-	55626	66626	-	-	69626
44	Repayments of:										
45	Post-war loans and advances	50629	51627	52627	53627	54627	55627	66627	-	68627	69627
46	War loans and advances	50700	-	52629	-	-	55629	-	-	-	-
48	Columbia River Treaty	50630	51630	-	-	-	-	-	-	-	-
49	Export credits directly or indirectly at risk of the Government of Canada	50632	51632	52632	53632	54632	55632	66632	67632	68632	69632
50	Other long-term capital transactions	50650	51650	52650	53650	54650	55650	66650	67650	68650	69650
51	Finance company borrowing in long-term forms, n.i.e.	50640	51640	52640	53640	54640	55640	-	-	-	-
52	Other	50650	51650	52650	53650	54650	55650	-	-	-	-
E 1	Balance of capital movements in long-term forms	50687	51687	52687	53687	54687	55687	66687	67687	68687	69687
D 60	Resident holdings of foreign currencies:	50658	51658	52658	53658	54658	55658	-	-	-	-
61	Chartered bank net foreign currency position with non-residents	50659	51659	52659	53659	54659	55659	66659	67659	68659	69659
65	Non-bank holdings of short-term funds abroad	50660	51660	52660	53660	54660	55660	66660	67660	68660	69660
	Non-resident holdings of Canadian:										
71	Dollar deposits	50652	51652	52652	53652	54652	55652	66652	67652	68652	69652
72	Government demand liabilities	50654	51654	52654	53654	54654	55654	66654	67654	68654	69654
74	Treasury bills	50656	51656	52656	53656	54656	55656	66656	67656	68656	69656
	Commercial paper, etc.	50666	51666	52666	53666	54666	55666	66666	67666	68666	69666
75	Commercial paper	50667	51667	52667	53667	54667	55667	66667	67667	68667	69667
77	Other short-term paper	50669	51669	52669	53669	54669	55669	66669	67669	68669	69669
76	Finance company paper	50668	51668	52668	53668	54668	55668	66668	67668	68668	69668
81	Other finance company obligations	50676	51676	52676	53676	54676	55676	66676	67676	68676	69676
82	Other short-term capital transactions	50686	51686	52686	53686	54686	55686	66686	67686	68686	69686
E 2	Balance of capital movements in short-term forms	50688	51688	52688	53688	54688	55688	66688	67688	68688	69688
E 3	Total net capital balance	50689	51689	52689	53689	54689	55689	66689	67689	68689	69689
F	Total current and capital account balance	50690	51690	52690	53690	54690	55690	66690	67690	68690	69690
G	Balance settled by exchange transfers	-	51691	52691	53691	54691	55691	66691	67691	68691	69691
J	Allocation of Special Drawing Rights	50710	-	-	-	-	55710	-	-	-	69710
K	Net official monetary movements:										
1	Change in official holdings of gold and foreign currency	50692	51692	52692	53692	54692	55692	-	-	-	-
2	Change in net International Monetary Fund position	50696	-	-	-	-	55696	-	-	-	-
3	Other special international financial assistance	50698	51698	52698	53698	54698	55698	-	-	-	-
4	Total of official monetary movements (K1 to K3)	50699	51699	52699	53699	54699	55699	-	-	-	-
4	Official international reserves	50713	51713	52713	53713	54713	55713	66713	67713	68713	69713
5	Official monetary liabilities	50714	51714	52714	53714	54714	55714	66714	67714	68714	69714
6	Net official monetary movements	50712	51712	52712	53712	54712	55712	66712	67712	68712	69712

Note: D 48 Series relevant 1964 through 1973 only.
D49 Series included with D50 prior to 1962.
D50 Series D51 should be included for comparability from 1952 through 1966.

D51 Series available separately from D52 only from 1952 through 1966.
D60 Series terminated 1963.
D61 Series introduced 1964.

D65 Series introduced 1964.
K1 through K4 Series terminated 1960.
K4 through K6 Series introduced 1961.

APPENDIX 2

Relationship Between Canadian International Investment Position and Balance of Payments Statistics

Table 2.1 is the result of an exercise which draws together identified information, particularly from the balance of payments, in respect of sources of changes in Canada's external assets and liabilities and introduces some assumptions with respect to the remaining contributing factors.

The table begins with the book values of elements of Canada's international investment position at the end of 1945 and finishes with the corresponding figures for the end of 1974. Linking these estimates are data distributed over seven columns. The first pair of these shows capital movements during the 29-year period, column 2, substantially as they appear in *The Canadian Balance of International Payments, 1973-1974*¹ and *Quarterly Estimates of the Canadian Balance of International Payments, First Quarter 1978*² and column 3 showing the reclassifications within capital flows necessary to conform to the category definitions used in the investment position. Columns 4 through 8 show, respectively, further reclassifications of assets and liabilities within the investment position, valuation adjustments applied to them, the effects on Canada's international investment position of the union of Newfoundland with Canada and identified migration and bequests, the effects of exchange rate variations, and estimates of undistributed earnings.

The descriptions which follow cover the changes in each of the asset and liability categories and provide some indications of the quality of the estimates.

Canadian assets abroad – The book value of Canadian direct investments abroad rose over the 29-year period by \$8.6 billion. This included capital outflows from Canada aggregating \$4.4 billion. Reclassifications within the investment position added \$0.6 billion while valuation adjustments decreased direct investment abroad by \$0.5 billion. The underlying book values of direct investment are, of course, in foreign currencies while the estimates are presented in terms of Canadian dollars. It is estimated that the effects of exchange rate variations over the period increased the Canadian dollar book value by \$0.1 billion. The remaining element in the increase, amounting to \$3.9 billion, has been attributed to the accrual abroad of undistributed earnings.

Portfolio investment abroad rose by \$3.3 billion of which net capital outflows accounted for \$0.7 billion. The net balance under column 3, reclassifications within the investment position, was zero, as the acquisition under exchange offers of over \$0.2 billion of

foreign securities in exchange for stocks of Canadian companies was offset by net deductions of \$0.2 billion due to shifts from Canadian portfolio to Canadian net direct investment abroad. Valuation adjustments, reflecting the difference since 1968 between the values at which portfolio security transactions took place and the underlying book values of the investments, contributed \$0.3 billion to portfolio investment abroad, as shown in column 5. The remaining element of \$2.3 billion has been attributed to the accrual of undistributed earnings on portfolio investments. It must be noted, however that the figure also includes the difference between the values at which portfolio security transactions took place (used in balance of payments estimates) and the underlying book values of the investments prior to 1968.

Miscellaneous investments abroad, which were negligible at the end of 1945, amounted to \$3.1 billion at the end of 1974. Over half of the increase is reflected in the capital flows recorded between 1962 and 1974 in respect of medium- and long-term export credits extended directly or indirectly at risk of the Government of Canada. About \$1.1 billion has been assumed to have been included among the other long-term capital movements which were accordingly all shown in column 2 as relating to the liability item for foreign miscellaneous investment in Canada. The remaining \$0.2 billion increase has been attributed to valuation adjustments mainly in respect of the inclusion, for the first time, of bank premises abroad.

Government of Canada credits and subscriptions to international financial agencies, excluding the IMF, rose over the 29-year period from \$0.7 billion to \$2.6 billion. Of this increase, \$1.4 billion reflected capital flows shown in column 2 relating to government loans, advances and subscriptions, to Columbia River Treaty transactions, but a further \$0.3 billion had to be added in column 3 to gross the latter transactions which were shown on a net basis in the balance of payments. Column 5 shows \$0.2 billion for valuation adjustments, mainly in respect of deferrals of interest which were articulated in the investment position but not in the balance of payments.

These asset categories cover all Canadian long-term investments abroad. In sum, their growth, from \$2.0 billion at the end of 1945 to \$18.9 billion at the end of 1974, was made up of \$9.9 billion of capital flows (including \$1.5 billion of reclassified flows) and perhaps as much as \$6.2 billion of undistributed earnings, and additions of \$0.9 billion arising from reclassifications within the investment position, valuation adjustments and exchange rate variations.

¹ Catalogue 67-201.

² Catalogue 57-001.

TABLE 2.1. Canada's International Investment Position, Year-ends 1945 and 1974, and Some Estimated Factors in the Change

	Book value year-end 1945	Capital movements 1946-1974		Other factors in change					Book value year-end 1974
		As published	Reclassifications	Investment position reclassifications, etc. ¹	Valuation adjustments	Union with Newfoundland and identified migrations and bequests	Exchange rate effects	Undistributed earnings	
	1	2	3	4	5	6	7	8	9
billions of dollars									
Assets									
Direct investment	0.7	4.4	-	0.6	-0.5	-	0.1	3.9	9.3
Portfolio investment	0.6	0.7	-	-	0.3 ²	-	-	2.3 ²	3.9
Miscellaneous investment	-	1.8	1.1	-	0.2	-	-	-	3.1
Government of Canada credits	0.7	0.8	0.3	-	0.2 ³	-	-	-	2.0
Government of Canada subscriptions to international investment agencies	-	0.6	-	-	-	-	-	-	0.6
Canadian long-term investment abroad	2.0	8.4	1.5	0.6	0.2	-	0.1	6.2	18.9
Net official monetary assets	1.7	4.2	-	-	0.3	-	-0.4	-	5.8
Other Canadian short-term holdings of foreign exchange	0.1	2.8	-	-0.5	-	-	0.2	-	2.7
Short-term receivables	0.1	5.2 ⁴	4.7	0.5	-0.4 ⁵	-	-	-	10.1
Gross assets	3.9	20.5	6.2	0.6	-	-	-0.1	6.2	37.5
Liabilities									
Direct investment	2.7	14.2	2.5	-1.9	-0.1	0.1	-	18.5	36.1
Government bonds	1.7	10.2	-	-	-	0.1	-0.3	-	11.6
Other portfolio investment	2.4	5.0	-1.6	-1.5	-	-	-0.1	5.0 ⁶	9.2
Miscellaneous investment	0.3	2.0	1.2	-	-0.1 ⁶	-	-	-	3.4
Foreign long-term investment in Canada	7.1	31.4	2.1	-3.4	-0.2	0.2	-0.5	23.6	60.3
Non-resident equity in Canadian assets abroad	0.2	-	-	3.6	-0.5	-	-	-	3.3
Official SDR liabilities	-	0.4	-	-	-	-	-	-	0.4
Total long-term liabilities	7.3	31.8	2.1	0.2	-0.7	0.2	-0.5	23.6	64.0
Non-resident holdings of Canadian dollars	0.3	1.8	-	-	-	-	-	-	2.0
Short-term finance company obligations	-	1.4	-	-	-	-	-	-	1.4
Other short-term payables	0.6	0.3 ⁴	4.0	0.4	-	-	-	-	5.4
Gross liabilities	8.2	35.3	6.2	0.6	-0.8	0.2	-0.5	23.6	72.6
Net international indebtedness	4.2	14.7	-	-	-0.8	0.2	-0.4	17.4	35.3

¹ Column 4 includes, in addition to reclassifications, offset transactions involving the exchange of assets and liabilities between residents and non-residents which have not been shown as capital movements.

² No adjustment has been made prior to 1968 in respect of the net difference between transactions and book values of portfolio investment abroad, which consequently are reflected with undistributed earnings for the period 1946-67.

³ Mainly deferred interest.

⁴ Capital movements series D82 is shown as a receivable.

⁵ Discrepancies.

⁶ No adjustment has been made in respect of net difference between transactions and book values, which consequently are reflected with undistributed earnings.

Note: As figures are rounded individually, totals do not necessarily equal the sum of their component parts.

Among Canadian assets abroad in short-term forms, net official monetary assets rose over the 29-year period by \$4.1 billion. Valuation adjustments as shown in column 5, amounting to \$0.3 billion, reflected the revaluation of Canada's gold-based assets from approximately U.S. \$35 to U.S. \$38 per ounce of fine gold in May 1972, and to U.S. \$42.22 in October 1973. The growth in these monetary assets was offset to the extent of \$0.4 billion by the effect of exchange rate variations, which includes the formal linking from July 1, 1974 of the value of these assets to a basket of 16 currencies, as calculated by the International Monetary Fund.

Other Canadian short-term holdings of foreign exchange rose by \$2.6 billion. Related capital movements accounted for \$2.8 billion, but there was an offsetting reclassification of \$0.5 billion arising from a change in the treatment of the foreign currency operations of the Canadian chartered banks. The balance of \$0.2 billion represented the effects of exchange rate variations.

Short-term receivables during the 29-year period rose by \$10 billion. Some \$5.2 billion of this was attributable to the capital flows described as other short-term capital transactions; this series includes both receivables and payables, and reflects also the balancing item within the balance of payments representing the difference between recorded measures of current, capital and reserve movements, thus embodying all unidentified transactions. Reclassifications of capital movements aggregating \$4.7 billion included transfers to balance out the change in the liability category for foreign miscellaneous investment in Canada (upon the assumption that some flows had been misclassified as to term), the grossing of short-term receivables and payables in an amount sufficient to balance out the change in the latter category, and some revisions of capital movements over the period which had not been published when the table was prepared. Finally, there was a reclassification, shown in column 4, of \$0.5 billion arising from the change in the treatment of banking data described in the immediately preceding paragraph. The effect of all these adjustments was to reflect in the category of short-term receivables all discrepancies within Table 2.1 as a whole. These are eliminated through the negative figure of \$0.4 billion under valuation adjustments in column 5.

This completes the review of changes in gross assets abroad. In sum, they rose from \$3.9 billion at the end of 1945 to \$37.5 billion at the end of 1974. The contributing factors were capital movements (as reclassified) aggregating \$26.8 billion, \$6.2 billion of undistributed earnings, and additions of \$0.6 billion in respect of reclassifications and valuation adjustments and deductions of \$0.1 billion in respect of the effects of exchange rate variations.

Canadian liabilities abroad—The book value of foreign direct investment in Canada rose over the 29-year period by \$33.4 billion. This included net capital inflows to Canada of \$14.2 billion as published. Additional capital inflows of \$2.5 billion are shown in column 3 covering capital from unrelated parties (treated as direct investment in the investment position statistics when it is from the country in which control is deemed to lie) as well as revisions of the direct investment capital flows which had not been published when the table was prepared. Reclassifications within the investment position data, as shown in column 4, reduced the total by \$1.9 billion. These included deductions in respect of the equity of non-residents in Canadian investment abroad through ownership of direct investments in Canada (which is shown separately), additions to direct investment through the issue to residents under exchange offers of shares of foreign parent companies, shifts between foreign direct and portfolio investment in Canada, and a reduction in respect of short-term finance company payables which had been misclassified as long term. There were a number of valuation adjustments, including an allowance for the adjustment of the capital flows from unrelated parties included in column 3 from their transactions values to the resultant changes in book values, which reduced direct investment in Canada by \$0.1 billion. About \$0.1 billion was added to the total arising from the union of Newfoundland with Canada when direct investments in Newfoundland from third countries became foreign direct investment in Canada. Finally, among the factors in the change were the undistributed earnings accruing in Canada on foreign direct investments which were estimated to have totalled \$18.5 billion over the 29-year period.

Foreign holdings of funded debt of Canadian governments are estimated to have risen over the period from \$1.7 billion to \$11.6 billion. Of this increase, about \$10.2 billion arose from net capital inflows to Canada, and nearly \$0.1 billion from the union with Newfoundland. Exchange rate variations are estimated to have reduced the totals by about \$0.3 billion.

Other portfolio investment in Canada rose from \$2.4 billion to \$9.2 billion. Net capital inflows during the period, as published, totalled about \$5.0 billion but for the purposes of this analysis about \$1.6 billion of these flows were reclassified to foreign direct investment in Canada. This reflected portfolio investment flows into enterprises controlled by residents of the country from which the flows occurred; under the concepts followed in the investment position this is treated as direct investment. Reclassifications within the investment position, shown in column 4, reduced the totals by \$1.5 billion. Most of this represented the transfer to a separate category in the investment position of the non-resident equity in Canadian investment abroad through portfolio investment in Canada, although there were also some identified shifts between

foreign direct and portfolio investment in Canada. The effects of exchange rate variations are estimated to have reduced the total by \$0.1 billion. The remainder of \$5.0 billion has been attributed to the accrual of undistributed earnings on foreign portfolio investments, although it must again be noted that the figure would reflect differences between the values at which portfolio security transactions took place and the underlying book values of the investments, for which no specific provision could be made.

Foreign miscellaneous investment in Canada increased by \$3.1 billion. The net inflows for "other" long-term capital transactions over the 29-year period totalled \$2.0 billion, and capital movements reclassified from other categories totalled a further \$1.2 billion. Valuation adjustments of \$0.1 billion represented the amortization, which began in 1968, of the payments by the United States under the Columbia River Treaty, which were articulated in the investment position but not in the balance of payments. In disaggregating the published series for other long-term capital transactions, elements were transferred to miscellaneous investments abroad, to Government of Canada credits and subscriptions to international investment agencies (grossing the Columbia River Treaty transactions), and to foreign direct investment in Canada (representing loans from unrelated parties which fall within the definition of direct investment used in the investment position). Also included was a transfer of the otherwise unexplained balance to short-term receivables upon the assumption that some flows had been misclassified as to term.

The liability categories just described cover all foreign long-term investment in Canada. In sum, the increase of \$53.2 billion over the 29-year period is indicated to have arisen as to \$33.5 billion from capital movements as reclassified, and something of the order of \$23.6 billion from the accrual to non-residents of undistributed earnings. Reclassifications within the investment position, as shown in column 4, reduced the figures by \$3.4 billion, union with Newfoundland and identified migration and bequests increased them by \$0.2 billion, and exchange rate variations reduced them by \$0.5 billion.

The non-resident equity in Canadian assets abroad rose from \$0.2 billion to \$3.3 billion. This increase is shown by reclassifications of direct and portfolio within the investment position which appear in column 4.

Official liabilities of \$0.4 billion assumed in connection with the allocation of Special Drawing Rights were reflected in the data for capital movements, shown in column 2.

Non-resident holdings of Canadian dollars rose from \$0.3 billion to \$2.0 billion as a result of capital inflows of \$1.8 billion.

Short-term finance company obligations of \$1.4 billion at the end of 1974 were also the result of capital inflows.

Other short-term payables increased by \$4.8 billion. Capital inflows from the sale of short-term commercial and other paper amounted to \$0.3 billion. As noted earlier, the category of other capital movements in short-term forms was initially allocated to short-term receivables and a figure of \$4.0 billion has been recorded in column 3 as a reclassification representing the grossing of the original flow series. A further addition of \$0.4 billion has been recorded in column 5 as a reclassification of claims originally shown in the investment position as long term.

This completes the review of factors in changes in Canada's gross external liabilities. In summary form, liabilities to non-residents rose from \$8.2 billion at the end of 1945 to \$72.8 billion at the end of 1974. The major contributing factors were \$41.5 billion of capital movements (as reclassified) and about \$23.6 billion of undistributed earnings which accrued during the period to non-residents.

Canada's net international indebtedness rose by \$31.1 billion over the 29-year period reflecting the current account deficit of \$14.7 billion (which, of course, corresponded to the net capital inflow), \$17.4 billion of undistributed international earnings and an offsetting amount of \$1.0 billion due to other factors.

APPENDIX 3

Linkages to the National Income and Expenditure Accounts

Table 3.1 reproduces the form of Table 60 published in the Annual National Income and Expenditure Accounts, "Current transactions with non-residents in the national income and expenditure accounts – reconciliation with Canadian balance of international payments", with illustrative data for 1974.

In the summary description in Part I it was noted that until fairly recently the links between balance of payments data and the National Income and Expenditure Accounts were not fully articulated, and that users of historical balance of payments reports would find it necessary to make a number of further adjustments. These include (for some parts of the back record) the addition to imports of goods and services and to current transfers received from abroad, of taxes withheld on earnings of non-residents. This adjustment in effect assigns this item to earnings of non-resident factors of production. Such taxes represent a part of the earnings of foreign factors of production, but they also represent a transfer payment (tax outlay) from non-residents to the Canadian government. It is only in recent balance of payments publications that this entry has been articulated.

Also in some earlier balance of payments reports there appear in both current receipts and current payments entries for Mutual Aid to NATO countries. These

entries have to be eliminated for use in the National Income and Expenditure Accounts since the amounts represent provision of goods and services which have already been counted as Canadian production in government (defence) expenditure for goods and services, either in the current period or in some previous period. The adjustments are self-cancelling (since they reduce current receipts and payments by identical amounts), and Gross National Expenditure is not affected.

In the war and early postwar period, a number of special adjustments have been made to the basic Balance of Payments data for National Income and Expenditure Accounts purposes. These and other aspects of transactions with non-residents are described more fully in Chapter 8 of *A Guide to the National Income and Expenditure Accounts*¹ and in the note on Newfoundland appearing in Part VI.

Some difficulties arise from time to time for the unwary in the use of the reconciliation table. Occasionally, differences in the timing of revisions to the two sets of accounts may introduce further complications. As examples, the reader may wish to refer to the notes to Table 3.1.

¹ Catalogue 13-549.

TABLE 3.1. Current Transactions with Non-residents in the National Income and Expenditure Accounts, Reconciliation with Canadian Balance of International Payments, 1974

(Format of Table 60 in the Annual National Income and Expenditure Accounts - Cross-references to Other Tables Omitted, and Notes Edited)

Item	Millions of dollars	Notes
Receipts		
1. "Current receipts" as per Canadian Balance of International Payments.	40,259	<p>Source: <i>Quarterly Estimates of the Canadian Balance of International Payments, First Quarter 1976</i> (Catalogue 67-001). Minor revisions for the years 1937 through 1945 have not been incorporated in the national accounts. The revised data, in millions of dollars, are 3, 5, 10, 24, 15, 11, 8, 11, and 19, for the years beginning with 1937.</p> <p>Includes deductions in millions of dollars from 1942 through 1945 of 1,002, 518, 960, and 858 respectively for government expenditures on Mutual Aid, UNRRA and military relief since these are included in the national accounts during the war years with government expenditures on goods and services. Also includes adjustments in respect of the treatment of Newfoundland from 1940 through 1948. Part of the adjustment for 1968 reflects use of a different measure for non-monetary gold in the balance of payments after the first quarter of 1968; while the national accounts incorporated this treatment beginning with 1969, technical factors preclude revision of 1968. The remainder of the adjustment for 1968, and all that for 1969, represent minor revisions to merchandise trade and travel not yet incorporated in the national accounts.</p>
2. Deduct: inheritances and immigrants' funds received from abroad.	- 702	
3. Other adjustments	-	
4. Equals: current receipts of Canada from non-residents as per National Income and Expenditure Accounts.	39,557	
5. Deduct: current transfers received from abroad.	- 653	<p>Personal and institutional remittances, withholding taxes, and pensions commencing with 1961. Pension receipts, available from 1952 through 1960 have not yet been incorporated as transfers in the national accounts.</p>
6. Equals: exports of goods and services as per National Income and Expenditure Accounts.	38,904	<p>As published in <i>National Income and Expenditure Accounts, First Quarter 1976</i> (Catalogue 13-001).</p>
7. Merchandise	32,591	
8. Non-merchandise	6,313	
Payments		
9. "Current payments" as per Canadian Balance of International Payments.	41,751	
10. Deduct: inheritances and emigrants' funds paid abroad.	- 168	<p>Minor revisions for the years 1937 through 1944 have not yet been incorporated in the national accounts. The revised data in millions of dollars, are 5, 5, 5, 9, 5, 4, 6, and 9, for the years beginning with 1937.</p>
11. Other adjustments	-	<p>Adjustments in respect of the treatment of Newfoundland from 1940 through 1948. See also line 3 in respect of 1968 and 1969.</p>
12. Equals: current payments of Canada to non-residents as per National Income and Expenditure Accounts.	41,583	
13. Deduct: current transfers paid abroad.	- 624	<p>Personal and institutional remittances, government official contributions and government pensions paid abroad.</p>
14. Equals: imports of goods and services as per National Income and Expenditure Accounts.	40,959	<p>As published in <i>National Income and Expenditure Accounts, First Quarter 1976</i> (Catalogue 13-001).</p>
15. Merchandise	30,893	
16. Non-merchandise	10,066	
Balances		
17. Surplus (+) or deficit (-) on current account as per Canadian Balance of International Payments.	- 1,492	Line 1 minus line 9.
18. Deduct: net capital transfers received from abroad.	- 534	Net inheritances and migrants' funds.
19. Other adjustments, net	-	Line 3 minus line 11.
20. Equals: surplus (+) or deficit (-) of Canada on current transactions with non-residents as per National Income and Expenditure Accounts.	- 2,026	Also equals line 4 minus line 12.

APPENDIX 4

Financial Flows Presentation

The "Rest of the World" sector of the Financial Flow Accounts, shown in Table 4.1 with illustrative figures for 1974, summarizes the financial transactions of residents of the rest of the world with Canadian residents. It is constructed by regrouping transactions recorded in the Canadian balance of international payments to fit the conceptual frame of the financial flow accounts.

Financial flows are presented from the point of view of non-residents; an excess of imports over exports of goods and services in Canada's balance of payments, shown as a negative balance, represents foreign savings made available to Canada and is reflected in a growth in assets of non-residents. When current account transactions appear in the financial flows, they do so with sign reversed.

Net domestic saving, category 1400 in the financial flows, records saving of non-residents of Canada as reflected in the national income and expenditure accounts, and corresponds (with sign reversed) in the Canadian balance of payments statistics to the current account balance less net receipts of inheritances and migrants' funds.

Net purchases of existing and intangible assets, category 1800, is used to record the net receipts by Canada of inheritances and migrants' funds. As capital transfers, these are not part of current income or expenditure under national accounting concepts, although they are current account transactions for the balance of payments.

After deduction of these capital transfers from domestic saving, a surplus or deficit (equivalent to the current account balance of the balance of payments, series C40, with sign reversed) is left in category 1900

covering net lending or borrowing. A surplus is invested in financial assets or used for reduction of liabilities; a deficit is met by borrowing or by a reduction of assets.

The change in category 2000 covering net financial investment reflects the difference between the net increase in financial assets and the net increase in liabilities. Net financial investment as it appears in the financial flows is the sum of the balance of payments items for total net capital balance (series E3), allocation of Special Drawing Rights (series J), and, with the sign reversed, net official monetary movements (series K6). Negative figures indicate a net outflow of capital from Canada to other countries reflecting an increase in the net liabilities of the foreign sector, which is the same sign convention as is used in the balance of payments statistics.

The discrepancy item appearing in category 4000 represents the difference between net lending or borrowing (category 1900) and net financial investment (category 2000). It would reflect any discrepancy which might arise due to timing differences between the revision of the national income and expenditure accounts and of the current account of the balance of payments. It should be noted that the balance of payments balancing item♦ – representing the difference between recorded measures of current, capital and reserve movements and embodying all unidentified transactions in the balance of payments – is included with "other financial assets" in category 2610.

The reconciliation statements provided in Tables 4.2 and 4.3 show the direct linking of items in the "rest of the world" sector in the financial flows and the capital account of the balance of payments. As currently constructed, separate data are not provided for the rest of the world for the following relevant categories:

Financial assets category	Liabilities category	Title
—	3311 ¹	Currency and bank deposits
—	3312 ¹	Deposits in other institutions
2320	3320	Receivables/payables
2321	3321	Consumer credit
2322	3322	Trade
2331	—	Bank loans
—	3350	Finance and other short-term paper
—	3410	Mortgages
2430	3430	Life insurance and pensions
2513	3513 ¹	Claims on associated enterprises: government
—	3610	Other liabilities

¹ These categories are unlikely to be statistically significant.

TABLE 4.1. Financial Flow Accounts: Rest of World (Sector XIII), 1974

Table 2 - 40 in the Financial Flow Accounts

Category number	Category	Millions of dollars
1100	Gross saving	2,026
1400	Net saving	2,026
1500	Non-financial capital acquisition	534
1800	Net purchases of existing and intangible assets	534
1900	Net lending or borrowing (1100 - 1500)	1,492
2000	Net financial investment (2100 - 3100)	1,492
2100	Net increase in financial assets	3,152
2310	Currency and deposits	443
2311	Currency and bank deposits	347
2312	Deposits in other institutions	5
2313	Foreign currency and deposits.	91
2330	Loans:	
2332	Other loans	302
2340	Government of Canada Treasury Bills	77
2350	Finance and other short-term paper.	- 254
2410	Mortgages	40
2420	Bonds	1,865
2421	Government of Canada bonds.	- 82
2422	Provincial government bonds	1,553
2423	Municipal government bonds	146
2424	Other Canadian bonds	248
2510	Claims on associated enterprises:	
2512	Corporate	785
2520	Stocks	- 139
2610	Other financial assets	- 475
	(a) Other	- 475
	(b) Special Drawing Rights.	-
2700	Official monetary reserve offsets	-
3100	Net increase in liabilities.	1,660
3210	Official international reserves	24
3211	Official holdings of gold and foreign exchange	- 157
3212	International Monetary Fund, general account	- 179
3213	Special Drawing Rights.	2
3310	Currency and deposits:	
3313	Foreign currency and deposits.	- 765
3330	Loans:	1,493
3331	Bank loans	584
3332	Other loans	909
3410	Mortgages	-
3510	Claims on associated enterprises:	
3512	Corporate	763
3530	Foreign Investments	- 32
3610	Other liabilities	177
4000	Discrepancy (1900 - 2000)	-

TABLE 4.2. Summary Reconciliation Between Rest of the World Sector in the Financial Flow Accounts and the Balance of International Payments, 1974¹

Category number	Financial Flow Accounts/Category	Balance of payments capital flows, allocation of SDRs and official monetary movements									
		D21	D25	D30	D31	D32	D33	D35	D37	D38	D40
		millions of dollars									
	Financial assets										
2310	Currency and deposits:										
2311	Currency and bank deposits										
2312	Deposits in other institutions										
2313	Foreign currency and deposits										
2330	Loans:										
2332	Other loans										
2340	Government of Canada Treasury Bills										
2350	Finance and other short-term paper										
2410	Mortgages										
2420	Bonds:										
2421	Government of Canada bonds			- 41		14		- 55			
2422	Provincial government bonds			50		1,713		- 210			
2423	Municipal government bonds			8		234		- 96			
2424	Other Canadian bonds			24		448		- 224			
2510	Claims on associated enterprises:										
2512	Corporate	725									
2520	Stocks				- 112	14		- 41			
2610	Other financial assets:										
	(a) Other										
	(b) Special Drawing Rights										
2700	Official monetary reserve offsets										
	Liabilities										
3210	Official international reserves:										
3211	Official holdings of gold and foreign exchange										
3212	International Monetary Fund, general account										
3213	Special Drawing Rights										
3310	Currency and deposits:										
3313	Foreign currency and deposits										
3330	Loans:										
3331	Bank loans										
3332	Other loans										
3510	Claims on associated enterprises:										
3512	Corporate		- 775								
3530	Foreign investments							73	- 39	12	
3610	Other liabilities										
	Total	725	- 775	41	- 112	2,423	- 626	73	- 39	12	- 33

¹ Signs follow balance of payments conventions, with official monetary movements expressed as a capital flow.
 Source: Fourth Quarter 1976 issues of *Financial Flow Accounts* (Catalogue 13-002) and *Quarterly Estimates of the Canadian Balance of International Payments* (Catalogue 67-001).

TABLE 4.2. Summary Reconciliation Between Rest of the World Sector in the Financial Flow Accounts and the Balance of International Payments, 1974¹

Balance of payments capital flows, allocation of SDRs and official monetary movements																		Category number
D44	D48	D49	D50	D61	D65	D71	D72	D74	D75	D76	D77	D81	D82	J	K4	K5	Total	
millions of dollars																		
					- 26	558					- 177		- 8				347	2310
						5											5	2311
																		2312
				91													91	2313
																		2330
			159				45						98				302	2332
								77									77	2340
									53	94	107						254	2350
			40														40	2410
																		2420
																	- 82	2421
																	1,553	2422
																	146	2423
																	248	2424
																		2510
													60				785	2512
																	- 139	2520
			40														- 475	2610
																	-	
																	-	2700
																		3210
																157	157	3211
																- 179	- 179	3212
																- 2	- 2	3213
																		3310
				- 852	1,617												765	3313
			- 4	- 580													- 584	3330
38		- 588	- 9														- 909	3331
																		3332
																		3510
							34										- 763	3512
				- 13	- 1												32	3530
			- 177														- 177	3610
38	...	- 588	49	- 1,354	1,590	597	45	77	53	94	- 70	158	- 545	-	- 24	-	1,492	

¹ Signs follow balance of payments conventions, with official monetary movements expressed as a capital flow.Source: Fourth Quarter 1976 issues of *Financial Flow Accounts* (Catalogue 13-002) and *Quarterly Estimates of the Canadian Balance of International Payments* (Catalogue 67-001).

TABLE 4.3. Reconciliation Between the Rest of the World Sector of the Financial Flow Accounts and Canadian Balance of International Payments, 1974

Rest of the World Sector Financial assets and liabilities ¹			Canadian Balance of International Payments Capital flows ²		
Category	Description	Amount	Account number	Description	Amount
		\$'000,000			\$'000,000
	Assets				
2311	Currency and bank deposits	347	D71	Non-resident owned deposits of Canadian dollars and money employed at the Bank of Canada, at Canadian chartered banks in Canada (including net Canadian liabilities arising from the excess of Canadian dollar deposits at foreign branches of Canadian chartered banks over Canadian dollar loans made by these branches) and at Quebec savings banks and trust and loan companies	597
			D71 (part) to 2312	Less: non-resident owned Canadian dollar deposits at Quebec savings banks and at trust and loan companies	5
			D77 (part) from 2350	Bearer notes sold to non-residents by chartered banks in Canada	- 177
			D71 (part) to 3512	Less: net Canadian liabilities arising from the excess of Canadian dollar deposits over Canadian dollar loans at foreign branches of Canadian chartered banks	34
			D82 (part) from 2610	Chartered bank Canadian dollar deposits in foreign banks	- 8
			D65 (part) from 3313	Canadian dollar deposits by non-financial corporations with foreign banks	- 26
2312	Deposits in other institutions	5	D71 (part) from 2311	Non-resident owned Canadian dollar deposits in Quebec savings banks and trust and loan companies	5
			D77 (part) from 2350	Guaranteed investment certificates sold to non-residents by Canadian mortgage loan companies	-
2313	Foreign currency and deposits	91	D61	Chartered bank net foreign currency position with non-residents	- 1,354
			D61 (part) to 3313	Less: deposits with non-residents	- 852
			D61 (part) to 3331	Less: loans to non-residents	- 580
			D61 (part) to 3530	Less: securities of non-residents	- 13
2332	Other loans	302	D50	Other long-term capital transactions: Private long-term loans from non-residents, n.i.e.; private long-term loans to non-residents, n.i.e.; Canadian dollar loans to non-residents by chartered banks in Canada, chartered banks' foreign currency securities and foreign currency assets of Quebec savings banks; Canadian and foreign life insurance company capital transactions; and borrowing abroad by some government enterprises in Canada	49
			D50 (part) to 3331	Less: chartered bank Canadian dollar loans to non-residents	- 4
			D50 (part) to 3332	Less: United States long-term banking liabilities to Canadians	- 9
			D50 (part) to 3610	Less: capital flows between insurance companies in Canada and their branches and/or head offices abroad	- 177
			D50 (part) to 2410	Less: non-resident holdings of mortgages on Canadian real estate	40
			D50 (part) to 2610	Less: all other transactions listed in D50 except borrowings from foreign banks	40
			D72	Government of Canada demand liabilities mainly for notes issued to international investment agencies such as the International Development Association, but excluding notes issued to the IMF	45
			D81	Other finance company obligations such as borrowing from foreign banks and advances from parent and associated companies	158
			D81 (part) to 2512	Less: advances to finance companies from their parent and associated companies abroad	60
2340	Government of Canada Treasury Bills	77	D74	Government of Canada Treasury Bills	77
2350	Finance and other short-term paper	254	D75	Commercial paper including bankers' acceptances	53
			D76	Finance company paper	94
			D77	Other short-term paper including notes of banks, mortgage loan companies and municipal and provincial governments	- 70

See footnote(s) at end of table.

TABLE 4.3. Reconciliation Between the Rest of the World Sector of the Financial Flow Accounts and Canadian Balance of International Payments, 1974 - Continued

Rest of the World Sector Financial assets and liabilities ¹			Canadian Balance of International Payments Capital flows ²		
Category	Description	Amount	Account number	Description	Amount
		\$'000,000			\$'000,000
	Assets - Concluded				
2350	Finance and other short-term paper - concluded:				
			D77 (part) to 2311	Less: bearer notes sold to non-residents by chartered banks in Canada	- 177
			D77 (part) to 2312	Less: guaranteed investment certificates sold to non-residents by Canadian mortgage loan companies	-
2410	Mortgages	40	D50 (part) from 2332	Non-resident holdings of mortgages on Canadian real estate	40
2420	Bonds	1,865		Portfolio transactions:	
(2421)		(- 82)	D30	Trade in outstanding bonds and debentures between Canada and other countries	41
(2422)		(1,553)			
(2423)		(146)			
(2422)		(248)	D32	Proceeds of new issues of Canadian bonds, debentures and stocks sold to non-residents	2,423
			D32 (part) to 2520	Less: proceeds from new issues of Canadian corporate stocks sold to non-residents	14
			D33	Retirements of Canadian bonds, debentures and stocks held by non-residents	- 626
			D33 (part) to 2520	Less: retirements of Canadian corporate stocks held by non-residents	- 41
					1,865
2510	Claims on associated enterprises - Corporate	785	D21	Foreign direct investment in Canada excluding undistributed profits	725
			D81 (part) from 2332	Advances to finance companies from their parent and associated companies abroad	60
				Note: see category 2610	
2520	Stocks	- 139		Portfolio transactions:	
			D31	Trade in outstanding Canadian common and preferred stocks between Canada and other countries	- 112
			D32 (part) from 2420	Proceeds from new issues of Canadian corporate stocks sold to non-residents	14
			D33 (part) from 2420	Retirements of Canadian corporate stocks held by non-residents	- 41
					- 139
2610	Other financial assets:			Other short-term capital transactions:	
	(a) Other	- 475	D82	Including chartered bank Canadian dollar claims on non-residents, short-term foreign currency bank borrowing abroad by Canadians, and other ³	- 545
			D82 (part) to 2311	Less: chartered bank Canadian dollar deposits in foreign banks	- 8
			D82 to 3512	Less: net Canadian assets arising from the excess of Canadian dollar loans over deposits at foreign branches at Canadian chartered banks	- 22
			D50 (part) from 2332	All transactions listed under D50 except borrowings from foreign banks; chartered bank Canadian dollar loans to non-residents; United States long-term banking liabilities to Canadians; non-resident holdings of mortgages on Canadian real estate and capital flows between insurance companies in Canada and their affiliates abroad	40
					- 475
	(b) Special Drawing Rights	-	J	Allocation of Special Drawing Rights	-
2700	Official monetary reserve offsets	-	K5	Official monetary liabilities:	
				Use of IMF credit	-
				Foreign exchange deposit liabilities	-
				Reported use of central bank reciprocal credit facilities	-
2800	Net increase in financial assets	3,152		Sub-total - Capital flow resulting from net acquisition of financial assets	3,152
	Liabilities				
3110	Official international reserves	24	K4	Official international reserves	- 24
(3211)		(- 157)			
(3212)		(179)			
(3113)		(2)			- 24

See footnote (2) at end of table.

TABLE 4.3. Reconciliation Between the Rest of the World Sector of the Financial Flow Accounts and Canadian Balance of International Payments, 1974 - Concluded

Rest of the World Sector Financial assets and liabilities ¹			Canadian Balance of International Payments Capital flows ²		
Category	Description	Amount	Account number	Description	Amount
		\$'000,000			\$'000,000
	Liabilities - Concluded				
3313	Foreign currency and deposits	- 765	D65	Non-bank holdings of short-term funds abroad	1,590
			D65 (part) to 2311	Less: Canadian dollar deposits by non-financial private corporations with foreign banks	- 26
			D65 (part) to 3530	Less: privately held short-term foreign central government securities	- 1
			D61 (part) from 2313	Chartered bank foreign currency deposits with non-residents	- 852
3331	Bank loans	584	D50 (part) from 2332	Chartered bank Canadian dollar loans to non-residents	- 4
			D61 (part) from 2313	Chartered bank foreign currency loans to non-residents	- 580
3332	Other loans	909	D40	Government of Canada loans and subscriptions:	
				Loans to national governments	- 210
				Subscriptions and loans to international investment agencies such as the International Development Association, excluding those to the IMF	- 140
			D44	Repayments of principal on above loans	38
			D49	Net export credits directly or indirectly at the risk of the Government of Canada	- 588
			D50 (part) from 2332	United States long-term banking liabilities to Canadians	- 9
3512	Claims on associated enterprises - Corporate	763	D25	Direct investments abroad, exclusive of undistributed profits	- 775
				Note: see category 2610	
			D71 (part) from 2311 and D82 (part) from 2610	Net Canadian dollar loan or deposit position at foreign branches of Canadian chartered banks	12
3530	Foreign investments	- 32		Portfolio transactions:	
			D35	Trade in outstanding foreign securities between Canada and other countries	73
			D37	Proceeds of new issues of foreign securities sold to residents	- 39
			D38	Retirements of foreign securities held by residents	12
			D48	Medium-term non-marketable United States securities issued to the Government of Canada in connection with the Columbia River Treaty	-
			D61 (part) from 2313	Chartered bank holdings of securities of non-residents	- 13
			D65 (part) from 3213	Privately held short-term foreign central government securities	- 1
3610	Other liabilities	177	D50 (part) from 2332	Capital flows between insurance companies in Canada and their affiliates abroad	- 1
3100	Net increase in liabilities	1,660		Sub-total - Capital flow resulting from assumption of net liabilities	- 1,660
2000	Net financial investment ⁴ (category 2100 minus 3100)	1,492		Total - Net capital balance	1,516
				Allocation of SDRs	-
				Net official monetary movements	- 24

¹ Acquisition of assets by or increase in liabilities of the overseas sector is shown as positive; sale of assets or decrease in liabilities is shown as negative.

² A minus sign indicates an outflow of capital from Canada and represents an increase in holdings of assets abroad or a reduction of liabilities to non-residents.

³ Includes inter-company and accounts receivable and payable and balancing item representing the difference between recorded measures of current, capital and reserve movements and embodies all unidentified transactions. In principle, the inter-company and other accounts receivable and payable included in this item should be allocated to categories 2321, 2322, 2512, 3321, 3322, and 3512. The balancing item should be included in category 4000.

⁴ Net financial investment (category 2000), by definition, should equal net lending or borrowing (category 1900). This will not be the case if the National Income and Expenditure Accounts, the source of the Financial Flow Accounts saving estimates, do not incorporate revisions to the current account data of the balance of payments statistics.

Source: Fourth Quarter 1976 issues of *Financial Flow Accounts* (Catalogue 13-002) and of *Quarterly Estimates of the Canadian Balance of International Payments* (Catalogue 67-001).

APPENDIX 5

International Statistical Standards and Canadian Balance of Payments Statistics♦

In the discussion on inter-country exercises in reconciliation in Part VI reference was made to the efforts of the League of Nations and later of the International Monetary Fund to introduce standard frames and concepts for balance of payments accounting. Some of the reasons why these are not followed in their entirety in all countries were deduced in that discussion. Statistics of any country must fit into an overall frame which reflects its major interests and concerns. Its needs and priorities may not correspond precisely with international norms. Administrative procedures, which affect in important degree those statistical series based on them, may differ from country to country. Institutional structures may also differ.

There are also historical factors involved in statistical change. Some series antedate the development of internationally accepted frames, and the disutility to users of abandoning long-standing conventions must be weighted against the advantages.

In addition, the complexion and costs of constructing certain data series may be considered excessive in relation to their usefulness for analytical purposes. It is probably inevitable, therefore, that balance of payments statistics published by Canada do not conform in some respects to present international statistical standards. For the most part the departures have limited significance.

Where the decision to differ arises from an assessment of net user benefit rather than from data availability, efforts are made to rework the data so far as possible for international use. (It is frequently more practical to do so for international returns required only on an annual basis, than for presentations required quarterly.) The two appendices which follow provide examples of returns supplied by Canada to international organizations, and illustrate this process.

The remainder of this note describes some of the differences between Canadian balance of payments statistics and the standards provided in the Third Edition of the International Monetary Fund's *Balance of Payments Manual*.

Merchandise exports and imports, balance of payments basis (series A1 and B1) – In Canadian series exports and imports are generally valued f.o.b. place of lading. The IMF standard calls for valuation at a uniform boundary, viz at the customs frontier of the exporting country (f.o.b.).¹ Inland freight to the border of the

exporting country accordingly appears as an element of the freight and shipping series in Canadian statistics. Sales to and purchases from non-residents of non-monetary gold have been reflected in the adjusted merchandise series for Canada since the second quarter of 1968; under IMF standards they are treated separately.² It has been the Canadian practice to substitute progress payments in connection with the construction of ships, civil aircraft and some military equipment in place of the actual deliveries of the equipment, as described under series A1 and B1 in Part II; this practice is not in accord with the IMF standards under which any balance of progress payments would be treated as a capital flow.³ Until the end of 1970, goods originating in Central and South America but consigned to Canada from the United States were classified to the country of origin in Canadian series; under IMF standards, and the present Canadian treatment, they are allocated to the last country (the United States) which both exported them physically across its customs frontier and owned the goods at the same time.⁴

Travel receipts and payments (series A4 and B4) – These series in the Canadian statistics cover receipts and payments incidental to international travel. Included among receipts are two elements which the IMF classifies as other transportation:⁵ payments by non-residents to Canadian carriers except for local transportation, and expenditures of foreign crews and other carrier personnel (except those engaged in ocean or lake transportation). Personal expenditures in Canada of foreign migrant workers and of foreign commuters are included in Canadian travel receipts; under IMF standards these would be treated as other services.⁶ Among payments there are also two elements of the Canadian series which the IMF classifies as other transportation:⁷ payments by residents to foreign carriers except for local transportation, and expenditures abroad by resident crews and other carrier personnel (except those engaged in ocean or lake transportation). Personal expenditures abroad of Canadian migrant workers and of Canadian commuters are included in Canadian travel expenditures; under IMF standards these are treated as other services.⁸

Interest and dividends (series A15 and B15) – These Canadian balance of payments series exclude elements of investment income which form a part of

² *Ibid.*, paragraphs 152, 170 through 191.

³ *Ibid.*, paragraph 156.

⁴ *Ibid.*, paragraph 461.

⁵ *Ibid.*, paragraphs 228 and 232.

⁶ *Ibid.*, paragraph 299.

⁷ *Ibid.*, paragraphs 228 and 232.

⁸ *Ibid.*, paragraph 299.

¹ IMF *Balance of Payments Manual* Third Edition (1961), paragraph 127.

the miscellaneous income component of series A23 and B23, other service receipts and payments, as described in Part II. These elements would be included with interest and dividends in the IMF category of investment income.⁹ The IMF standards would also include in the item the relevant amounts of taxes withheld.¹⁰ In the Canadian data, taxes of all sorts withheld in Canada are grouped in a specific series B27. Undistributed earnings of resident direct investment corporations accruing to non-residents, and of foreign direct investment corporations accruing to residents, are included in the IMF concept of investment income¹¹ but do not appear in Canadian balance of payments statistics.¹²

Freight and shipping (series A21 and B21) - It has already been noted that Canadian trade series are in principle recorded f.o.b. place of lading rather than customs frontier as recommended in the IMF standards. The Canadian freight and shipping account accordingly includes receipts by Canadian carriers for all freight within Canada on exports and payments to non-residents for all inland freight abroad on imports; these have no counterpart in the freight and transportation accounts of the IMF. The IMF frame distinguishes separate categories for freight on international shipments¹³ and other transportation.¹⁴ Neither expenditures in Canada of foreign crews and other carrier personnel (except those engaged in ocean or lake transportation) nor payments to Canadian carriers for non-local passenger transportation are identifiable separately in Canadian data; they are included with travel receipts in series A4 rather than with other transportation as called for by the IMF. Similarly expenditures abroad by resident crews (except those engaged in ocean or lake transportation) and payments to foreign carriers for non-local passenger transportation appear as travel payments in series B4 rather than as other transportation. The insurance elements of freight and shipping, expenditures in Canada of foreign airlines, expenditures abroad of Canadian airlines, and international receipts and payments of Canadian railways, other than for freight are included with the business service element of other services in series A23 and B23 rather than as other transportation. Some further detail of the relationship between the freight and shipping series in Canada and the IMF categories of freight and other transportation will be found in the section on series A21 and B21 in Part II.

Other services (series A23 and B23) - Other services as used in the Canadian balance of payments correspond broadly in total to the IMF categories of

government, not included elsewhere,¹⁵ and other services.¹⁶ The principal differences are that a substantial part of the miscellaneous income component would belong to the IMF category of investment income; and the insurance elements of freight and shipping, expenditures abroad of Canadian airlines, expenditures in Canada of foreign airlines, and the international receipts and payments of Canadian railways for services such as car rentals, use of leased roads, maintenance, etc., would belong under the IMF to other transportation. Until 1952 pension receipts were included with services, but if available separately would have been included in series A33 and the IMF category for central government transfers. Lottery receipts and payments¹⁷ which are included with services in the Canadian estimates belong in the IMF classification for private transfers¹⁷ and government purchases of embassy buildings and similar non-military installations which are included with current government expenditures in the Canadian current account belong with long-term capital flows under international standards.¹⁸

On the other hand personal expenditures in Canada of foreign migrant workers and personal expenditures abroad of Canadian migrant workers, which are included but not distinguished separately among Canada's receipts and payments on travel account (series A4 and B4), would be regarded by the IMF as other services, as would underwriters' commissions which in the Canadian data are netted against the relevant capital flows.¹⁹ To the extent that payments to non-residents for services are subject to Canadian withholding taxes the Canadian payments series are shown net rather than gross as under the IMF standards²⁰ and the total of all withholding taxes shown as a separate series B27.

Withholding tax (series B27 and A38) - These series in the Canadian balance of payments record respectively a service payment and a corresponding transfer receipt. Under the IMF frame the service payment would be distributed over the various payments series to which the taxes related, and the receipt would be a component of central government transfer payments.²¹ The timing of the entries used in the balance of payments is that employed for the national income and expenditure accounts and does not necessarily correspond with that envisaged in the IMF frame.

Other transfers (series A30, A33, B30, B33, and B37) - These series in the balance of payments covering inheritances and migrants' funds, personal and institutional remittances, and official contributions, embrace as a group most of the rest of the content of the IMF

⁹ *Ibid.*, paragraphs 247 through 261.

¹⁰ *Ibid.*, paragraph 250.

¹¹ *Ibid.*, paragraph 253.

¹² See note on measures of undistributed earnings in Part

VII.

¹³ *Ibid.*, paragraphs 192 through 226.

¹⁴ *Ibid.*, paragraphs 192 through 197 and 227 through

243.

¹⁵ *Ibid.*, paragraphs 262 through 290.

¹⁶ *Ibid.*, paragraphs 262 through 265 and 291 through 312.

¹⁷ *Ibid.*, paragraph 320.

¹⁸ *Ibid.*, paragraphs 391 and 418.

¹⁹ *Ibid.*, paragraphs 287, 303 and 328.

²⁰ *Ibid.*, paragraph 334.

²¹ *Ibid.*, paragraph 334.

standard categories for private²² and central government²³ transfer payments. As noted earlier lottery receipts and payments have been included with Canadian data for other services (A23 and B23), and pension receipts are included in series A33 only from 1952.

Direct investment (series D21 and D25) – The direct investment series used in Canada differ in some important respects from the IMF standards. The authors of the *Balance of Payments Manual*²⁴ came to the conclusion that no realistic distinction between long-term and short-term capital movements could be made on the basis of general criteria and that all movements of direct investment capital in the private sector should be uniformly classified as long term. In contrast the Canadian data have consistently been constructed on the basis that the direct investment series should be confined to flows intended or likely to remain outstanding for more than one year from the date incurred, a distinction which has been found to be practical and analytically useful in the Canadian context. Another major difference between the Canadian data and the IMF standards arises because Canadian balance of payments presentations do not articulate the accrual of undistributed earnings in respect of direct investment. This point has been noted earlier in the discussion on interest and dividends and is also covered in the note on measures of undistributed earnings in Part VII. Of lesser importance is the treatment by Canada of commercial real estate owned by non-residents other than through a resident entity as other long-term rather than direct investment. This practice stems from the desire to maintain the integrity of the direct investment flows with the coverage of the corporate surveys of direct investment. The IMF standards allow some leeway with respect to capital in direct investment enterprises that is held by other than the controlling interest, noting that such investment is sometimes similar to direct investment capital and sometimes to portfolio capital, and that it may be allocated to either category depending on which characteristic is predominant.²⁵ While Canada treats such investment as portfolio in the balance of payments (but direct in the international investment position in the case of investment from the country of residence of the principal owners), the United States treats such flows as direct.

Portfolio security transactions (series D30 through D38) – Apart from the question of treatment of capital in direct investment enterprises that is held by other than the controlling interest, discussed immediately above, this group of series in the Canadian balance of payments approximates the corresponding group in the IMF standard frame. The structure is, however, signif-

icantly different owing to the sectoring (private, local government, central government, etc.) followed by the Fund. Canadian data do not identify separately common and preferred stocks, nor are series constructed for new issues abroad as distinct from sales to non-residents of new issues which include participation of foreigners in new domestic issues of securities. Canadian data produce flows net of underwriters' and brokers' commissions; under the IMF standards underwriters' commissions on new issues should be treated as services.²⁶

Loans and subscriptions – Government of Canada (series D40 through D44) – These series in the Canadian balance of payments correspond to the relevant IMF categories covering central government foreign assets, although as noted in the description of series D41 in Part III the funding of accrued interest on some drawings of loans in the early postwar years was not articulated.

Columbia River Treaty transactions (series D48) – These international transactions were all attributed to the central government through which they were carried out. As described in the series note D48 in Part III, receipts were of two sorts – those arising from the sale of downstream benefits and those in respect of flood control. Under the IMF concepts the latter might have been regarded as government receipts for services in the current account.

Other long-term capital transactions (series D50) – This group of flows corresponds closely in total with the remaining group of long-term categories in the IMF frame which are, however, distributed by sector. The Canadian data cover commercial real estate owned by non-residents which under the IMF standards would be shown as direct investment. Canadian identification of the pure trade credits component is imprecise. Under the Canadian practice progress payments are substituted in the current account for recorded exports and imports of certain types of capital goods; under the IMF standards any balances of these progress payments would be treated as capital flows.²⁷ In the Canadian data transactions with respect to embassy buildings and similar non-military installations are recorded as government transactions in the current account; under the IMF standards these flows would be treated as long-term capital flows.²⁸

Short-term capital transactions (series D61 through D82) – The presentation of short-term capital flows used in Canada differs greatly from that in the standard IMF presentation, with an emphasis on the form of instruments rather than on sectors. Although large, the differences are few in number. It has already been noted that the direct investment category in Canada is

²² *Ibid.*, paragraphs 313 through 321.

²³ *Ibid.*, paragraphs 313 through 314 and 322 through

335.

²⁴ *Ibid.*, paragraphs 353 through 354 and 367 through

377.

²⁵ *Ibid.*, paragraph 367.

²⁶ *Ibid.*, paragraphs 287, 303, and 358.

²⁷ *Ibid.*, paragraph 156.

²⁸ *Ibid.*, paragraphs 321 and 418.

confined to flows of a long-term character, and accordingly flows are recorded as short-term in the Canadian data which under the IMF standards would be simply recorded as direct investment. Another difference between standard international and Canadian practice is the treatment in the frame of certain progress payments on capital goods as transactions on current account, some of which would be regarded as short-term capital flows by the IMF. Finally it has been the Canadian practice to reflect net errors and omissions within short-term capital movements rather than as an explicit series.

Other differences – Other differences between Canadian practices in the construction of balance of payments estimates and the IMF standards relate to regional distributions, in particular the allocation until 1971 (revision of 1975) of imports from the United States of goods of Central or South American origin and the treatment of Puerto Rico and the United States Virgin Islands independently of the United States. Canadian data throughout are based on market rates of exchange rather than nominal rates advocated in the standards which were predicated on the existence of a fixed exchange rate system with narrow trading bands.

APPENDIX 6

Canadian Balance of Payments Reports to the International Monetary Fund and Organisation for Economic Co-operation and Development

The return in respect of the Canadian balance of international payments for 1969 which was prepared to meet the requirements of the International Monetary Fund and of the Organisation for Economic Co-operation and Development is reproduced on the following pages.¹ The data are consistent with those published in *Quarterly Estimates of the Canadian International Balance of Payments, First Quarter 1976*² but have since been revised.

Three additional notes might be added. Inheritances have been reflected in the IMF/OECD item

¹ Except for the supplementary schedule giving quarterly bilateral distributions of the current account (which are as regularly published) and schedules expressing the data in terms of United States dollars.

² Catalogue 67-001.

B9.1 covering migrants' transfers rather than item B9.2 covering other private transfers. Provincial government enterprise data which are reflected in the IMF/OECD item C.13 covering local governments became available separately from 1968 and should have been included in item C.11 covering private long-term transactions. Finally, the regional allocation in respect of the United States followed the Canadian practice except in the case of non-monetary gold which appears as unallocated; under international practice trade with Puerto Rico and the United States Virgin Islands, and imports of goods of Central and South American origin consigned to Canada from the United States, should have been allocated to the United States.



Statistics Canada Statistique Canada

BALANCE OF PAYMENTS RETURNS TO INTERNATIONAL INSTITUTIONS

CANADA 1969

Schedules:

IMF-OECD	Global Balance of Payments Summary
IMF-OECD	Regional Balance of Payments Summary
IMF	Table II(b) Nonmonetary gold
IMF	Modified Table XV
IMF	Modified Table XVI
IMF-UN	Special Report on International Flow of Long-Term Capital and Central Government Transfer Payments - (Parts 1 & 2)
	Supplementary Schedule(1) - Quarterly bilateral distribution of the current account.

All schedules are expressed in both Canadian and United States dollars. Schedules expressed in Canadian dollars are on white paper, those in United States dollars(1) follow on yellow paper.

Notes:

Merchandise figures are those published in the "Canadian Balance of International Payments" reports, and the supplementary table permits reconciliation of these estimates with the figures published in the "Trade of Canada" reports.

To the valuation of f. o. b. point of shipment of the Canadian trade figures is added inland freight to derive as closely as possible the f. o. b. customs frontier requirements for the IMF tables.

Miscellaneous income is included with item A. 6 "Investment Income".

Pension payments are included with item B. 10 "Central government".

(1) Not reproduced.

Specific qualifications to the data on capital movements:

<u>IMF/OECD</u>	<u>IMF/UN</u>	
11.1	A.1	excludes undistributed earnings which are not available.
11.2	N.A.	includes preferred stocks which are not identifiable separately and are consequently excluded from item 11.3.
11.4	N.A.	includes also loans other than trade credits.
11.5	N.A.	excludes loans.
12.	N.A.	includes foreign assets (if any) of local governments which are not identifiable separately and are consequently excluded from item 13.
12.1	N.A.	includes also some loans other than trade credits.
13.	A.4	includes provincial and municipal governments and also their enterprises which are not identifiable separately and consequently do not appear elsewhere.
14.	C.2	excludes central government enterprises which are included with private sector.
14.1	N.A.	includes all new issue and retirement transactions with non-residents whether carried out in Canada or abroad.
14.2	N.A.	includes only trading of outstanding securities.
14.5	C.2	excludes transactions covering embassy buildings and similar non-military installations which are recorded in the current account.
14.5A	C.2	includes under assets Canadian \$32 million (U.S. \$30 million) receipts under the Columbia River Treaty arrangements.
15.3	N.A.	includes holdings of European currency deposits which were formerly classified to 16.2.

Security transactions are shown at the international proceeds value; underwriting fees and commissions on issues of securities are not, therefore, shown as international transactions.

While the global statement is based on a resident - non-resident distribution, the regional distribution of securities transactions is based upon the area of the foreign transactor rather than of the claim.

Table XV, Cols. 3 and 4 cover government transactions with IMF, Exchange Fund account and other foreign deposits of Government of Canada most of which are included in "net official monetary assets". Finished gold held at the Royal Canadian Mint is excluded.

Table XVI, Item 4.4 includes gold bullion.

I.M.F. - O.E.C.D.
COMMON REPORTING SYSTEM
GLOBAL BALANCE OF PAYMENTS SUMMARY
(concluded)

	CREDIT	DEBIT
17. Goods and services (1 through 8)	18,662	19,523
18. Transfer payments (9 plus 10)	461	552
19. Foreign assets and monetary gold (11 through 16, assets)	384	3,936
20. Foreign liabilities (11 through 16, liabilities)	4,599	95
21. Allocation of S, D, R, s		
22.		
23. Multilateral settlements	908	908
24. Total net recorded transactions (17 through 21)	25,014	25,014
25. Net errors and omissions		

ANNEX I
DERIVATION OF MERCHANDISE DATA FROM EXPORTS AND IMPORTS
ACCORDING TO TRADE RETURNS

Exports according to trade returns	14,890.1
Adjustments:	
Wheat	+ 12.8
Military goods	+ 51.9
Automotive products	- 111.8
All other	- 11.1
	- 58.2
Exports in balance of payments (Sub-Item 1, 1, credit)	14,831.9
Imports according to trade returns	14,130.4
Adjustments:	
Military goods	+ 0.2
Civilian aircraft	- 11.5
Automotive products	- 83.5
All other	- 28.8
	- 123.6
Imports in balance of payments (Sub-Item 1, 1, debit)	14,006.8

ANNEX II
MEMORANDUM ITEMS

1. Reinvested earnings of subsidiaries	N. A.
a) of domestic enterprises abroad	N. A.
b) of foreign enterprises in reporting country	N. A.
2. New issues of foreign securities on domestic market	- 47
a) Equities	- 29
b) Government securities	- 9
c) Issues by International organisations	-
d) Other securities	- 9
3. Prepayments of central government long-term debt	-
a) Prepayments made, by country	-
	-
	-
	-
	-
	-
	-
	-
b) Prepayments received, by country	-
	-
	-
	-
	-
	-
	-
4. Changes in foreign holdings of central government long-term securities, by foreign sector	- 20
a) Central and regional monetary institutions	- 6
b) International non-monetary organisations	-
c) Other official holders	N. A.
d) Other monetary institutions	N. A.
e) Other holders	- 14
5. Changes in foreign holdings of central government short-term securities, by foreign sector	28
a) Central and regional monetary institutions	-
b) International non-monetary organisations	11
c) Other official holders	N. A.
d) Other monetary institutions	N. A.
e) Other holders	17

Note: For items 17 through 23, the left side of each column covers credits, the right covers debits. Debits are indicated by minus signs in items 11 through 16.

I.M.F. - O.E.C.D.
COMMON REPORTING SYSTEM
REGIONAL BALANCE OF PAYMENTS SUMMARY
(concluded)

EXCHANGE RATE USED FOR CONVERSION :	WORLD		UNITED STATES		CANADA		UNITED KINGDOM		E.E.C. COUNTRIES		GREECE, SPAIN, TURKEY		OTHER O.E.C.D. EUROPE		JAPAN		AUSTRALIA NEW ZEALAND SOUTH AFRICA		SINO SOVIET AREA		OTHER COUNTRIES		INTERNATIONAL INSTITUTIONS		UN-ALLOCATED		ADDENDUM : OWN MONETARY AREA			
	1		2		3		4		5		6		7		8		9		10		11		12		13		14			
	ASSETS	LIAB	ASSETS	LIAB	ASSETS	LIAB	ASSETS	LIAB	ASSETS	LIAB	ASSETS	LIAB	ASSETS	LIAB	ASSETS	LIAB	ASSETS	LIAB	ASSETS	LIAB	ASSETS	LIAB	ASSETS	LIAB	ASSETS	LIAB	ASSETS	LIAB		
C. CAPITAL AND MONETARY GOLD (11 through 16)	-3,552	4,504	- 910	2,333			-1,443	254	- 336	636	- 4	- 20	- 130	498	- 8	28	- 24	43	- 4	-	- 427	716	- 307	18	41	- 2				
11. Private long-term (including all direct investment) ¹	- 232	1,662	- 193	1,275			- 10	54	- 31	184	- 1	-	- 3	60	- 5	11	- 20	53	38	-	- 24	25	17	-	-	-	-	-		
11.1 Direct investment	- 370	720	- 287	564			- 7	14	- 31	21	- 3	-	- 3	54	- 5	13	- 20	53	-	-	- 14	1	-	-	-	-	-	-		
11.2 Other common stocks	110	263	92	182			3	24	- 1	39	-	-	-	-	-	-	-	-	-	-	- 1	1.8	17	-	-	-	-			
11.3 Other securities	8	419	- 3	358			- 1	19	1	41	-	-	-	-	-	-	-	-	-	-	- 5	6	-	-	-	-	-			
11.4 Other trade credits	30	165	- 1	98			- 5	-	-	62	2	-	6	-	-	-	-	38	-	-	- 4	-	-	-	-	-	-			
11.5 Other assets and liabilities	6	95	6	73			-	3	-	21	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
12. Private short-term (1, 3) (other than direct investment)	-1,007	106	- 131	93			- 791	- 14	- 44	- 37	-	-	- 24	32	- 6	16	- 2	2	- 2	-	- 7	10	-	-	-	-	-	-		
12.1 Trade credits	7	10	45	-			- 21	- 3	- 12	- 18	-	-	- 2	- 6	- 6	7	- 2	1	- 2	-	- 7	9	-	-	-	-	-	-		
12.2 Other assets and liabilities	-1,000	116	- 176	97			- 770	- 11	- 32	- 19	-	-	- 22	38	-	9	-	1	-	-	-	1	-	-	-	-	-	-		
13. Local government ¹	- 1,059	-	-	598			- 5	-	-	465	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-		
13.1 Long-term assets and liabilities	- 1,041	-	-	578			- 4	-	-	465	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-		
13.2 Short-term assets and liabilities	- 18	-	-	18			- 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
14. Central government ¹	88	- 40	35	- 9			20	21	1	- 7	- 7	-	-	-	-	-	-	-	-	-	- 86	- 21	- 30	- 23	- 3	-	-	-		
14.1 Long-term issues abroad	- 43	-	-	- 28			- 2	-	-	6	-	-	-	-	-	-	-	-	-	-	-	- 21	-	-	-	-	-	-		
14.2 Other long-term securities	- 23	-	-	-			- 14	-	-	8	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-		
14.3 Long-term loans, inter-government	37	-	-	-			20	-	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
14.4 Other long-term loans	-	-	-	-			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
14.5 Other long-term assets and liabilities ⁴	46	29	35	-			-	-	1	- 29	- 7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
14.6 Short-term assets and liabilities	5	9	-	17			- 9	-	2	8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
16. Central monetary institutions	65	1	222	- 4			22	3	- 2	-	-	-	-	-	-	-	-	-	-	-	-	1	- 297	2	- 10	-	-	-		
16.1 Accounts with I.M.F.	293	-	-	-			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	- 293	-	-	-	-	-		
16.2 Gold	10	-	-	-			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
16.3 S. D. R. holdings	-	-	-	-			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
16.4 Other freely usable assets	238	4	222	- 1			22	3	- 2	-	-	-	-	-	-	-	-	-	-	-	-	1	- 4	2	-	-	-	-		
16.5 Other reserves	-	-	-	-			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
16.6 Liabilities to official ²	-	3	-	3			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
16.7 Other long-term loans	-	-	-	-			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
16.8 Other short-term loans	-	-	-	-			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
16.9 Other foreign assets and liabilities	-	-	-	-			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
16. Other monetary institutions	-2,160	1,716	- 843	376			- 684	195	- 260	31	4	- 20	- 103	408	3	1	- 2	- 12	- 22	-	- 310	700	3	39	54	- 2	-	-		
16.1 Gold	N.A.	-	N.A.	-			N.A.	-	N.A.	-	N.A.	-	N.A.	-	N.A.	-	N.A.	-	N.A.	-	N.A.	-	N.A.	-	N.A.	-	N.A.	-	-	
16.2 Other freely usable assets	-2,027	-	- 812	-			- 689	-	- 225	-	-	-	- 106	-	6	1	-	- 17	-	-	- 241	-	2	-	54	-	-	-		
16.3 Liabilities to official ²	-	N.A.	-	N.A.			-	N.A.	-	N.A.	-	N.A.	-	N.A.	-	N.A.	-	N.A.	-	N.A.	-	N.A.	-	N.A.	-	N.A.	-	N.A.	-	
16.4 Other long-term loans	- 6	-	- 5	-			- 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
16.5 Other short-term loans	- 127	- 10	- 26	- 9			6	- 1	- 35	-	4	-	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
16.6 Other (spec) assets and liab.	- 1,726	-	-	385			-	196	-	31	-	- 20	-	408	-	1	-	12	-	-	-	700	-	39	-	-	-	-		
	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT
17. Goods and services (1 through 8)	18,662	19,527	12,950	13,967			1,543	1,278	-	-	-	-	1,517	1,829	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
18. Transfer payments (2 plus 10)	461	552	209	177			90	74	-	-	-	-	58	56	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
19. Foreign assets and monetary gold (11 through 16, assets)	384	3,936	400	1,310			51	1,494	4	340	6	10	3	133	6	14	1	25	38	42	-	427	20	327	54	13	-	-		
20. Foreign liabilities (11 through 16, liabilities)	4,599	95	2,372	39			276	22	702	66	-	20	506	8	30	2	55	12	-	-	738	22	41	23	-	2	-	-		
21. Allocation of S. D. R.'s	-	-	-	-			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
22. Regional adjustments	-	-	-	-			-	-	- 706	- 406	1,215	547	- 509	- 141	- 36	- 16	873	857	- 36	- 42	- 738	- 449	- 61	- 350	-	-	-	-		
23. Multilateral settlements	908	908	-	438			908	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
24. Total net recorded transactions (17 through 23)	25,014	25,014	15,931	15,931			2,868	2,868	-	-	-	-	2,796	2,796	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
25. Net errors and omissions	-	-	-	-			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		

1. Excluding monetary institutions. 2. Excluding international non-monetary institutions. 3. Including errors and omissions. 4. Including trade credits.

TABLE II(b). NONMONETARY GOLD

Compiling Country Canada Period Covered 1969
 Currency Cdn. dollar Unit Million Exchange Rate: US\$ (1) Per

Item	Thousands of Fine Ounces		Value	
	Credit	Debit	Credit	Debit
1. Exports (1.1 plus 1.2)	4,850	xxx	206	xxx
1.1. Refined gold	4,715	xxx	201	xxx
1.2. Unrefined and partly worked gold	135	xxx	5	xxx
2. Imports (2.1 plus 2.2)	xxx	168	xxx	7
2.1. Refined gold	xxx	108	xxx	5
2.2. Unrefined and partly worked gold	xxx	60	xxx	2
3. Net exports (credit) or net imports (debit) (balance of items 1 and 2)	4,682		199	
4. Change in gold held abroad: increase, debit; decrease, credit (4.1 plus 4.2)		266		10
4.1. Refined gold		266		10
4.2. Unrefined and partly worked gold		—		—
5. Change in gold held by foreigners in compiling country: increase, credit; decrease, debit (5.1 plus 5.2)		2,224 ⁽²⁾		91
5.1. Refined gold		2,224		91
5.2. Unrefined and partly worked gold		—		—
6. Net foreign transactions at transactions value (balance of items 3, 4, and 5)	2,192		98	
7. Change in monetary gold holdings at par value (increase, credit; decrease, debit)	266		10	
8. Nonmonetary gold (balance of items 6 and 7 and of items 9 and 10 = Table A, item 2)	2,458		108	
Sources (credit) and Uses (debit) of Nonmonetary Gold				
9. Mine output	2,545	xxx	xxx	xxx
10. Net uses (balance of items 10.1 - 10.4)			xxx	xxx
10.1. Arts and industry			xxx	xxx
10.2. Mine inventories (8-9)		87 ⁽³⁾	xxx	xxx
10.3. Refiners' and dealers' inventories			xxx	xxx
10.4. Hoards			xxx	xxx

1. All values are expressed in millions of Canadian dollars and with the exception of items 6 and 7 were determined by using for each transaction the export or import value or the appropriate monthly gold price for sales in Canada. Item 7 represents the Canadian dollar equivalent of changes in official holdings as published, converted at the monthly average noon spot rate.
2. Includes private sales by mines in Canada. There is no satisfactory way of distinguishing between sales to residents and non-residents so this figure includes, therefore, some sales for domestic use in industry and the arts.
3. This figure is a residual.

MODIFIED TABLE XV. GOLD HOLDINGS AND FOREIGN ASSETS AND LIABILITIES OF CENTRAL MONETARY INSTITUTIONS^a

Compiling Country: CANADA

Currency Unit: \$ Million Canadian

Period Covered: 1969
 Average 1969: U.S. \$1 = Cdn. \$1.0768
 Exchange Rate: US\$ Per
 Close 1969: U.S. \$1. = Cdn. \$1.0728
 Close 1968: U.S. \$1. = Cdn. \$1.0728

Item	Total Assets and Liabilities										Transfer to Item in Global Summary Table (10)	Of Which Denominated in Domestic Currency							
	Central Bank		Other Institutions		Total							Central Bank		Other Institutions		Total			
	This return (1)	Last return (2)	This return (3)	Last return (4)	This return (1+3) (5)	Last return (2+4) (6)	Increase or decrease (-) (5-6) (7)	Adjustments (8)	Corrected Change (7+8) (9)	This return (11)		Last return (12)	This return (13)	Last return (14)	This return (11+13) (15)	Last return (12+14) (16)	Increase or decrease (-) (15-16) (17)	Adjustments (18)	Corrected Change (17+18) (19)
Monetary Gold																			
1. Pledged	—	—	—	—	—	—	—	—	—	—	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	
2. Other	—	—	943	933	943	933	+ 10	—	+ 10	—	xxx	xxx	xxx	xxx	xxx	xxx	xxx		
3. Total (1 plus 2) (Quantity: thousand fine ounces)	(—)	(—)	(24,995)	(24,730)	(24,995)	(24,730)	(265)	(—)	(265)	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx		
IMF Accounts																			
4. Assets (subscription and lending to IMF)	—	—	886 ¹	783 ¹	886	783	+ 103	—	+ 103	—	—	—	—	—	—	—	—		
5. Liabilities (IMF holdings of domestic currency)	8	8	378	569	386	577	- 191	+ 1	- 190	—	8	8	378	569	386	577	- 191		
6. Net Assets (4 minus 5)	- 8	- 8	508	214	500	206	+ 294	- 1	+ 293	15.1	- 8	- 8	- 378	- 569	- 386	- 577	+ 191		
Other Foreign Assets																			
7. Marketable Assets (7.1 through 7.4)	81	11	1,725	2,020	1,806	2,031	- 225	+ 2	- 223	—	—	—	—	—	—	—	—		
7.1. International lending institutions	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
7.2. Foreign central governments	81	11	1,725	2,020	1,806	2,031	- 225	+ 2	- 223	—	—	—	—	—	—	—	—		
7.3. Bank acceptances	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
7.4. Other	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
8. Deposits	79	96	12	10	91	106	- 15	—	- 15	—	—	—	—	—	—	—	—		
9. Affiliated institutions (gross)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
10. Long-term loans	—	—	—	—	—	—	—	—	—	2	—	—	—	—	—	—	—		
11. Short-term loans	—	—	—	—	—	—	—	—	—	3	—	—	—	—	—	—	—		
12. Other ⁴	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
13. Total (7 through 12=13.1 through 13.3)	160	107	1,737	2,030	1,897	2,137	- 240	+ 2	- 238	15	—	—	—	—	—	—	—		
13.1. Freely usable assets	160	107	1,737	2,030	1,897	2,137	- 240	+ 2	- 238	15.3	—	—	—	—	—	—	—		
13.2. Other reserves	—	—	—	—	—	—	—	—	—	15.4	—	—	—	—	—	—	—		
13.3. Other	—	—	—	—	—	—	—	—	—	15.6-15.8	—	—	—	—	—	—	—		
Other Foreign Liabilities																			
14. Deposits	17	13	—	—	17	13	+ 4	—	+ 4	—	16	12	—	—	16	12	+ 4		
15. Affiliated institutions (gross)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
16. Long-term loans	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
17. Short-term loans	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
18. Other ⁴	0	3	—	—	0	3	- 3	—	- 3	—	0	3	—	—	0	3	- 3		
19. Total (14 through 18=19.1 through 19.4)	17	16	—	—	17	16	+ 1	—	+ 1	15	16	15	—	—	16	15	+ 1		
19.1. Foreign central governments	—	—	—	—	—	—	—	—	—	15.5	—	—	—	—	—	—	—		
19.2. Foreign central monetary institutions ⁵	15	16	—	—	15	16	- 1	—	- 1	15.5	14	15	—	—	14	15	- 1		
19.3. Other foreign monetary institutions	—	—	—	—	—	—	—	—	—	15.6-15.8	—	—	—	—	—	—	—		
19.4. Other foreign	2	0	—	—	2	0	+ 2	—	+ 2	15.6-15.8	2	0	—	—	2	0	+ 2		

^a This table (together with IMF, *Balance of Payments Manual* (Third Edition), Table XV) is to be used by countries that report both to the IMF and the OECD.

¹ Including loans under GAB.

² Ordinarily, this entry will be transferred to item 15.6.

³ Ordinarily, this entry will be transferred to item 15.7.

⁴ Specify in notes major types, distinguishing separately long-term and short-term items.

⁵ Including regional monetary institutions.

Note: Columns 8 and 18 reflect adjustments between balance sheet and flow series for exchange rate variations and rounding.

MODIFIED TABLE XVI. GOLD HOLDINGS AND FOREIGN ASSETS AND LIABILITIES OF OTHER MONETARY INSTITUTIONS *

Compiling Country CANADA
 Currency Unit: \$ Million Canadian

Period Covered 1969
 Average 1969: U.S. \$1 = Cdn. \$1.0768
 Exchange Rate: US\$ Per
 Close 1969: U.S. \$1 = Cdn. \$1.0728
 Close 1968: U.S. \$1 = Cdn. \$1.0728

Item	Total Assets and Liabilities									Transfer to Item in Global Summary Table (10)	Of Which Denominated in Domestic Currency								
	Deposit Banks		Other Institutions		Total						Deposit Banks		Other Institutions		Total				
	This return (1)	Last return (2)	This return (3)	Last return (4)	This return (1+3) (5)	Last return (2+4) (6)	Increase or decrease (-) (5-6) (7)	Adjustments (8)	Corrected Change (7+8) (9)		This return (11)	Last return (12)	This return (13)	Last return (14)	This return (11+13) (15)	Last return (12+14) (16)	Increase or decrease (-) (15-16) (17)	Adjustments (18)	Corrected Change (17+18) (19)
Monetary Gold ¹	-	-	-	-	-	-	-	-	-		xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
1. Pledged	-	-	-	-	-	-	-	-	-		xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
2. Other	-	-	-	-	-	-	-	-	-	16.1	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
3. Total (1 plus 2) (Quantity: thousand fine ounces)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	xxx									
Foreign Assets																			
4. Marketable assets (4.1 through 4.4)	167	230	-	-	167	230	- 63	+ 1	- 62		-	-	-	-	-	-	-	-	-
4.1. International lending institutions																			
4.2. Foreign central governments	68	82	-	-	68	82	- 14	0	- 14		-	-	-	-	-	-	-	-	-
4.3. Bank acceptances																			
4.4. Other	99	148	-	-	99	148	- 49	+ 1	- 48		-	-	-	-	-	-	-	-	-
5. Deposits	6,164	4,068	1	1	6,165	4,069	+2,096	+ 6	+2,102		-	-	-	-	-	-	-	-	-
6. Affiliated institutions (gross)																			
7. Long-term loans	619	499	-	-	619	499	+ 120	0	+ 120	2	39	37	-	-	39	37	+ 2	-	+ 2
8. Short-term loans										3	64	25	-	-	64	25	+ 39	-	+ 39
9. Other ⁴																			
10. Total (4 through 9 = 10.1+10.2)	6,950	4,797	1	1	6,951	4,798	+2,153	+ 7	+2,160	16	103	62	-	-	103	62	+ 41	-	+ 41
10.1. Freely usable assets	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	16.2	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
10.2. Other	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	16.4-16.6	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Foreign Liabilities																			
11. Deposits	5,448	3,731	27	23	5,475	3,754	+1,721	+ 5	+1,726		684	654	27	23	711	677	+ 34	-	+ 34
12. Affiliated institutions (gross)											29	1	-	-	29	1	+ 28	-	+ 28
13. Long-term loans	2	12	-	-	2	12	- 10	-	- 10		2	12	-	-	2	12	- 10	-	- 10
14. Short-term loans																			
15. Other ⁴																			
16. Total (11 through 15 = 16.1 through 16.4)	5,450	3,743	27	23	5,477	3,766	+1,711	+ 5	+1,716	16	715	667	27	23	742	690	+ 52	-	+ 52
16.1. Foreign central governments (incl. with 16.4)											11	13	-	-	11	13	- 2	-	- 2
16.2. Foreign central monetary institutions ⁵	2,585	1,790	1	1	2,586	1,791	+ 795	+ 2	+ 797	16.3									
16.3. Other foreign monetary institutions										16.4-16.6	287	241	1	2	288	243	+ 45	-	+ 45
16.4. Other foreign	2,865	1,953	26	22	2,891	1,975	+ 916	+ 3	+ 919	16.4-16.6	417	413	26	21	443	434	+ 9	-	+ 9

Note: Columns 8 and 18 reflect adjustments between balance sheet and flow series for exchange rate variations and rounding.

* This table (rather than IMF, Balance of Payments Manual (Third Edition), Table XVI) is to be used by countries that report both to the IMF and the OECD.

1 Relatively small amounts included with 4.4.

2 Ordinarily, this entry will be transferred to item 16.4.

3 Ordinarily, this entry will be transferred to item 16.5.

4 Specify in notes major types, distinguishing separately long-term and short-term items.

5 Including regional monetary institutions.

SPECIAL REPORT FOR UNITED NATIONS ON INTERNATIONAL FLOW OF LONG-TERM CAPITAL AND CENTRAL GOVERNMENT TRANSFER PAYMENTS, BY AREA⁶

Part 2. Changes in Foreign Liabilities and Transfer Payments Received

Compiling Country: CANADA

No sign indicates credit (increase in liabilities); minus sign indicates debit (decrease in liabilities)

Period Covered: 1969

Currency: Canadian Unit: Million

Exchange Rate: US\$ 1.00 Per 1.0268

Type of Funds Received by Reporting Country	Item in Table A ⁷	Grand Total (2+8+15 +21+22)	DEVELOPED COUNTRIES							DEVELOPING COUNTRIES						CENTRALLY PLANNED ECONOMIES					International Institutions (27)	Unallocated (28)				
			Total (2)	United States (3)	OECD Europe n.e.s. (4)	Japan (5)	Other (6)	Unallocated (7)	Total (8)	Greece, Spain, & Turkey (9)	Africa (10)	Asia (11)	Latin America (12)	Oceania (13)	Unallocated (14)	Total (15)	U.S.S.R. (16)	Yugo-slavia (17)	Other Europe (18)	Asia (19)			Unallocated (20)			
A. Private Nonmonetary Sector's Liabilities																										
1. Direct investment	11.1;11.2	720	719	564	89	13	53	--	1	--	--	10	3	8	--	--	--	--	--	--	--	--	--	--	--	--
1.1. Undistributed earnings		N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
1.2. Other		720	719	564	89	13	53	--	1	--	--	10	3	8	--	--	--	--	--	--	--	--	--	--	--	--
2. Other domestic securities	11.3; 11.5	682	658	541	117	--	--	--	24	--	--	--	--	24	--	--	--	--	--	--	--	--	--	--	--	--
3. Other trade credits and loans ⁸		165	165	99	68	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
3.1. Use	11.6, cr	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
3.2. Repayments	11.6, dr	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
4. Other ¹¹	11.6 ¹¹ ; 11.7; 13 [†]	1,143	1,142	652	490	--	--	--	1	--	1	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
5. Total (1 through 4 = 5.1 plus 5.2)		2,710	2,684	1,856	764	11	53	--	26	--	-9	3	32	--	--	--	--	--	--	--	--	--	--	--	--	--
5.1. Provided or guaranteed by foreign central governments		--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
5.2. Other		2,710	2,684	1,856	764	11	53	--	26	--	-9	3	32	--	--	--	--	--	--	--	--	--	--	--	--	--
B. Private Monetary Institutions' Liabilities																										
1. Loans ⁹	16.3 [†]	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Other ⁹ (specify important categories)	16.4 [†]	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
2.1.		--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
2.2.		--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
2.3.		--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
3. Total (1 plus 2 = 3.1 plus 3.2)		--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
3.1. Provided or guaranteed by foreign central governments		--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
3.2. Other		--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
C. Central Government Sector's Liabilities																										
1. Loans ⁹		--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
1.1. Drawings	14.4, cr	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
1.2. Repayments	14.4, dr	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Other ⁹ (specify important categories)	14.1; 14.2; 14.5	-49	-43	-26	-17	--	--	--	-6	--	-6	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
3. Total (1 plus 2 = 3.1 plus 3.2)		-49	-43	-26	-17	--	--	--	-6	--	-6	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
3.1. Provided or guaranteed by foreign central governments and central monetary institutions		-35	-29	--	-29	--	--	--	-6	--	-6	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
3.2. Other		-14	-14	-26	12	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
D. Central Monetary Institutions' Liabilities																										
1. Loans ⁹		--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
1.1. Drawings	15.4 [†] , cr	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
1.2. Repayments	15.4 [†] , dr	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Other ⁹ (specify important categories)	15.5	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
E. Central Government Transfer Payments Received from Foreign Central Governments																										
	10.1 cr	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

⁶Indicates that the entries include only part of this item.

⁷Numbers refer to items in International Monetary Fund, *Balance of Payments Manual*, third edition (July 1961), Table A, pages 20 and 21. "cr" denotes credit, "dr" denotes debit.

⁸If this item includes any drawings on, or repayments financed by, consolidation and refinancing credits, the amounts and regional breakdown of such credits should be specified separately in a note to this form. For the definition of consolidation and refinancing credits, see paragraph 2 of the attached Note to Special Report for United Nations.

⁹Including local currency liabilities, such as those to the United States under U.S. Public Law 83-480, that are mainly earmarked for grants or loans to the reporting country. These may be included in items 14.1, 15.3, or 16.2 in the *Manual*, Table A, page 21. Further, reporting countries that are reserve centers should exclude marketable long-term obligations of their central government issued in the domestic market.

¹⁰Includes Caribbean.

¹¹Includes long-term gov't. liabilities.

APPENDIX 7

Balance of Payments Components in Canada's Reports to the Development Assistance Committee of the Organisation for Economic Co-operation and Development

For its work on the flow of resources to developing countries, the Development Assistance Committee of the Organisation for Economic Co-operation and Development collects information on a variety of flows. Components representing private flows from Canada are supplied by Statistics Canada through the Canadian International Development Agency. The returns themselves are lengthy and are not reproduced

here. Much of the detail requested cannot be supplied either because it is not collected in the form requested or because release would be precluded by the confidentiality provisions of the Statistics Act. Those components which Statistics Canada is able to supply are given below. For illustrative purposes the year 1974 has been selected.

TABLE 7.1. Disbursements and Commitments of Private Flows, 1974

D.A.C. Table 1

Type of transaction	Disbursements		
	Amounts extended	Amounts received	Net amounts
	millions of U.S. dollars		
II. Other official flows . . . . .			...
A. Other official bilateral flows . . . . .			...
B. Transactions with multilateral agencies at market terms (assets)	33	25	8
III. Private flows at market terms, total			(1,056)
A. Private long-term capital, assets (non-monetary), total			(636)
1. Direct investment, total			(193)
1.1. New capital outflow, net			(109)
1.2. Reinvested earnings			(84)
2. Other bilateral securities			(23)
3. Bonds, loans and participations of multilateral agencies . . . . .			..
4. Export credits (non-monetary), total . . . . .			..
5. Other long-term assets . . . . .			..
B. Private monetary institutions, long-term capital, assets, total			(420)
IV. Grants by voluntary agencies (net), total			(81)
Memorandum items, for balance of payments reconciliation:			
4. Central government transfer payments, n.i.e.			8
a. Payments to and from private individuals and institutions in less-developed countries			6
1. Under reparations and indemnification agreements			-
2. Pensions, insurance and similar payments			6
3. Other			-
b. Ordinary budget contributions to multilateral agencies			2
5. Private long-term (non-monetary) liabilities . . . . .			..
6. Central government long-term liabilities:			
Bilateral loans received or amortisation paid			(40)
7. Central monetary institutions long-term liabilities: loans from or amortisation paid to multilateral agencies			-
8. Private monetary institutions long-term liabilities . . . . .			..

Note: Figures in parentheses are approximate.

TABLE 7.2. Geographic Distribution of Private Direct Investment and Other Private Capital, Assets, 1974

D.A.C. Table 4

Recipient areas/countries	Direct investment (net) including reinvested earnings	Portfolio and other bilateral net lending, ¹ monetary sector
millions of U.S. dollars		
I. Europe . . . . .	..	..
II. Africa	(5)	(- 7)
III. America	(159)	(371)
IV. Asia	(25)	(72)
V. Oceania . . . . .	..	..
VI. Unspecified other total	(4)	(7) ²

¹ Including non-guaranteed export credits.

² Including non-monetary sector.

Note: Figures in parentheses are approximate.

APPENDIX 8

Relationship to Data Published Under the Corporations and Labour Unions Returns Act

Payments to Non-residents

The annual returns under the Corporations and Labour Unions Returns Act (CALURA) include some 30 categories of payments in the field of income and services made to non-residents by reporting corporations.

A summary of the amounts reported in respect of 1973 together with estimates used in the balance of payments for the same or related items will be found in Table 8.1 which contains notes on specific items.

There are a number of reasons why the figures should differ widely. In the first place, the reports under CALURA cover only payments to non-residents required to be reported under the Act; certain classes and sizes of corporations which may make substantial payments to non-residents are exempt from the reporting provisions. There are moreover significant amounts paid to non-residents by governments, institutions and persons which are not subject to CALURA. Some types of services are not prescribed in the Act, notably commissions paid to non-resident agents.

On the other hand estimates of payments made for balance of payments purposes are net of withholding tax, while payments as reported under CALURA are before deduction of withholding tax. The amount of withholding tax generated by service payments and income distributions to non-residents is shown separately in the balance of payments and also in Table 8.1.

Another reason for differences, apart from inevitable variations in classification originating with respondents, lies in the requirement of the Corporations and Labour Unions Returns Act that payments be reported on a fiscal year basis. Thus the payments reported in any calendar year may cover payments made in any 12-month period ending within that calendar year. The corresponding payments as reflected in the balance of payments are collected on a calendar year basis.

In order to assist those respondents who are required to file reports under both the Statistics and the Corporations and Labour Unions Returns Acts, a special note appears on the schedule BP-21 summarizing the relationships. This schedule is reproduced in Part V.

Ownership and Control

This note describes the character and relationship of the data published on ownership and control based

upon international investment position records and similar data published in the Annual Reports under the Corporations and Labour Unions Returns Act (CALURA).¹

After making allowance for the qualifications attached to each series, their differences are not surprising and their results not contradictory. Each explores in a different way somewhat different groupings of corporations or enterprises (families of corporations). Each provides measures of the degree of prominence of foreign enterprises in the sectors of the Canadian economy covered.

Both sets of series represent tabulations derived from balance sheet data classified or distributed in various ways according to the geographical origin of the capital, and are not presented as measures of behaviour.²

The three parts into which this note is divided cover: (1) a listing of the principal differences between the series; (2) an indication of the extent to which the series on control are reconcilable; and (3) a statistical example illustrating the different treatments followed in the series.

Principal Differences

Concept – The main difference between the two series is one of concept. Ownership as used in investment position based series refers to the proportionate share in the capital (at book value) of a firm, corporation or group of corporations. Capital as used in the series covers long-term debt and equity (including retained earnings) employed in Canada. CALURA series deal with each corporation as a whole; the entire corporation is assigned (both by control and by degree of ownership) on the basis of the ownership of the voting shares. For a corporation to be assigned to the group as “50% non-resident-owned”, for example, 50% of the number of voting rights of the corporation would have to be directly or indirectly non-resident-owned, but the entire corporation would then be assigned to this category. In contrast, in the investment position series covering foreign ownership, only that part of the capital of an

¹ Catalogue 61-210.

² Accounting practices vary widely, and there are some grounds for believing that the practices of private companies may tend to differ from those of public companies. Private companies are more prevalent among the large companies which are foreign controlled than among those which are controlled in Canada. To the extent that the practices show any consistent variation, a bias may be imparted to any percentage series derived from financial data.

TABLE 8.1. Payments to Non-residents Reported Under the Corporations and Labour Unions Returns Act Together with Estimates of Investment Income, Business Services and Other Transactions Used for the Balance of Payments, 1973

Item	Reports to CALURA	Balance of payments figure	Notes
	millions of dollars		
Dividends	1,024	1,082	As described under series B15 in Part II balance of payments series for dividends include also net profits of unincorporated branches in Canada of foreign corporations (except insurance which is included with miscellaneous income payments). These profits are not reported under CALURA.
Interest	572	968	Balance of payments figure includes 650 interest on obligations of governments, as well as interest paid by corporations exempt from the reporting requirements of CALURA, e.g., most railway and telephone companies. Some corporations find it impossible to reflect all interest payments to non-residents as the residence of some payees is not known to them. For purposes of the balance of payments, series to cover all interest paid to non-residents have been constructed as described under series B15 of Part II. Interest paid to non-residents on bank, mortgage and other loans are included in balance of payments series for miscellaneous income rather than interest on funded debt.
Rent:			
Real property in Canada	161	24	Reports under CALURA include with rent on equipment amounts representing charter payments to foreign vessel owners. In the balance of payments such payments are included in series B21 with freight and shipping expenditures, most of which are excluded from the reporting requirements of CALURA, and rentals on real property are included with miscellaneous income.
Equipment			
Miscellaneous income . . . . .	...	640	This series covers all interest other than on funded debt (e.g., long-term inter-company and bank loans, mortgages, and short-term debt of all sorts); income paid on assets held in management, safe custody and agency accounts, estates, trusts and holding companies; rentals on real property; expenses incurred by Canadian chartered banks on foreign operations; and net revenue from the branch operations in Canada of foreign insurance companies.
Copyrights, patents of invention, industrial designs, trademarks and trade names, and other royalties and similar payments.	263	217	Balance of payments series exclude film rentals which are shown separately.
Film rentals . . . . .	...	40	
Production, distribution and sales franchises and similar rights.	23	8	
Advertising and sales promotion	25	32	
Insurance premiums and related charges	21	82	
Management and administrative fees, salaries, fees and other remuneration of officers and directors, annuities, pensions and similar payments to officers, directors and major shareholders.	175	187	
Scientific, product and process development research	80	115	Balance of payments series excludes automotive industry which is included with special tooling and automotive charges.
Fees and charges for professional engineering, architectural, legal, accounting and auditing services together with consulting fees and charges not included in any of the above payments.	248	89	Balance of payments series excludes automotive industry which is included with special tooling and automotive charges.
Special tooling and automotive charges . . . . .	...	118	
Commissions . . . . .	...	46	
Other services . . . . .	...	685	This series covers other services reported by corporations 36; commission agents 93; service expenditures outside Canada of railways and air lines 216; "other" insurance business 64; miscellaneous services 196 (including trade union operations, telecommunications, transportation of migrants, lotteries, and miscellaneous engineering and other professional services rendered by various consultants and small firms); and provision for unallocated business service payments 80 (estimate to cover sundry personal and other transactions such as entertainment fees, payments to foreign correspondents, subscriptions to newspapers and periodicals, payments for newspaper features and articles, membership fees of professional societies and education by correspondence and in foreign schools).
Tax withheld on payments to non-residents . . . . .	...	322	
Government transactions . . . . .	...	271	

Source: Corporations and Labour Unions Returns Act, report for 1973, Part I - Corporations (Catalogue 61-210). The Canadian Balance of International Payments, 1971 - 1973 (Catalogue 67-201). Totals have since been revised.

enterprise (including long-term debt) employed in Canada which is actually owned by non-residents is assigned as non-resident-owned. The concepts of foreign ownership as used in the two series are thus not comparable.

Some similarity between the sets of data exists in the area of control. Essentially both apply this term to value or ratio series where direct or indirect control of the capital of a corporation through its voting stock is the criterion of classification. In the investment position series the value figure used is the total capital (long-term debt plus equity) employed in Canada, while the CALURA series uses total assets of the corporation (or other series) as the value aggregate. These differences are described in greater detail below.

Assets vis-à-vis capital - CALURA provides a classification of total assets basically by control or degree of ownership of the voting stocks of the corporation, either directly or through other Canadian corporations. The investment position series for control provides book values of long-term capital investment in Canada in corporate enterprises controlled by non-residents. Long-term investment includes both long-term debt and shareholders' equity. An attempt is made to provide comparable estimates for the book values of all long-term forms of investment in Canada for selected industry groups.

Industrial classification - In CALURA data the company is the unit used for industrial classification while in the investment position the enterprise (or family of companies) is the unit. Even where there are apparent similarities in the industrial descriptions employed the resulting data will therefore not be fully comparable.

Consolidations - The CALURA data are gross in the sense that they include intercorporate items between Canadian parent companies and their subsidiaries. The investment position series are net in the sense that the enterprise concept eliminates intercorporate items between Canadian parent companies and their subsidiaries, making use of Canada-consolidated statements. Furthermore these consolidations sometimes reflect accounting adjustments and allocations beyond the mechanical process of intercorporate eliminations.

Foreign investments - CALURA data are gross in the sense that they include investments outside Canada to the extent such investments are held by the Canadian corporate entity. Assets held by foreign incorporated subsidiaries are excluded from the data but the capital provided by the parent is reflected in the assets of the parent in Canada. The investment position series are adjusted to exclude investment outside Canada.

Exemptions - The CALURA series are subject to statutory exemptions of some companies by reason of

size or other characteristics. In recent years the estimates have been extended from other sources, but some 2,500 non-financial corporations known to be foreign-controlled in 1974 were not identified as such, and there were in addition about 550 branches in Canada of foreign non-financial corporations.

Control - The CALURA series originally classified control of corporations strictly on the basis of ability of residents or non-residents to exercise the majority of voting rights. The investment position based series, however, depart from the strict criterion of ownership of the common stock of the enterprise in a few cases in which it appears control may be exercised without majority ownership. In recent years the classification of the CALURA series has been modified to follow the investment position treatment.

Nominee holdings - Another point of difference which is not likely to be as important on balance is the degree of success achieved under each of the statistical systems in identifying non-resident ownership masked through the use of Canadian nominees.

Reconciliation of the Two Series

A precise reconciliation of the two sets of series bearing on control is not feasible at this time. However, the percentages for foreign control based on assets found in CALURA reports and those for foreign control based on long-term capital in Canada from investment position records will correspond provided the following conditions exist:

- proportions of short-term liabilities to total assets do not differ in respect of foreign-controlled corporations and the universe. There is as yet available little firm evidence on the effect of including or excluding short-term liabilities from the series;
- the proportions of assets representing claims on or ownership of subsidiaries in Canada do not differ in respect of foreign-controlled corporations and the universe.

A study carried out in respect of 1969 and 1970³ suggests that on balance investments in and claims against affiliates expressed as percentages of total assets do not differ in respect of foreign and Canadian controlled non-financial industries, although there are wide variations by industry and also in respect of all industries when the CALURA "finance" group is included;

- the totals are confined to the same industry groups, or the CALURA data for agriculture and services (which are not among the areas of national wealth covered

³ *Corporations and Labour Unions Returns Act, report for 1970, Part I - Corporations, Catalogue 61-210, Statement 24.*

in the investment position based series) have, as a whole, broadly the same ownership characteristics as other industry groups;

the proportions of assets outside Canada to total assets do not differ in respect of foreign-controlled corporations and the universe.

Canadian direct investment abroad of \$9,307 million at the end of 1974 as shown in the investment position series included \$1,820 million by Canadian companies controlled outside Canada. These figures are based on the values on the balance sheets of the foreign subsidiaries, etc., rather than the values at which they are included in assets as reported under CALURA. In any event, their exclusion to arrive at assets in Canada, however valued, would not appear likely to alter significantly the ratios in respect of non-financial industries as a whole;

- there are no foreign-controlled concerns exempt under CALURA for which information was included in the investment position based series.

As noted earlier, some 2,500 non-financial corporations known to be foreign-controlled in 1974 were not identified as such for the CALURA series, and there were in addition about 550 branches in Canada of foreign non-financial corporations. It is not possible to produce estimates corresponding to the CALURA items for these companies, nor is it known to what extent their inclusion would have shifted specific ratios.

Statistical Example

The balance sheets which follow are presented as the basis for a highly simplified exercise in the application of the various statistical procedures employed.

Statistical Example

Item	Unconsolidated				Consolidation entries	A consolidated
	Canadian company			Foreign company		
	A	B	C	D		
Current assets	350	75	75	50		550
Investments in subsidiaries:						
B	250				- 250	
C	120				- 120	
D	200				- 200	
Fixed assets	1,000	700	650	500		2,850
Less depreciation	- 720	- 175	- 225	- 100		- 1,220
Total assets	1,200	600	500	450	- 570	2,180
Current liabilities	250	50	50	50		400
Long-term debt	350	300	100		- 50	700
Of which:						
Owned by A		(50)			(- 50)	
Owned by non-residents	(200)	(50)				(250)
Minority interest in subsidiaries					140	140
Capital	500	200	200	200	- 600	500
Of which:						
Owned by A		(200)	(120)	(200)	(- 520)	
Owned by non-residents	(375)					(375)
Earned surplus	100	50	150	200	- 60	440
Total liabilities	1,200	600	500	450	- 570	2,180

Corporations and Labour Unions Returns Act -
Under CALURA separate returns would be filed by

companies A, B, and C (unless in an exempt class).
Processing would yield the following results:

	Foreign control	Degree of non-resident ownership	Total assets	Total equity
		per cent		
Company:				
A	Yes	75	1,200	600
B	Yes	75	600	250
C	Yes	45	500	350

(Degree of non-resident ownership represents the proportion of voting stock held by non-residents, directly or beneficially through other Canadian corporations.) Each of these companies could be attributed to a different industry classification but the total impact of them on the CALURA series would be as follows:

	Total assets	Total equity
Control:		
Foreign	2,300	1,200
Canadian	-	-
Degree of non-resident ownership:		
75% - 94.9%	1,800	850
25% - 49.9%	500	350
Total	2,300	1,200

Investment position series - As in the case of the CALURA series, companies A, B and C are in effect all classified to foreign control, notwithstanding the fact that the degree of non-resident ownership in C is less than 50%. The measure used is long-term capital employed in the enterprise less the element outside Canada; in other words the value of long-term investment in Canada. This measure would in practice be constructed mainly from the consolidated values for A, as follows:

Long-term debt	700
Minority interest	140
Capital stock	500
Earned surplus	440
Sub-total	1,780
From this would be deducted the long-term capital employed outside Canada, in this case the equity in company D	400

The value for long-term investment in Canada in enterprise A would therefore be established as 1,380

Neither of the CALURA series, nor the investment position series for control, involves apportioning investment in a corporation or enterprise between resident and non-resident sources. The statistical unit as a whole is first classified (as to degree of non-resident ownership or as to control); each series then proceeds to tabulate differing measures (e.g., total assets, total equity, long-term investment in Canada).

On the other hand investment position series for foreign ownership measure sources of capital. For this purpose the value attributed to foreign long-term investment in Canada in enterprise A would be calculated as follows:

Long-term debt held by non-residents	250
Equity held by non-residents (75% of 500 + 440)	705
Less:	
Equity of non-residents in Company D (75% of 400)	300
Total foreign long-term investment in Canada in enterprise A	655

The Canadian-owned investment in the enterprise in Canada would be 725. Investment position tabulations would attribute the various values entirely to the industry representing the principal activity of companies A, B and C as a group, in this case probably the industry of A.

Percentage series for foreign control and ownership are obtained by relating the value data to corresponding estimates for the whole industry.

APPENDIX 9

Statistics of International Travel¹

Method of Compiling Data

The system of producing statistics on international travel between Canada and other countries has been carefully developed over many years with periodic revisions to effect improvement in basic data when this became possible. Statistics on international travel cover many types of travellers, including those travelling for holiday, vacation or health, whether paying for expensive accommodation or visiting friends or relatives; businessmen and officials; delegates to conventions or conferences; and the many re-entries of summer residents and commuters. Persons travelling in transit through Canada to other countries, over the most direct route between two points in the United States, or in transit through the United States between two points in Canada, are included in the aggregate of crossings. In other words, international travel comprises the total travel movement between Canada and all other countries. The following explanation describes in detail the procedures involved in collecting and compiling data on international travel and includes reproductions of the forms in use during 1974.

Statistics on international travel are developed from two types of sources both of which are heavily dependent on the co-operation of port officials. They are:

- **Frontier counts** – Numbers of travellers crossing Canada's border are provided by the Department of National Revenue (Customs and Excise Division). All ports of entry across Canada participate in the collection of numbers of travellers by selected categories, by type of transaction, and in the case of highway and ferry points, the numbers of cars and trucks.
- **Expenditure surveys** – Continuous questionnaire surveys are used to secure data on the expenditures and other characteristics of international travellers. These surveys are made possible through the co-operation of the Department of National Revenue, as well as the United States Department of Commerce. The questionnaires, which do not identify the respondent, are distributed at border points to foreign travellers and returning Canadian travellers in accordance with pre-arranged schedules. Since response cannot be controlled due to the voluntary nature of the survey and the distribution methods, the results may be subject to a response bias unknown either in quantity or direction.

When estimating receipts and payments on travel account, consideration must be given to the many kinds of visits involved. For example, there are casual trips of

visitors or returning residents who may remain for a few hours or less; family vacations which could involve a stay of two or three weeks; persons who may stay several months; and also business trips, conventions and single or group travel for any purpose. Studies conducted over a period of years have established that expenditures tend to follow a pattern from year to year, but vary according to the type of transportation used, type of visitors, length of stay, etc. For this reason each type of travel must be treated separately. An unweighted average applied to such a heterogeneous mass of travellers would give a figure on travel that would be of little value. Since each classification forms a different proportion of the aggregate, it is important that an average expenditure representative of the type of travel be applied to the number of visits within each category.

Number of International Travellers (Frontier Counts)

The numbers of all persons entering Canada from abroad are recorded by customs officials under three broad classifications – non-residents travelling to Canada, residents of Canada travelling abroad and a category of other travellers which include immigrants, military personnel and diplomats (including dependents), and persons engaged in the operation of transportation equipment.

The data are gathered from three source documents completed at all points of entry to Canada. All travellers who clear customs are recorded by category, method of entry and country of residence. The documents listed below are sent directly to Statistics Canada for processing.

E62 Entry Tally (Form 1) – To record travellers and vehicles by land and car ferry at ports of entry on the United States-Canadian border.

These counts are on a full census basis, except for seven ports where a count of automobiles is carried out one day in four. The schedules are arranged between the seven points to cover all days of the month over the region. Toll authorities at these points provide counts of total automobile traffic which are then used to provide weighted estimates of traffic by categories.

E63 Private Craft and Passenger Arrivals (Form 2) – To record travellers entering Canada by private plane and boat. This form is also used to record travellers on commercial freighters, passenger ferries and inland excursion cruises.

E64 Referral Cards (Forms 3A, 3B and 3C) – To record travellers and crews entering Canada by commercial plane and boat, including charter and ocean cruise arrivals.

¹ A more complete description will be found in *Travel Between Canada and Other Countries* (Catalogue 66-201).

E 64 Pacific (11/71)

CUSTOMS

- Nothing to Declare
- Not Entitled to E 24
- Accommodation
- E 24
- Gifts
- Commercial
- Professional Effects
- Verbal Declaration

AGRICULTURE

- Plant-Soil-Fruits
- Meat or Meat Products

HEALTH

- Certificate(s)
- Illness
- Infected Area

CATEGORY

- RESIDENTS OF CANADA RETURNING FROM:**
- U.S.A. Only 1 _____
 - Overseas Direct 2 _____
 - Overseas Via U.S.A. 3 _____

- IMMIGRANTS
FORMER RESIDENTS 4 _____

- RESIDENTS OF U.S.A. 5 _____

OVERSEAS RESIDENTS	6	7	
	DIRECT	VIA U.S.A.	
Australia			5300 _____
Fiji Islands			6708 _____
Germany (West)			1029 _____
Hong Kong			6223 _____
India			6225 _____
Italy			1041 _____
Japan			0235 _____
Mexico			7413 _____
Netherlands			1057 _____
New Zealand			5306 _____
Philippines			7261 _____
United Kingdom			0077 _____
Other (Specify)			_____

- Crews _____

IMMIGRATION

T E L O

DESCRIPTION	VALUE	DUTY	S.T.	E.T.
TOTALS ▶				

IMMIGRATION Control Card

NO.

1	2	3	4	5	6	7	8	9
---	---	---	---	---	---	---	---	---

NO.

Name _____ Number of persons _____

Cabin-baggage _____ Hold baggage _____

CUSTOMS

- Nothing to declare _____
- Not entitled to E24 _____
- Accommodation _____
- E24 _____
- Verbal declaration _____
- Commercial _____
- Professional effects _____
- Gifts _____
- English _____
- French _____
- Interpreter _____

AGRICULTURE

- Plant - soil - fruits _____
- Meat or Meat products _____

HEALTH

- Certificates _____
- Illness _____
- Infected area _____

IMMIGRATION

T

E

L

O

CATEGORY

Residents of Canada returning from:

- U.S.A. only _____ 1 _____
- Overseas Direct _____ 2 _____
- Overseas Via U.S.A. _____ 3 _____
- Immigrants former residents _____ 4 _____
- Residents of U.S.A. _____ 5 _____

Overseas residents

- | | 6 | 7 | |
|--|----------------|---|------------|
| | direct via usa | | |
| <input type="checkbox"/> Austria _____ | | | 2005 _____ |
| <input type="checkbox"/> Belgium _____ | | | 1009 _____ |
| <input type="checkbox"/> Denmark _____ | | | 2017 _____ |
| <input type="checkbox"/> France _____ | | | 1025 _____ |
| <input type="checkbox"/> Germany (West) _____ | | | 1029 _____ |
| <input type="checkbox"/> India _____ | | | 6225 _____ |
| <input type="checkbox"/> Italy _____ | | | 1041 _____ |
| <input type="checkbox"/> Netherlands _____ | | | 1057 _____ |
| <input type="checkbox"/> Pakistan _____ | | | 6259 _____ |
| <input type="checkbox"/> Poland _____ | | | 9061 _____ |
| <input type="checkbox"/> Spain _____ | | | 8069 _____ |
| <input type="checkbox"/> United Kingdom _____ | | | 0077 _____ |
| <input type="checkbox"/> Other (specify) _____ | | | _____ |

Crews _____

DESCRIPTION	VALUE	DUTY	S.T.	E.T.
TOTALS ▶				

INITIALS

PLEASE SURRENDER TO THE CUSTOMS OFFICER
AT DISEMBARKATION

E 64 Atlantic (11/71)

CUSTOMS

- Nothing to Declare
- Not Entitled to E 24
- Accommodation
- E 24
- Gifts
- Commercial
- Professional Effects
- Verbal Declaration

AGRICULTURE

- Plant-Soil-Fruits
- Meat or Meat Products

HEALTH

- Certificate(s)
- Illness
- Infected Area

CATEGORY

- RESIDENTS OF CANADA RETURNING FROM:**
- U.S.A. Only 1 _____
 - Overseas Direct 2 _____
 - Overseas Via U.S.A. 3 _____
-
- IMMIGRANTS
FORMER RESIDENTS** 4 _____
-
- RESIDENTS OF U.S.A.** 5 _____

OVERSEAS RESIDENTS	6	7	
	DIRECT	VIA U.S.A.	
Belgium			1009 _____
France			1025 _____
Germany (West)			1029 _____
Greece			8033 _____
India			6225 _____
Italy			1041 _____
Jamaica			6526 _____
Netherlands			1057 _____
Pakistan			6259 _____
Portugal			2063 _____
Trinidad/Tobago			6542 _____
United Kingdom			0077 _____
Other (Specify)			_____

Crews _____

IMMIGRATION

T E L O

DESCRIPTION	VALUE	DUTY	S.T.	E.T.
TOTALS ▶				

A 100% count of travellers at airports and sea-ports is undertaken through the use of this card which serves the needs of a number of other government departments. The cards, which are completed by customs officials, contain information on the category of traveller and country of residence.

Expenditures and Other Travel Characteristics

Continuous questionnaire surveys are used to secure information on the expenditure and other characteristics of international travellers. These surveys are conducted under a co-operative arrangement with the United States Department of Commerce and Canada customs. The questionnaires are handed out to a sample of travellers on entry to Canada by customs officials, or in some cases by United States border officials. The travellers complete the questionnaire at their leisure and mail the form to the United States Department of Commerce or Statistics Canada. The questionnaires are summarized by electronic processing, stratified by month or quarter, province of entry, type of transportation, length of stay and traveller category. In the case of automobile traffic a more detailed stratification is made for selected points of entry. When adjustments have been made for special traffic, the frontier counts or traffic densities are related to the sample data and weighted numbers or inflation factors are applied.

The questionnaires used are as follows:

United States visitors to Canada – Questionnaire BE536, reproduced as Form 4, is used to secure information on the spending and travel habits of United States visitors. It is distributed by United States customs officials one day in four to the driver of each United States vehicle returning to the United States after staying in Canada one or more nights and to visitors travelling by private plane or boat, and two weeks in each quarter to the driver of each United States vehicle entering and leaving Canada on the same day and to United States residents travelling by commercial plane, bus, rail or boat. Respondents mail completed questionnaires to the United States Department of Commerce. In 1974 about 33,000 questionnaires were returned covering 88,000 travellers.

Overseas visitors to Canada – Questionnaire 3-1401-10 is distributed by Canada customs officials to all visitors entering Canada from countries other than the United States. The questionnaire, reproduced as Form 5, is completed by the traveller during his visit and mailed to Statistics Canada on leaving Canada. In 1974 some 12,000 questionnaires were returned covering 17,000 travellers.

Returning Canadian residents – Questionnaire 3-1401-8, Canadian Vehicles Leaving Canada and Returning on the Same Day, reproduced as Form 6, is distributed by Canada customs officials one week in each quarter to the driver of each Canadian vehicle leaving and returning to Canada on the same day.

Completed forms are mailed to Statistics Canada for tabulation and analysis. In 1974 about 18,000 of these questionnaires were returned covering 44,000 travellers.

Questionnaire 3-1401-3 has two parts, reproduced as Forms 7 A and 7 B. The first is distributed by Canada customs officials one day in four to the driver of each Canadian automobile returning to Canada after staying in the United States one or more nights and to non-automobile travellers to the United States. The second is similarly used for Canadian residents returning from countries other than the United States. In 1974 some 47,000 of these questionnaires were returned covering 101,000 travellers.

Publications and Summary of Detail Available

Travel Between Canada and Other Countries – (Formerly Travel Between Canada, the United States and Other Countries) quarterly, formerly monthly statistics by month on non-resident travellers entering Canada by country of residence and Canadian residents returning from abroad. Detail by province and port of entry, type of transportation, and length of stay. The report contains current data on the quarterly estimates of receipts and payments on international travel (Catalogue 66-001).

International Travel – Advance Information – (Formerly United States/Non-resident Vehicles Entering Canada) monthly. Non-resident and returning resident travellers to Canada, and the number of United States vehicles entering each province (Catalogue 66-002).

Travel Between Canada and Other Countries, annual – Analysis of non-resident travel in Canada, including numbers of foreign travellers by country of residence and their expenditures according to length of stay, type of transportation, etc.; special studies of non-resident travel behaviour in Canada, including purpose of trip, accommodation used, and destinations. Analysis of Canadian travel to the United States and overseas countries similar in scope to the data on travellers from the United States and overseas countries in Canada (Catalogue 66-201).

Definition of Terms

International traveller – The term international traveller applies to all persons arriving in Canada who are cleared through Customs and Immigration points of entry. One person may cross into Canada several times on one trip away from home. The method of collection counts each crossing or visit made. The term international traveller is divided into three groups; non-resident traveller, resident traveller and other traveller. If all "same day" travellers are excluded from non-resident and resident categories, the numbers remaining approximate the international definition of "tourist".

FORM BE-536
19-30-761

U.S. DEPARTMENT OF COMMERCE
BUREAU OF ECONOMIC ANALYSIS

SURVEY OF U.S. TRAVELERS VISITING CANADA

OFFICE USE ONLY

01

PLEASE READ . . .

Report on trip taken when you receive this questionnaire. Do not include any part of the trip that was in the United States.

This questionnaire is used by the U.S. Department of Commerce and by Statistics Canada solely for compiling international travel statistics. Please complete the questionnaire and drop it in a mail box. No postage stamp is required.

The collection of data on this questionnaire is subject to the provisions of the Federal Reports Act (44 U.S.C., Sec. 3509) and has been approved by the Office of Management and Budget.

1. City or town and State in which you reside

02

2. Date you entered Canada from the United States

Month Day Year

3. Date you reentered the United States from Canada

Month Day Year

03

4. City or border point where you entered and departed from Canada
(Write name of city or border point in appropriate column)

Province	City or border point	
	05 ENTRY	06 DEPARTURE
Newfoundland	A	A
Prince Edward Island	B	B
Nova Scotia	C	C
New Brunswick	D	D
Quebec	E	E
Ontario	F	F
Manitoba	G	G
Saskatchewan	H	H
Alberta	I	I
British Columbia	J	J
Yukon	K	K

5. Was this your first visit to Canada? (Mark one)

07 A Yes B No

6. Number of U.S. travelers on this trip to Canada

a. Number of children (12 and under)

Male 08

Female 09

b. Number of adults (over 12 years)

Male 10

Female 11

c. TOTAL → 12

7. Estimate as nearly as possible other expenditures, excluding fares, in Canada by persons reported in Item 6. (Include food, rent, lodging, entertainment, merchandise, gifts, credit card purchases, local transportation, etc.)

\$ _____
(In U.S. dollars)
 Mark (X) if none

13

8. Number of provinces visited and the number of nights spent in each
(Mark (X) the provinces and enter the number of nights spent in each)

Province	Mark (X)	Number of nights
14 Newfoundland		
15 Prince Edward Island		
16 Nova Scotia		
17 New Brunswick		
18 Quebec		
19 Ontario		
20 Manitoba		
21 Saskatchewan		
22 Alberta		
23 British Columbia		
24 Yukon/N.W. Terr.		

9. What was your MAIN reason for visiting Canada?
(Mark (X) appropriate box)

- 25
- A Employed in Canada
 - B Convention, conference or seminar
 - C Other business
 - D Study
 - E Visit friends or relatives
 - F Pleasure trip
 - G Transit through Canada
 - H Other - Specify



International Travel Section

OFFICIAL CANADIAN GOVERNMENT TRAVEL SURVEY
(For non-residents from countries other than Canada and the U.S.A.)

• Complete this questionnaire before leaving Canada. No postage is required if mailed in Canada. The information provided will be treated as confidential and used only for statistical purposes.

Authority - Statistics Act, Chapter 15, Statutes of Canada 1970-71-72.

(Français au verso)

1. Where do you live?
Country City or Town

2. (a) Place and date of ENTRY into Canada ON THIS TRIP?
Place Date

(b) Place and date of EXIT from Canada ON THIS TRIP?
Place Date

3. Is this your first trip to Canada? Yes or No

4. Please insert in the appropriate block the NUMBER of persons covered in this report (include yourself).

	Male	Female		Male	Female
Persons over 12 years	<input type="text"/>	<input type="text"/>	Persons 12 years and under	<input type="text"/>	<input type="text"/>

5. What was the main reason for coming to Canada?

Business Convention/Conference Temporary or seasonal worker
 Study Visiting friends or relatives Transit to other countries
 Pleasure trip Other (specify)

6. (a) International transportation used:

ARRIVAL in Canada:	Name of Airlines or other carriers	Amount of fares	Specify currency	OR ... Round Trip Amount of fares Specify currency
from overseas	<input type="text"/>	<input type="text"/>	<input type="text"/>	
from United States	<input type="text"/>	<input type="text"/>	<input type="text"/>	
DEPARTURE from Canada:	Name of Airlines or other carriers	Amount of fares	Specify currency	
to overseas	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
to United States	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

(b) Was this a:

Scheduled service Tour (Fare includes meals and/or accommodation)
 Charter Other (specify)

7. Estimate as nearly as possible total spending in Canada of persons reported in Question 4. (Exclude commercial transportation fares reported above but include local transportation)

In Canadian Dollars \$.00

8. While in Canada what cities or towns did you visit and how many nights did you stay in each?

City or town and province	Nights stay	City or town and province	Nights stay
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
		Total nights in Canada	<input type="text"/>

9. Did you visit the United States ON THIS TRIP?
 No Yes (If "Yes", complete the following)

(i) Before entering Canada

(ii) During your stay in Canada

(iii) After leaving Canada

(a) How many nights did you stay in Canada before visiting the USA?

(b) How many times on THIS TRIP did you visit the USA?

10. Comments:

Office use only

1-3 I #

4-6 Q #

7-10 C

11 FV

12-14 E

15-17 X

18-21 D

22-23 CM

24-25 CF

26-27 AM

28-29 AF

30-31 P

Nights

32-34 Nfld.

35-37 P.E.I.

38-40 N.S.

41-43 N.B.

44-46 Que.

47-49 Ont.

50-52 Man.

53-55 Sask.

56-58 Alta.

59-61 B.C.

62-64 Y.

65 U.S.

66-68 N.

69 XUS

Direct

70-71 P

72-74 N

75-78 T \$

79-82 E \$

83 S

VIA - SD

84-85 P

86-89 T \$

90-93 E \$

94 S

VIA - L +

95-96 P

97-99 N

100-103 T \$

104-107 E \$

108 S

VIA - O

109-110 P

111-113 N

114-117 T \$

118-121 E \$

122 S

QUESTIONNAIRE FOR CANADIAN RESIDENTS LEAVING AND
RETURNING TO CANADA ON THE SAME DAY
QUESTIONNAIRE POUR LES CANADIENS SORTANT DU CANADA
ET REVENANT LE MÊME JOUR

No signature is required - *Vous n'avez pas à le signer.*

If you have already completed a form during the last seven days
please hand this one back to the inspector without completing it.
*- Si vous avez déjà rempli une formule au cours des sept derniers
jours, remettez celle-ci à l'inspecteur sans la remplir.*

1. How did you re-enter Canada? - *Comment êtes-vous rentré
au Canada?*

- Automobile Taxi
 Commercial vehicle - *Véhicule commercial*
 Other (specify) - *Autre (précisez)*

2. Place of re-entry into Canada? - *Lieu de
rentrée au Canada?*

Date

3. Main purpose of trip. - *But principal du voyage.*

- Employed in U.S. - *Emploi aux États-Unis* Business - *Affaires*
 Pleasure - *Voyage d'agrément* Visiting friends or relatives - *Visite à des amis ou parents*
 Other (specify) - *Autre (précisez)*

4. Number of persons covered in this report. - *Nombre de
personnes prises en compte dans la présente formule.*

5. During the past 7 days, how many same day trips (including
to-day's) have you made to the U.S.? - *Au cours des 7 der-
niers jours, combien de fois (aujourd'hui compris), êtes-
vous allé aux États-Unis et revenu le même jour?*

6. Total expenditures in U.S. (Canadian dollars) on this trip for
all purposes by persons reported above. - *Dépenses totales
(en dollars canadiens) faites aux États-Unis pour toutes fins
au cours de ce voyage par les personnes prises en compte dans
la présente formule.*

\$ _____

or if no expenditures
ou néant

✓



Statistics Canada Statistique Canada

International Travel Section

CONFIDENTIAL QUESTIONNAIRE TO RETURNING CANADIAN TRAVELLERS

Report on the trip on which you received this questionnaire

If trip was to overseas countries (including Hawaii) use other side

TRIPS TO THE UNITED STATES

Authority - Statistics Act, Chapter 15, Statutes of Canada 1970-71-72.

1. Place where you left Canada _____ Date _____ day month year

Place where you re-entered Canada _____ Date _____ day month year

2. City or town and province in which you reside _____

3. Main destination in the United States - _____

Give state _____

4. Number of nights spent at above destination _____

Total nights in the United States on this trip _____

5. Check type of lodging used most in U.S. -

- Camping, tenting or house trailer
- Apartment or dwelling (owned or rented)
- Resort, Hotel or Motel
- Home of friends or relatives
- Other (please specify) _____

6. Check main purpose of trip -

- Business
- Convention, conference or seminar
- Holiday (include vacation and other recreation)
- Shopping
- Travelling through U.S. to or from other parts of Canada (complete question 11)
- Visiting friends or relatives
- Other (please specify) _____

7. Number of persons covered in this report -

Adults _____

Children (under 16 years) _____

8. Check means of transportation used -

	Leaving Canada	Returning to Canada
Automobile	<input type="checkbox"/>	<input type="checkbox"/>
Plane	<input type="checkbox"/>	<input type="checkbox"/>
Bus	<input type="checkbox"/>	<input type="checkbox"/>
Train	<input type="checkbox"/>	<input type="checkbox"/>
Boat	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify) _____	<input type="checkbox"/>	<input type="checkbox"/>

9. If commercial carrier(s) was used, give the name and the approximate fares purchased, including cash or credit transactions and taxes on transportation -

	Name of commercial carrier(s)	Fares Canadian \$
Leaving Canada	_____	_____
Returning to Canada	_____	_____

If return fare was purchased, give name of carrier(s) above and the total amount paid here

Check type of trip taken -

- Regular service
- All expense tour
- Charter flight

10. Estimate as nearly as possible (in Canadian dollars) expenditures in the U.S. by persons reported in item 7 (include food, lodging, entertainment, merchandise, gifts, automobile operation, local transportation, etc.). Include cash or credit transactions but exclude transportation costs reported above.

\$ _____ or if nil, check

11. If this trip was to or from other parts of Canada via the U.S., give provinces visited _____

Please mail in the enclosed postage paid envelope. Your co-operation is appreciated.

If trip was to United States use other side

TRIPS TO OVERSEAS COUNTRIES BY CANADIANS

(Include Hawaii, Bermuda, Caribbean countries, Mexico, other Latin American countries, etc.)

1. Place where you left Canada _____ Date _____ day _____ month _____ year

Place where you re-entered Canada _____ Date _____ day _____ month _____ year

2. Main purpose of trip

- Business
- Convention, conference or seminar
- Holiday (include vacation or other pleasure)
- Visiting friends or relatives
- Other (please specify)

3. Type of trip taken

- All expense tour by plane
- All expense cruise by ship
- Charter flight
- Regular service by plane or ship

4. Place of residence in Canada

City or town _____
Province _____

5. Number of persons covered in this report

Adults
Children (under 16 years).....

6. International transportation between Canada and overseas. Report approximate cost (cash or credit transactions) including taxes on transportation and other expenses aboard plane or ship.

7. Approximate expenditures (cash or credit transactions) in countries other than the United States for food, rent, lodging, entertainment, merchandise, gifts, automobile operation, local transportation, etc. Include "Prepaid Tours" or "Pay Later Plans" but exclude the amount shown in item 6 as international transportation

Canadian \$

(omit cents)

Outward service		Canadian \$ (omit cents)	Name countries visited	Number of nights in each country	Where possible give the amount spent in each country (omit cents)
Direct <input type="checkbox"/> or via the U.S. <input type="checkbox"/>					
<input type="checkbox"/> Air _____ Name of airline					
<input type="checkbox"/> Ship _____ Name of vessel or steamship line					
Inward service					
Direct <input type="checkbox"/> or via the U.S. <input type="checkbox"/>					
<input type="checkbox"/> Air _____ Name of airline					
<input type="checkbox"/> Ship _____ Name of vessel or steamship line					

If you travelled through the United States en route to and/or from other countries, complete the following:

8. Place of departure from the U.S. _____ Place of re-entry into the U.S. _____

9. Give number of nights spent in the United States during this trip

10. Approximate expenditures (Canadian dollars) while in the United States. Include cash or credit transactions for living expenses, merchandise, entertainment, transportation, etc. \$ _____
(omit cents)

11. Type of transportation used to re-enter Canada from the United States _____

Please mail in the enclosed postage paid envelope. Your co-operation is appreciated.

Non-resident traveller – An international traveller resident of a country other than Canada who passes through Canada customs on a visit for a period of less than 12 months. Canadian citizens resident in other countries coming home on leave are included. This category comprises persons entering Canada for the following reasons:

- Business, commuting to work, seasonal or temporary employment
- Attending a convention, conference or seminar
- Study, summer resident
- Visiting friends or relatives
- Pleasure, holiday, vacation, health and shopping
- Travelling in transit (clearing Canada customs).

Resident traveller – An international traveller resident in Canada who has travelled outside Canada for a period of less than 12 months for the same reasons as given above and who is returning to Canada through Canada customs. Foreign citizens resident in Canada travelling abroad on leave or for other reasons are included.

Other travellers – A group consisting of the following types of international travellers:

- Immigrants: citizens of other countries entering Canada to take up residence.
- Former residents: Canadian citizens returning to Canada to establish permanent residence.
- Military personnel, diplomats and dependents: Canadian citizens and dependents who have been stationed abroad and who are returning from postings; foreign citizens and dependents entering Canada on a military or diplomatic posting.
- Crews: persons engaged in the operation of planes, ships and trucks.

Travel receipts – Expenditures in Canada by non-resident travellers, foreign air crews and commercial truck crews for all expenses incidental to travel (including purchases of goods to be exported for personal use by travellers). Among these would be international fare payments to resident carriers and expenditures in Canada for lodging, food, entertainment, local transportation, gifts and all other purchases of goods and services.

Travel payments – Expenditures abroad by Canadian resident travellers, air crews and commercial truck crews for all expenses incidental to travel (including purchases of goods to be imported for personal use by travellers). Among these would be international fare payments to non-resident carriers and expenditures abroad for lodging, food, entertainment, local transportation, gifts and all other purchases of goods and services.

International transportation fares – Passenger services for the transportation of individuals and the related services rendered by carriers. These would include fares, expenditures on board the carrier, excess baggage charges, etc. Excluded would be transportation of travellers between places within the country where they are travelling. International fare payments to Canadian carriers by non-residents are included in travel receipts, while fare payments to non-resident carriers by Canadian residents are included in travel payments.

Reliability Indications

Numerical counts – A continual liaison function is performed by the International Travel Section with the supplying department to review, discuss and solve inconsistencies in reported figures. A monitoring system has been established to compare incoming data with information available from such independent sources as airport management reports, toll figures, provincial road counters, Aviation Statistics Centre data, etc. This permits the verification and explanation of irregular fluctuations in reported figures.

The samples drawn at seven points of entry on the Ontario border have been designed and tested by Statistics Canada. Reliability calculations reveal accuracy to within acceptable limits at the regional level. Variances are calculated monthly and monitored to ensure representativeness. The total flow of traffic through these points is determined by figures submitted monthly by toll authorities.

Questionnaire surveys – Voluntary questionnaire surveys, which do not identify respondents, were established originally to collect expenditure data. They contained only a few questions. Response was reasonably large and consistent. As travel grew in size and importance, the travel industry voiced a need for much more detailed information for market research and industry planning. The questionnaires were gradually expanded to include as many as 11 questions including purpose of trip, detail on origin and destination, type of accommodation, etc. Response declined and became more irregular as the volume of traffic increased. The original purpose of the questionnaire is still served adequately. However, derivation of expenditure data and other characteristics below the aggregate level strains the purpose of the survey and resultant statistics must be considered less reliable.

Since response cannot be controlled due to the voluntary nature of the surveys and the distribution methods, reliability measures are difficult or next to impossible. There may be both "distribution" biases in that questionnaires may not reach a random selection of travellers, and "response" biases in that the individuals replying may not be representative of the travelling public.

About 45,000 questionnaires covering 105,000 persons were received in 1974 from non-residents parties entering Canada and 65,000 covering 145,000 persons from returning residents, representing less than one half of 1% of the 68 million total resident and non-resident entries into Canada. Under controlled conditions, the size of these samples may be adequate; however, to date measures of reliability cannot be calculated. There are, therefore, limits to the quantity of data which can be released from the surveys, particularly in respect of cross tabulations by detailed characteristics.

Weighting techniques used in the estimation process attempt to reduce the effect of biases. Response is disaggregated by known population characteristics into homogeneous groups. For example, three main groups are United States automobiles entering and leaving same day, those staying one night and those staying two or more nights. Further, the port or area of entry, to take into account geographical distribution, is established for each group prior to the application of weights. In each quarter, 869 individual weights are applied in the estimation of expenditures and trip characteristics of international travellers.

The formula for the estimation of travel characteristics of United States residents to Canada, as an example, could be summarized as follows:

$$\hat{E} = \sum_{c=1}^{10} \sum_{j=1}^{n_c} \sum_{i=1}^{n_{cj}} \frac{N_{cj}}{n_{cj}} X_{cji}$$

\hat{E} = estimate of characteristics, United States residents (e.g., expenditure, nights, etc.)

c = category of traveller (e.g., auto same day, auto one night, etc.)

i = time period

j = selected port or group of ports of entry

N = total volume (universe) for specified c and j

n = total sample for specified c and j

X = observation on particular characteristic (e.g., expenditure, nights, etc.).

Studies conducted by the International Travel Section relating data from independent sources to the questionnaire output have revealed comparability at high levels of aggregation. In 1967, a controlled interview survey of United States automobile parties leaving Canada produced estimates of expenditures which were within 0.7% of the total derived from the questionnaire surveys. Similar agreement was reached in the mean

expenditure per car per day in studies conducted in 1968 and 1969. The actual difference in the average was \$0.20 in 1968 and \$0.40 in 1969, both within 2%.

Data from international sources, provincial governments, etc., tend to show trends similar to those revealed by the existing system. Generally, the questionnaire methods indicate reliability at the higher levels of aggregation, with deterioration in the observations at lower levels of aggregation and in detailed cross-classifications of data.

The search for alternative methods of collecting traveller data under statistically controlled conditions and at low cost is continuing.

A trial was sponsored by Statistics Canada in October and November 1972 at Montréal International Airport to evaluate the questionnaire survey of non-resident travellers from countries other than the United States on the basis of three criteria: questionnaire design; distribution methods; and response representativeness.

Briefly, results indicated that a test questionnaire designed to be less "official" looking and printed in colour had half the response of the existing questionnaire; Statistics Canada personnel distributing questionnaires had twice as much response as customs officials; and the answers to questions on the questionnaire approximated at high levels of aggregation results from the same questions obtained by interviewers. The detailed study by country of residence did not show comparability. City of destination and even some province of destination observations were not within acceptable limits.

An air exit trial was conducted at Toronto International Airport in May 1974 using a modified departure lounge technique. The procedure combined a short interview and the distribution of a questionnaire to be completed by the traveller prior to departure. The trial demonstrated that the methods were of limited use due to the non-random nature of entries, especially late arrivals, into departure lounges.

An auto exit trial was conducted in the April to June period of 1975 at Ontario highway points. The methodological trial paralleled an interview survey being conducted by the province but replaced the full interview method with a "number match", short interview/mailback questionnaire. The methods proved successful and are recommended as a lower cost alternative to the full interview.

APPENDIX 10

Publications of Statistics Canada Relating to the Balance of Payments

Balance of Payments Division

The following listing of historical balance of payments publications is as complete insofar as is known. It includes a number of reports not identified at the time of publication in 1966 of the *Historical Catalogue of Dominion Bureau of Statistics Publications, 1918-1960* (Catalogue 11-504).

Balance of International Payments

For	Catalogue
1926-45	67-501, 67-201 (1972)
1946-64	67-505
1965-66	67-201 (1965-1970)
1967 and 1968	" (1972)
1969	" (1973-74)
1970	67-001 (most recent)

Main Series

While the reports listed give descriptive comment and statistical detail which may not have been revised or republished, only those listed below with the period for which they should be used were required at the time of writing to provide a complete set of the main series published on a continuing basis.

International Investment Position

Catalogue
67-202 (1926-1967)
" (1968-1970)
" (1971-1973)
" (1974)

Complete Listing

Catalogue	Title	Year of publication
-----------	-------	---------------------

Sub-annual Series

67-001	Quarterly Estimates of the Canadian Balance of International Payments – quarterly from second quarter of 1953. (Separate French language reports 67-001F from third quarter 1971 through fourth quarter 1973)	
67-002	Security Transactions with Non-residents (formerly Sales and Purchases of Securities Between Canada and Other Countries) monthly from May 1935	

Annual Series

Estimated Balance of International Payments in Canada:		
67-201	1920-26	1928
"	1925-27	1929
Estimated Balance of International Payments for Canada:		
"	1926-29	n.d.
"	1926-30	1931
"	Estimated Balance of International Payments for Canada, together with description of methods used, 1926-30	1932

n.d. not dated.

Catalogue	Title	Year of publication
Annual Series — Continued		
Canada's Balance of International Payments:		
67-201	1926 - 31	1932
"	1926 - 32	1933
Estimated Balance of International Payments for Canada:		
"	Preliminary statement 1933	1934
"	Preliminary statement 1934	1935
"	Preliminary statement 1935	n.d.
"	Preliminary statement 1936	1937
"	British and Foreign Investment in Canada and Canadian Investments Abroad (preliminary statements for 1937)	1938
The Canadian Balance of International Payments:		
"	1926 - 36	1937
"	1937	1938
"	Preliminary statement 1938	1939
"	Revised statement 1938 and preliminary statement 1939	1940
"	Revised statement 1939 and preliminary statement 1940	1941
"	Revised statements 1937-40 and preliminary statement 1941	1943
"	1937-42 (revised statements 1937-41 and preliminary statement 1942)	1943
"	1937-43 (revised statements 1937-42 and preliminary statement 1943)	1944
"	1926-44 (revised statements, 1926-43, preliminary statement, 1944, and British and foreign owned investment in Canada, and Canadian investment abroad 1926-39)	1945
"	1926-45 (revised statements 1926-44, preliminary statement, 1945, and British and foreign owned investment in Canada, and Canadian investments abroad 1926-45)	1947
"	Preliminary statement, 1946	1947
"	Preliminary statement, 1947	1948
"	Preliminary statement, 1948	1949
"	Preliminary statement, 1949	1950
"	1950	n.d.
"	1951 and foreign capital invested in Canada	1952

Catalogue	Title	Year of publication
Annual Series – Concluded		
67-201	1952 and international investment position	1953
“	1953 “	1954
“	1954 “	1955
“	1955 and international investment position	1956
“	1956 “ “ “ “	1957
“	1957 “ “ “ “	1958
“	1958 “ “ “ “ (also supplement)	1959
“	1959 “ “ “ “	1960
“	1960 “ “ “ “	1962
“	1961 and 1962 and international investment position	1964
“	1963, 1964 and 1965 and international investment position	1967
“	1965 - 70	1972
“	1971	1973
“	1972	1975
“	1973 - 74	1977
“	1975 - 76	1979
“	1977	1979
Canada's International Investment Position:		
67-202	1926 - 67	1971
“	1968 - 70	1975
“	1971 - 73	1977
“	1974	1978
“	1975	1979
Occasional Series		
67-D-50	Branch plants, subsidiary and affiliated companies, British and foreign capital investment in Canada	1931
None	Notes on foreign capital investments in Canada	1926

Catalogue	Title	Year of publication
Occasional Series – Continued		
	Capital investments by British and foreign countries in Canada and capital investments by Canadians in other countries:	
67-D-51	1927	n.d.
“	1928	1929
“	January 1, 1929	1930
None	British and foreign investments in Canada – Branch, subsidiary, affiliated and controlled companies, etc.	1931
	Estimated British and foreign investments in Canada January 1:	
67-D-51	1929 - 30	1932
None	1926 - 31	n.d.
None	Companies of foreign origin establishing in Canada since August 15, 1930 (issued December 31, 1933)	1933
	British and foreign investment in Canada – Branch, subsidiary, affiliated and controlled companies establishing in Canada since August 15, 1930, issued:	
None	July 2, 1935	1935
None	January 2, 1936	1936
None	July 2, 1936	1936
None	January 2, 1937	1937
67-D-51	British and foreign capital invested in Canada and Canadian capital invested abroad, 1926 - 36.	1937
	British and foreign direct investments in Canada and Canadian direct investments abroad:	
67-D-51	1936	1938
None	1937	1939
67-D-52	The Canadian balance of international payments: a study of methods and results	1939
67-D-53	Exchange, 1931	1932
67-D-54	Foreign prices and exchange rates 1924 (with references to important trade tendencies in leading countries)	1925
67-D-55	International distribution of ownership of the petroleum industry in Canada (1945 - 51)	1952
67-D-56	Recent international capital movements 1924 - 29	1930
67-D-57	Statistics showing distribution of securities by joint stock companies engaged in industrial enterprises in Canada, agriculture excepted, as at December 31, 1921	n.d.

Catalogue	Title	Year of publication
Occasional Series – Concluded		
67-D-58	United States direct investments in Canada; statistics of investments in all companies and operations of the larger manufacturing companies	1949
67-501	Canadian balance of international payments, 1926-48	1949
67-502	Canadian balance of international payments in the post-war years, 1946 - 52	1953
Canada's International Investment Position:		
67-503A	Selected years 1926 - 49	n.d.
67-503	1926 - 54	1956 and 1958
67-504	Canada's external short-term assets and liabilities 1945 - 57	1959
67-505	The Canadian balance of international payments. A compendium of statistics from 1946 - 65	1967

Other Statistics Canada Divisions

International Travel (Catalogue prefix 66)

See: Historical Catalogue of Dominion Bureau of Statistics Publications, 1918 - 1960 (Catalogue 11-504) pp. 146 and 147.

1976 - 77 Catalogue (Catalogue 11-204E) p. 114.

Commodity Trade (Catalogue prefix 65)

See: Historical Catalogue of Dominion Bureau of Statistics Publications, 1918 - 1960 (Catalogue 11-504) pp. 139 - 146.

1976 - 77 Catalogue (Catalogue 11-204E) pp. 112 and 113.

APPENDIX 11

Addendum – An Updating

The presentiment expressed in the Foreword to the effect that any study of sources and methods will begin to be outdated almost as soon as it is contemplated has been borne out by events since it was written. This addendum describes a number of developments and occurrences which are not fully reflected in this publication.

The Fourth Edition of the Balance of Payments Manual was published by the International Monetary Fund in late 1977. References throughout this publication (including those in Appendix 5, International Statistical Standards and Canadian Balance of Payments Statistics) are to the Third Edition, which was introduced originally in 1961.

Lottery receipts and payments, which are discussed under series A23 and B23 in Part II and in Appendix 5, were transferred in the first quarter of 1978 from series A23 and B23, Other services, to series A33 and B33, Personal and institutional remittances, retroactively to 1974.

Government loans – During the first quarter of 1978 Canada forgave some \$232 million of **soft loans** previously extended to developing countries. Similar earlier transactions were described under series B37, Official contributions, and series B45, Repayments of postwar loans and advances, in Part II. The treatment in balance of payments statistics of the transactions in the first quarter of 1978 departed from past practice, from international standards for balance of payments statistics and from the Public Accounts of Canada, in that the transactions were not reflected. The omission was dictated by a concern that the transactions were so large that, if shown, they would contribute to a misinterpretation of other elements of the System of National Accounts. In particular, the forgiveness would have appeared as an increase in government expenditure and been reflected as a reduction in saving. If it had been recognized in the balance of payments as an official contribution, the recorded current account deficit for the quarter would, of course, have been larger, as would repayments received by Canada on loans made to foreign governments. The treatment adopted enlarged the differences between the flows recorded in the balance of payments and the change in Canada's international investment position, as well as between stock and flow series in the financial flows. The difficulties which would be occasioned for the national accounts and the financial flows in following past practice demonstrate that although the basic elements of the System of National Accounts are highly integrated in Canada, the concept's underlying transfers are not, in fact, common to all parts of the System. (It should be noted that the treatment adopted for the first quarter report for 1978 was

changed to conform to normal balance of payments standards in the fourth quarter report for 1978.)

Net errors and omissions – The separate identification of net errors and omissions presaged in the discussion under series D82, Other short-term capital transactions, in Part III was adopted with the first quarter report for 1978, retroactive to 1946. Previously, indications of the size of the balancing item were provided only in the textual analysis. Annual data were subsequently carried back to 1927 on the same basis.

The balancing item is derived residually as the difference between net official monetary movements and identified current and capital account transactions. It is a composite representing unidentified transactions and statistical discrepancies in the balance of payments as a whole. Since the balance of payments estimates are constructed from a variety of sources, the possibility of error is associated with a number of factors, including problems of valuation, timing, data gaps, and the quality and coverage of surveys.

To a large extent, the balancing item on a quarterly basis has been associated with flows of short-term capital, particularly with changes in accounts payable and receivable which are monitored only for a sample of larger companies. These transactions can, however, produce sharp swings resulting from the deferment or acceleration of settlement of accounts to take advantage of prospective movements in exchange rates (a practice known as "leads and lags"), or varying degrees of credit tightness. In view of the relatively small size of the quarterly surveys used in measuring accounts payable and receivable, and the tendency of the balancing item to become enlarged during periods of sharp currency fluctuations, it seemed appropriate to include the balancing item with the series on miscellaneous short-term capital transactions.

With the increasing scale and complexity of international commerce and capital movements and the increased instability of exchange rates, the balancing item has increased in size in recent years. It has, however, been a consistent debit entry (apparent net outflows from Canada), suggesting a somewhat different structure from the essentially offsetting pattern associated with the ebb and flow of short-term capital. Recognition of the fact that the composition of the balancing item is not confined to capital account transactions, as well as the growing interest in the size of the balancing item itself, were important factors contributing to the decision to identify net errors and omissions as a separate item in the balance of payments presentation.

The identification of the balancing item has also involved a review of its distribution geographically. While it was treated as a short-term capital movement, it seemed reasonable to allocate the balancing item to transactions with United States residents, although some part was attributed to the United Kingdom until 1952 (see Table II.4). In departing from the practice of attaching to the balancing item the characteristics of short-term capital movements, the practice of allocating net errors and omissions to the United States has also been discontinued. As a result, the regional breakdown of Canada's balance of international payments will not equal the total for transactions with all countries, the difference constituting net errors and omissions.

The regional breakdown maintains the internal consistency of the balance of payments by making provision for multilateral settlements of interarea transfers. These represent settlement of an imbalance from transactions with one country by using claims on another, and may result, for example, in imports from country A being settled by running down claims on country B. Conceptually, multilateral settlements are offsetting in total, i.e., globally they add to zero but they may be positive or negative for individual geographic areas. In practice, however, this is only possible by allocating the balancing item geographically.

A result of not allocating the balancing item geographically is that the sum of the interarea transfers, instead of being zero will be equal to the balancing item. Given this relationship the two items "net errors and omissions" and "balance settled by interarea transfers" have been grouped together in the new balance of payments presentation.

Official financing - Arrangements for the support of official monetary reserves were entered into in the latter part of 1977 and during 1978. These arrangements, which did not lead to balance of payments transactions until 1978, consisted of:

- A revolving standby credit facility arranged by the Bank of Canada with Canadian chartered banks in October 1977 under which the Government could borrow up to U.S. \$1.5 billion. This credit facility, available for a period of seven years, entitles the Government to borrow for terms of one, two, three or six months at its option and to re-borrow the amounts repaid. The Government may cancel all or any portion of the unused facility at any time without penalty. Drawings commenced in March totalling U.S. \$750 million followed by a further U.S. \$600 million in April. In April 1978 the credit was increased in size to U.S. \$2.5 billion. At the end of 1978 the net amount drawn on this facility was U.S. \$1.4 billion.
- A bond issue in New York of U.S. \$750 million announced in February 1978 composed of three tranches: U.S. \$250 million due April 1, 1983, U.S.

\$250 million due October 1, 1985, and U.S. \$250 million due April 1, 1998. The proceeds were made available to the Government of Canada on April 5, 1978.

- A borrowing of 1.5 billion Deutsche Marks, equivalent to U.S. \$706 million, consisting of a four-year loan and placement of five- and six-year notes arranged in April 1978 with the Deutsche Bank of West Germany for delivery in May.
- A revolving standby credit facility with a group of United States and other foreign banks announced in April and signed in June 1978, under which the Government would be able to borrow up to U.S. \$3 billion for a period of up to eight years. The Government has the right to draw down and repay at any time under the terms of the agreement, and, at its option, to cancel without penalty all or any portion of the facility unutilized at the time of cancellation. Drawings commenced in July totalling U.S. \$700 million. At the end of 1978 the net amount drawn on this facility was U.S. \$1.3 billion.
- A bond issue in New York of U.S. \$750 million announced in September 1978 composed of two tranches: U.S. \$400 million due October 15, 1983, and U.S. \$350 million due October 15, 1998. The proceeds were made available to the Government of Canada on October 31, 1978.

As borrowings are made the proceeds constitute part of Canada's international reserves and will be reflected in the movements in reserve assets in the Canadian balance of payments statistics.

The related liabilities are of two basic types and have been treated in the balance of payments statements according to their particular characteristics. Inflows from the bond issues in New York and proceeds of the Deutsche Mark borrowing have been treated as long-term capital movements, the bond and note issues in item D32 as portfolio investment in new issues of Government of Canada securities (a treatment consistent with that followed in respect of Government of Canada issues placed in Germany, Italy, and the United States in 1968) and the bank loan portion of the Deutsche Mark borrowing in item D50 as other long-term capital transactions.

The revolving standby credits with commercial banks have no exact precedent in the history of the Canadian balance of payments and for this reason their treatment merits special attention. It has involved consideration of a number of factors, including the nature of the financial claims and the flexibility of the financing arrangements. The financings have been viewed by balance of payments statisticians as conforming broadly with drawings in 1962 and 1968 on the central bank reciprocal credit facility with the United States monetary authorities. Accordingly, the standby credits have been classified in the balance of payments statements under series K5, Official monetary liabilities.

Official monetary liabilities consisted previously of the use of IMF credit, the activation of swap arrangements under central bank reciprocal credit facilities and foreign exchange deposits of non-residents at the Bank of Canada.

A complication arises in the presentation in the balance of payments of drawings by the Government of Canada on the Canadian chartered bank credit facility. To the extent that credits extended to the Government of Canada by the Canadian chartered banks are financed out of increased liabilities to non-residents of Canada, they are implicitly reflected as inflows in the balance of payments as a result of changes in the net foreign currency position of the Canadian chartered banks with non-residents recorded in series D61. Since, however, the drawings on the standby credit facility to finance the accumulation of reserves are also recorded in net official monetary movements as official monetary liabilities, an additional entry is required to avoid double counting. This entry is made in series D82, Other short-term capital transactions, and, in effect, reallocates from short-term capital movements to net official monetary movements the borrowing by the official sector to bolster the reserves.

Format changes – Within the format of Table I.1 in Part I series F, **Balance to be settled**, now becomes **Total current and capital account balance**, the only numerical change being the omission of net errors and omissions, which had previously been an element of D82, **Other short-term capital transactions**, of E2, **Balance of capital movements in short-term forms**, of E3, **Total net capital balance**, and of F. A new series X, covering **Net errors and omissions** is then introduced.

Series G, previously described as **Balance settled by exchange transfers**, is now described as **Balance settled by interarea transfers**, to eliminate the ambiguity in the word “exchange”; the concept is unchanged.

CANSIM – The CANSIM Data Bank Numbers shown in Appendix I should be amended to include:

Table I.2 Table I.4

Revise – Item titles in accordance with the preceding paragraph.

Insert – Following series F:

X Net errors and omissions

All non-residents (area sub-	50193	50693
divisions, not applicable).		

Canada-United States balance of payments – The bilateral comparison of Canada-United States balance of payments statistics, described in the note in Part VI on Inter-country Exercises in Reconciliation, has been affected by two new developments. From the Canadian side, the separate identification and exclusion from capital transactions with the United States of net errors and omissions, has effects on the comparison of capital transactions which were discussed in the note. From the United States side, the inclusion in balance of payments statistics of reinvested earnings of incorporated affiliates, announced in May 1978, widens the conceptual gap between data of the two countries. A discussion of measures of undistributed earnings will be found in Part VII.

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